Unit 1 Producing and consuming

Economic choices

investigating each of these choices the potential we look at how to choose the alternative that



14A

How do individuals and businesses make economic choices?

- 1 If someone gave you \$50, what would you spend it on? Why?
- 2 What is the main goal of a business?

14**B**

How do businesses respond to consumer demand?

- 1 What would you do if your favourite drink doubled in price? Would you still buy it?
- 2 Why do you think businesses have sales, where they lower the prices of their products?

Source 1 A food market is an example of the economic choice made by a fruit and vegetable business choosing to sell their products to consumers, and buyers making the choice to purchase the products that will benefit them.



Why do people work?

- **1** What do you think is the main reason your parents work?
- 2 What kind of job would you like to have when you finish school?

14.1 Making rational decisions

As economists, we look at how to make the right choices in a logical and thought-out way. While going with our gut feeling can be a more exciting way of doing things, a more carefully considered approach can help us make informed decisions. This means that we need to consider all of the factors involved. Although individuals and businesses should both take the same logical approach to making decisions, they have different motives and will have to consider a different range of factors.

The needs and wants of individuals

Making economic choices is quite tricky when it comes to individuals. This is because individuals have a wide range of **needs** and **wants**. Generally speaking, a rational person aims to make choices that will fulfil their basic needs for survival, such as food, water and shelter. They also consider what will bring them the most satisfaction, such as owning a new smartphone. These desires that are not necessary for survival are called wants (see Source 1). While this may seem rather simple, distinguishing between the two can be a very important part of making economic decisions.

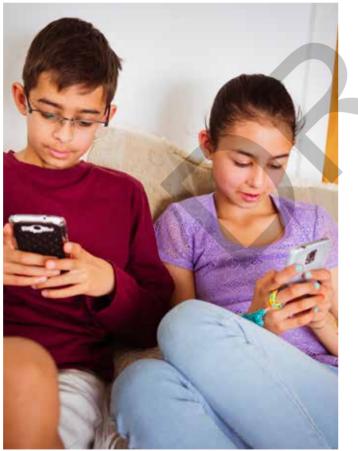
Distinguishing needs from wants

While you may feel like you need a mobile phone, it is not something that is necessary for your survival. In our society, there are many pressures that make people feel that items they want are actually items they need.

This kind of pressure can come from businesses. The goal of a business is to make a **profit** for its owners. Businesses will find clever ways of persuading you that you need to buy their products. They develop flashy advertisements to display on billboards, TV and radio. They also pay celebrities to promote their

products in movies and magazines. The average Australian sees thousands of advertisements a day without even realising it, all of which are trying to influence them to buy a product.

Sometimes we feel pressure from our peers to buy a product. If everybody else has the latest smartphone and we don't, we might feel like a social outcast. Without these pressures, we would be less likely to buy the product. This would allow us to consider spending our money on something else that may bring us more satisfaction. For example, we could have saved our money for a rainy day, or even donated it to those in need. Whatever you decide to do with your money, make sure that it is a rational decision that is most likely to give you the greatest satisfaction in the long run.



Source 1 While many people feel that they need a smartphone or tablet, in economic terms, a smartphone or tablet is considered a want.



Source 2 Our unlimited wants not only use up the world's limited natural resources, they often damage the environment through pollution and waste.

Relative scarcity

Another problem caused by our wants is known as relative scarcity. Relative scarcity happens because our wants are unlimited, but the resources required to fulfil them are limited. This causes damage to the natural environment, which is certainly essential to our survival.

Our wants are unlimited in the sense that as soon as one want is satisfied, another appears. For example, a person who has already acquired a house, food, water, basic clothing, and has money left over will buy an item that will make their life easier, such as a car. That person may later decide to buy a phone, a bag, designer jeans, a new car, a new smartphone and the list goes on. People's wants can never be completely satisfied because as soon as we buy one of these items, we desire another. Before you know it, you have just spent \$35 million on a 1962 Ferrari 250 GTO race car.

Here are some other wants:

- diamond-covered smartphone: \$9.4 million
- private yacht: \$590 million
- bottle of wine: \$160000
- slippers covered with diamonds and rubies: \$3 million
- a 27-storey skyscraper for a couple and their three children to call home: \$2 billion
- a diamond watch: \$25 million
- a dog house for a pet Chihuahua: \$325000.

14A How do individuals and businesses make economic choices?

<< Additional content for consumer and producers to come addi**to.come..>>**o

Check your learning 14.1

Remember and understand

- 1 What is the difference between a 'need' and a 'want'?
- 2 What is the goal of a business?
- 3 Describe two things that make us feel as if we need things that are actually just wants.
- 4 What is the problem of relative scarcity?
- Apply and analyse
- 5 Identify each of the following items as a need or want:
 - a car
 - **b** hairdryer
 - c clean drinking water
 - d pens and pencils
 - e designer jeans
 - f computer
 - g house
 - h mansion
 - basic food i
 - ice cream
 - k basic clothes
 - I mobile phone
- 6 Why do you think it is important to be able to recognise the difference between needs and wants?

14.2 Influencning prices

What makes choosing difficult is that we know that we will miss out on what we don't choose. The benefit we miss out on when choosing another option is called **opportunity cost**. When we have more than two options available, our opportunity cost is what we miss out on from the next best option (not all of the options combined). Considering opportunity cost is very important for both individuals and businesses, as it helps us understand the consequences of our decisions. If we do not consider opportunity cost, we risk making a choice that will not be as beneficial and may cause unexpected problems. Let's look at opportunity cost more closely through some examples.

Individuals

Imagine you have \$1 to buy one piece of fruit. You can choose from a banana, apple, mango, orange, kiwi or pear, each of which costs \$1. Knowing that you only have enough to buy one, you decide to rank them in order from favourite to least favourite until you come up with an answer.



Source 2 Choosing between different options can be difficult, knowing that we miss out on the other alternatives.



Source 1 The opportunity cost of selecting your first choice is the next best option, your second choice.

Naturally, you pick the pear as it is the tastiest and most desirable option. In this situation your opportunity cost is the banana as it is the next best option that you missed out on.

<< Additional content for consumer and producers to come. >>



Source 3 Businesses make decisions about what to produce based on what is most profitable.

Businesses

Opportunity cost works in the same way for businesses. A business tries to choose the alternatives that will earn the greatest profit. For example, a clothing factory would have to decide on whether to produce shirts or pants. It will work out the costs of producing both shirts and pants, as well as the selling price of each. Its profit can be calculated by taking away the cost from the selling price.

PROFIT = SELLING PRICE – COST TO PRODUCE

	Selling price	Cost to produce	Profit
Shirts	20	10	10
Pants	30	25	5

Source 4 Opportunity cost for a business

Even though the pants sell for a higher price, they cost more to produce. The clothing factory will choose to produce shirts, meaning that their opportunity cost will be the lost production of pants. Businesses must analyse the costs and benefits of each option in this way when making an important decision. If they do not, they run the risk of making a bad decision that will cost the business money.

Understanding opportunity cost helps us put things into perspective. It makes us carefully consider what we miss out on as well as what we gain.

Check your learning 14.2

Remember and understand

- **1** What is 'opportunity cost'?
- 2 How does a business calculate its profit on an item it produces?
- 3 Why is it important to understand opportunity cost?

Apply and analyse

- 4 Look at the business example from source 4. Explain one reason why the pants might be more expensive to produce.
- 5 Describe another situation where a business would have to analyse the costs and benefits of each alternative to make a decision.
- 6 Consider the following scenario: The manager of a clothing factory has received a phone call from their supplier. The supplier has advised that the material they would normally sell to the clothing factory for the shirts has run out. As a substitute, the supplier offers material for
- dresses. The clothing company must now choose whether to produce dresses or pants. Using the table below, calculate the profit. Which product is the opportunity cost?

	Selling price	Cost to produce	Profit
Dresses	25	25	
Pants	30	25	5

chapter 14 economic choices 425

14A rich task

An everyday dilemma

choices. While some of these choices can be guite easy to make, others require a lot more thought. In situations where even flip a coin, but as economists we costs and benefits that each option has One way of doing this is by writing up a list of pros and cons.



Source 1 A dilemma is a situation where a difficult decision has to be made.

skill**drill**

Creating a list of pros and cons

The purpose of a pros and cons list is to help us make a rational decision. The pros represent the benefits of the choice we are considering, while the cons represent the negatives of that same choice. You can refer to source 2 to see what a finished pros and cons list might look like.

- Step 1 Come up with a choice that you will consider the pros and cons for and write it as the main heading of your list.
- Step 2 Rule up a T-chart with the heading 'pros' on the left, and 'cons' on the right.
- Step 3 Carefully consider all of the benefits of choosing the option you are considering and list them under the 'pros' section of the T-chart.
- **Step 4** Carefully consider all of the negatives of choosing the option you are considering and list them under the 'cons' section of the T-chart. Be sure to include in this section all of the things that you miss out on from the next best option (the opportunity cost).
- Step 5 Some pros and cons are more important than others so we need to give them weighting. Although this can be tricky, find the least important factor out of all of the pros and cons you have listed and write the number 1 next to it.
- **Step 6** Compared to the least important factor, how much more important are all of the other factors? Write a number that shows how much more important they are to you next to each pro and con.
- Step 7 Add up the numbers in each column to show a total for pros and a total for cons. If the pros outweigh the cons then the choice is likely to be a good one. If the cons add up to a higher number than the pros, then the other option seems to be more appealing.

Apply the skill

- **1** Consider the following scenario:
- You get home from school and after having a quick snack, you open your books to start studying for an economics test you have the following day. Five minutes into your study, your phone rings. All your friends from school are going to the park to play



Source 2 Pros and cons of creating a Facebook account

cons differently.

-

soccer. You absolutely love soccer and hate studying, but you know your parents will be disappointed if you do poorly on the test. They always say, 'If you want to go to university, you have to get better results in school!' Make a list of the pros and cons of playing soccer versus studying to help you decide what to do.

Extend your understanding

- 1 Compare your pros and cons list to the person next to you; discuss why your answers might be different.
- 2 Create a pros and cons list for another tough decision that you have had to make, or will have to make in the future.

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rt to	r cre	ate a Facebook account Cons	
	2	Facebook can be really addictive and time consuming, which takes away from my time to study and play sport.	4
	I	People sometimes bully other people on Facebook	2
	I	I don't really know who has access to the information I put on Facebook.	I
	2		
	6	TOTAL CONS	7
		t to make a Facebook account der I might view the pros and	



Source 3 Making a quick pros and cons list can save time that we would otherwise spend indecisively thinking about both options.

14.3 How do business respond to consumer demand

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14B rich task

Market research

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<< Additional content for consumer and producers to come. >>

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Apply the skill

- 1 New content to come hre the following scenario: You get home from school aNew content to come here new content content to come herdo poorly on the test. They always say, 'If you want to go to university, you have to get better results in school!' Make a list of the pros and cons of playing soccer versus studying to help you decide what to do.
- 2 New content to come here new content content to come her your pros and cons list to the person next to you; discuss why your answers might be different.

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Extend your understanding

- **1** New content to come hre the following scenario: You get home from school aNew content to come here new content content to come herdo poorly on the test. New content to come here new content content to come her. New content to come here new content content to come her. If the cons add up New content to come here new content content to come her.
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- 3 New content to come here new content content to come her your pros and cons list to the person next to you; discuss why your answers might be different.

<< Additional content for consumer and producers to come. >>

Source 3 New source to come here.

14.4 Why we work

Have you ever wondered why most adults get up nearly every morning and rush off to work? Work provides us with an income that allows us to buy the things that we need and want. It also provides people with many other benefits and can improve our overall health and wellbeing.

Income

Income is the money that people receive, most often as a result of **employment**. Some people receive their income by running a business, while many others provide their skills, effort and knowledge to a business or organisation in return for money, known as a wage.

The amount of income that people earn will depend on a wide range of factors including:

- how many hours they work
- the difficulty of the work they do
- the qualifications and experience that they have

- how many other people are able and willing to do the same job
- government laws surrounding the minimum amount that workers must be paid under those circumstances
- the strength of workers' unions, which fight for better pay and working conditions for the workers of that industry.

Self-esteem

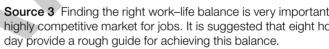
Another reason people work is because it gives them a sense of purpose. For instance, your teacher might enjoy their job because they are making a difference in people's lives, mostly through your education. Similarly, a nurse may feel a sense of satisfaction knowing that he or she is helping look after sick people. People can make positive contributions to society by working, which in turn, gives them a sense of worth.



Source 1 According to a 2016 study by the Australian Taxation Office, surgeons are the highest paid professionals in every state and territory. On average, Victorian surgeons earn \$368863 each year.



Source 2 More and more people are taking up unpaid work as volunteers to help their communities. Sometimes it is the act of working, rather than being paid, which is important to people.



Even though the government may provide some assistance to those who are unable to find work, me adults feel the need to earn their income through work. Low self-esteem is a common problem for people who lose their job or are unable to find wor This is one of several reasons why the government aims to create a healthy economy that provides its citizens with enough jobs, rather than just giving people money.

Other benefits

There are many other benefits of working. Many people feel that having the right balance between their work and personal life outside of work, know as work-life balance, is key to leading a happy and healthy life. Some people enjoy the type of work th they do and would simply find not having a job to boring. Others value the relationships that they bu while working, and the social interaction that com with their jobs.

14C Why do people work?



Source 3 Finding the right work-life balance is very important for our wellbeing but is becoming increasingly difficult in Australia's highly competitive market for jobs. It is suggested that eight hours of work, eight hours of rest, and eight hours of leisure time per

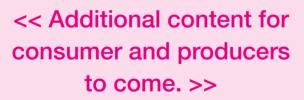
ost	Check your learning 14.4		
	Remember and understand		
k.	 What is an income and why do we need it? List three factors that affect the amount of income that a person will receive from their job. What is work-life balance and why is it important. 	-	
	Apply and analyse		
n	 4 Why do you think surgeons earn so much money 5 Look at Source 3: a Why do you think people might do unpaid volunteer work? b What does this tell you about why people work? 	?	
nat o	Evaluate and create		
uild nes	6 Conduct a survey of your teachers and parents to find out why they do the jobs they do, and wheth they like their jobs.		

14.5 Types of work

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14.6 Earning an income

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14C rich task

Career change

Decades ago, it was considered normal to stay in the same job or with the same

There are many reasons why this change is happening. First, the rapidly changing work environment is creating and destroying jobs at a much faster rate than before. This means that businesses are constantly looking for employees to perform the new jobs that arise, while many employees are finding that their old job no longer exists.

Some employees find it much faster to climb the career ladder by moving from business to business, gaining a range of experience along the way. In fact, many employers today prefer their employees to gain experience in different areas, rather than stay in the same job for many years.

TIME SPENT IN THE ONE JOB VS AGE GROUP

Age group	Time spent in job
25 and under	1 year 8 months
25–35	2 years 8 months
35–44	4 years 8 months
45 and over	6 years 8 months

Source: Department of Employment, Australian Government



Source 1 The average Australian today will work 17 different jobs across five different careers before they retire.

skill**drill**

Interpreting economic data from a table

An important part of being an economist is learning how to read data. Data can come in many shapes and forms and is normally in the form of numbers, facts and statistics. An economist must interpret this data to gain information which can be used for decision making. Data is often presented in tables or graphs to make it easier to interpret. Economic data from tables can be interpreted using the following steps:

- Step 1 Read the questions. By reading the questions first, you will know what to look for in the table, and will have a better understanding of the purpose of the task.
- Step 2 Read the headings. Read the title of the table and the headings of each row and column in the table. The headings will tell you how the data is being categorised and if there is a relationship between categories.
- Step 3 Find the relationship. Find a relationship between the categories. What happens to one column when the numbers in the other column get bigger? Do the numbers increase, decrease or stay the same? If they increase or decrease, do they do so by the same amount?
- Step 4 Consider the causes of the relationship. Try to think about why the two categories are related in the way that they are.
- **Step 5** Identify points of interest. Are there any values that stand out for being much bigger or smaller than other values? If so, what might be the reasons for this?

Step 6 Answer the questions.

Apply the skill

Using the steps in the skill drill, answer the following questions about the data in Source 2.

- **1** What is the relationship between people's ages and how long they stay in their given jobs?
- 2 Why do you think this might be the case?

Extend your understanding

- 1 Interview a parent or teacher about their perspective on changing jobs. In your interview you should ask them about the different jobs that they have worked, as well as what they liked or didn't like about the jobs and why they changed.



Source 2 Interviewing an adult is a great way to learn about different jobs.