

Handout A: The Economic Problem

Directions: Sitting in groups of four or five, students will brainstorm answers to the following questions. One student will serve as the recorder and will write down the groups' responses. Another student will report the groups' outcomes to the rest of the class at the end of the time your teacher designates for brainstorming.

The economic problem: The universal economic problem is that resources are scarce and human wants are unlimited.

1. Your friend really likes a t-shirt that you purchased last week at a concert by your mutually favorite musical group. You purchased the very last shirt in your size and there are no more available. She asks you if there were any way she might obtain the shirt from you. Although a bit reluctant, you might be willing to do so.

What are at least three ways that you could solve this problem in a way that both of you would be happy?

2. If, as the economic problem states, we have limited resources, but unlimited wants, what does this make individuals and societies do? For example, if you have saved \$300 and there is a cell phone you love for \$250, but you also need to take a date to the prom, which will cost \$300:
 - a. Can you do both? Why can you/why can't you?
 - b. What does this situation force you to do?
 - c. If you choose to purchase the cell phone, what must you give up (Remember, it is not just the money that you give up!)?
3. The economic problem means that, both individually and socially, we must make choices and that all choices have costs. Economists understand that costs are not only those that we pay in money ("explicit costs"), but also the costs of the things that we give up to get what we want ("implicit costs"). Let's say that you have the choice of going to a movie for three hours with your friends (which costs a total of \$15 for the ticket and snacks) OR you can babysit for the same time for \$10 an hour. You choose to babysit. What are the TOTAL costs of this decision to you (don't forget, costs are more than money, they are what you give up)? (Name and describe at least four.)
4. Entire societies must also make these economic decisions. For example, assume that people in the United States decide to have their health care provision run through the government. Because someone must pay for these services, taxes (payments governments take from people) for most people will increase substantially. Also, there are a limited number of physicians, nurses, medicine,

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and medical equipment. (Remember costs and benefits include ALL costs and benefits, both in money and the other things one gives up or gains.)

- a. What benefits result from government (taxpayer-funded) provision of health care?
 - b. If you were a patient and you had “free” health care, how often would you go to your doctor? What treatments, both in number and quality, would you demand if you were sick compared to those you would ask for if you were paying for them yourself? Why?
 - c. If you were a physician, what problems would you face if no patients had directly to pay for the cost of their care?
 - d. As a physician, if not legally prohibited, how would you solve this problem?
 - e. Although they differ widely, why do most advanced societies not grant completely “free” healthcare to every person?
5. On the whole, which of the following, according to the definitions your teacher provided, is a *relatively* “scarce” resource in the modern world? Explain why/why not for each.
- a. Polluted salt water
 - b. Oil
 - c. University-educated workers
 - d. Machines that produce no-bounce ping pong balls
 - e. A woman who has an idea to create a new way of ice-skating
 - f. A psychology major from a poor university
 - g. Wood
 - h. Waste sludge from an iron foundry
6. What role do you believe *prices* play in solving the economic problem in a modern society? How do prices accomplish this?