

Scarcity and Opportunity Cost

This activity worksheet aims to introduce you to some of the basic principles of microeconomics that you will first encounter in your Year 12 studies.

To begin with read this blog entry and find definitions for the following key terms:

<https://www.tutor2u.net/economics/blog/study-note-the-basic-economic-problem-scarcity-and-choice>

Key term	Definition
Scarcity	
Trade off	
Opportunity cost	

Activity 1:

Read the following story

Mike Milne is in year 11 at Warton Academy. In his spare time, he plays a lot of sports. His favourite is tennis which he has played since he was 7, although he has recently joined a local judo club to try and develop his skills in another area and to further enhance his fitness. Despite his initial keenness, Mike has not bought any kit for judo yet, the suit costs around £30. The tennis schedule is quite grueling. Training usually starts in late February and runs up until October of each year. There are two sessions each week. Judo takes place on a Friday evening in the hall at a local bowling centre, just near Mike's house. It does not have a season, with classes running each week and further slots available if he wants to join the squad that enters competitions. Usually one of Mike's parents is available to take him to tennis practice. When they aren't, he is able to get a lift with his friend Amy, but he must first get a bus to her house, which is a 10-minute ride away.

For the last two years, Mike has entered tennis tournaments and has recently seen success. At his latest competition, he won a prize, £50. His parents, due his good performance, gave him 1/2 of the value of his prize fund as a top up and told him to put it towards something that he has wanted.



Scarcity and Opportunity Cost (Introduction to A Level Economics)

A few weeks have passed since Mike's success and he has a number of dilemmas on his mind. He wants to buy a new video game and a new tennis racket. The tennis racket costs £50 but the game costs £75. Furthermore, the issue of time has been playing on his mind. He has final exams approaching and these are due to start in 6 weeks' time. Mike has carefully planned out a revision timetable but feels a little burnt out after 1 week on plan...

A. Explain how the problem of Scarcity applies to Mike

B. If Mike buys his video game, what must he give up?

C. If you were Mike, what decision would you make?

D. Explain how Mike is affected by opportunity cost



Activity 2

Decision Dilemmas

Scarcity and opportunity cost affect us all. Every decision has an alternative foregone action and there is a cost in this trade off. In the table below, think about some recent decisions that you have made. These could be decisions based around how you spend your time, or they could be monetary, in other words a spending decision. What did you choose and what did you give up?

Decision Dilemma	What did you choose?	What did you give up and why?



Activity 3

The bigger picture.

The government is also affected by opportunity cost and scarcity.

You have two charts: Public Sector Spending and Sources of Public Sector Receipts.

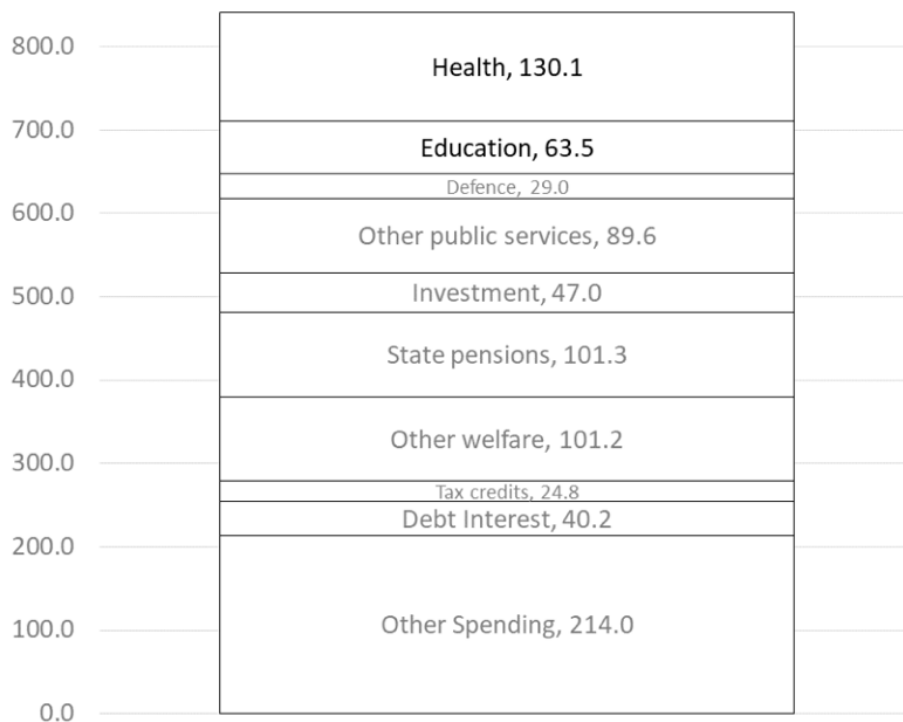
These just refer to the areas where the government spends money and how it pays for its spending – in other words, the different taxes that the government applies (economists use the term 'levy') to pay for this spending.

As you study the data, look at the total value of spending versus the total amount collected in tax. You should notice something.

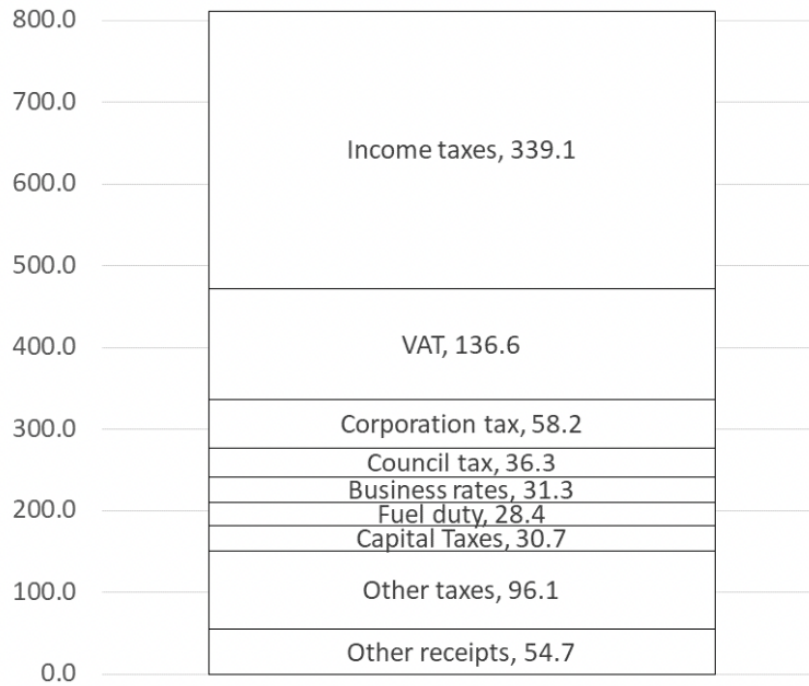
Task:

Use the data below to explain some of the choices facing the UK government.

Public Sector Spending 2019-2020 (£bn)



Sources of Public Sector receipts 2019-2020 (£bn)



Source: HMT, OBR

How is the government is affected by scarcity?



Activity 4

In activity 1, we saw that Mike suffered from the problem of scarcity. The resources that Mike had available to him were limited and he had to make choices.

In activity 3 we saw that the government faces the same issue but just on a bigger scale.

When economists talk of scarcity, they refer to resource scarcity. Resources are can also be called 'factor inputs', they are what are used to produce the goods and services that we take for granted in our lives.

There are four main resources that are used to satisfy our wants and needs. These are:

- Land
- Labour
- Capital
- Enterprise

Task:

Watch the video accessible via the link below and complete the table. You need to define and give examples of each of the different types of factors of production.

<https://www.tutor2u.net/economics/reference/factors-of-production>

Factor of production	Meaning	Example
Land		
Labour		
Capital		
Enterprise		



Having completed this introductory activity set looking at scarcity, opportunity cost and the factors of production, have a go at these knowledge retrieval games to consolidate your understanding:

Clear the deck:

<https://www.tutor2u.net/economics/reference/introduction-to-economics-clear-the-deck-key-term-knowledge-activity>

Loose Change:

<https://www.tutor2u.net/economics/reference/foundations-of-economics-loose-change-activity>

