

LEARNING UNIT 2

- **DATE:** FEBRUARY 2014
- **MODULE:** PMIC6111
- **TEXTBOOK REFERENCE:** PAGES 17-39
- **THEME:** A CLOSER LOOK AT THE ECONOMIC PROBLEM

- **OBJECTIVES:** BY END OF LEARNING UNIT 2 – YOU SHOULD KNOW THE FOLLOWING:
 - DESCRIBE 3 CENTRAL ECONOMIC QUESTIONS
 - DESCRIBE THE DIFFERENT KINDS OF GOODS IN THE ECONOMY
 - DISTINGUISH BETWEEN DIFFERENT TYPES OF GOODS – GIVING EXAMPLES
 - USE A PPC TO DISTINGUISH BETWEEN EFFICIENT, INEFFICIENT, UNATTAINABLE COMBINATIONS OF OUTPUT
 - SHOW HOW AN IMPROVEMENT IN THE USE OR INCREASE IN QUANTITY OF RESOURCES AFFECT PRODUCTION
 - LIST 4 FACTORS OF PRODUCTION
 - DISTINGUISH BETWEEN 2 PRODUCTION TECHNIQUE
 - DISTINGUISH BETWEEN DIFFERENT PRODUCTION SECTORS OF ECONOMY
 - DESCRIBE MAIN CHARACTERISTICS OF DIFFERENT ECONOMIES

LEARNING UNIT 2

- ❖ WHAT IS EXPECTED OF YOU?
 - PRE-READING AND POST READING
 - PARTICIPATION IN CLASS DISCUSSIONS
 - INDIVIDUAL TASKS TO BE COMPLETED AT HOME

LEARNING UNIT 2

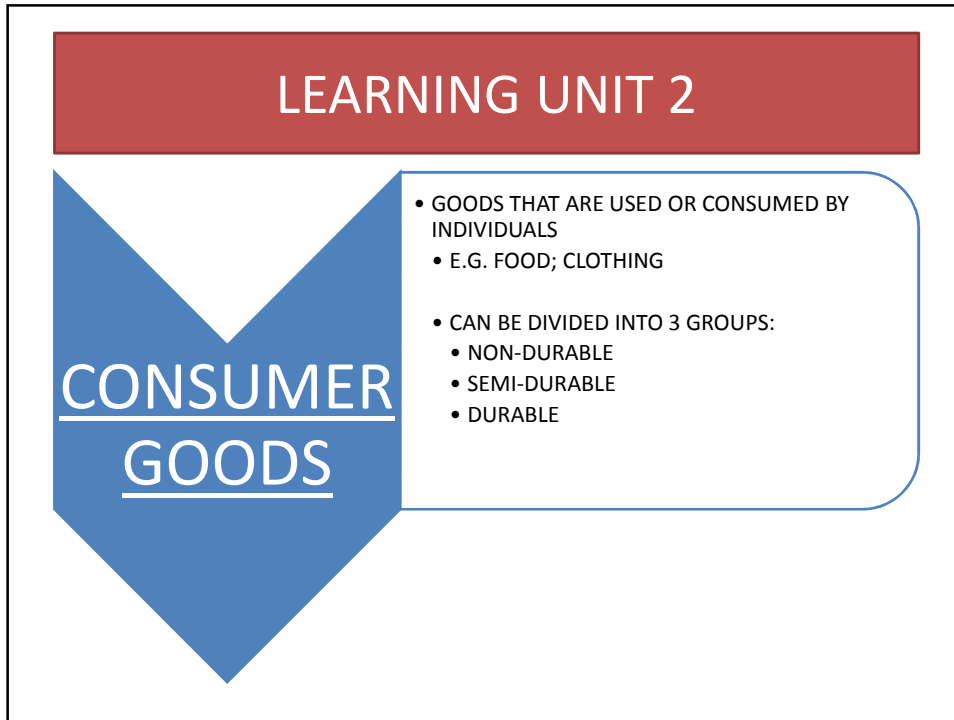
- **3 CENTRAL ECONOMIC QUESTIONS**

- WHAT GOODS & SERVICES WILL BE PRODUCED ?
 - THESE ARE '**OUTPUT**' QUESTIONS
- HOW WILL THE GOODS AND SERVICES BE PRODUCED?
 - THESE ARE '**INPUT**' QUESTIONS
- FOR WHOM ARE GOODS & SERVICES BEING PRODUCED?
 - THESE ARE '**DISTRIBUTION**' QUESTIONS

LEARNING UNIT 2

- **GOODS AND SERVICES**

- PURPOSE OF ECONOMIC ACTIVITY IS TO SATISFY HUMAN WANTS
- **HOW?**
 - BY SUPPLYING GOODS & SERVICES
- **GOODS**
 - TANGIBLE
 - E.G. FOOD; CLOTHING, BOOKS
- **SERVICES**
 - INTANGIBLE
 - E.G. MEDICAL SERVICES; LEGAL SERVICES

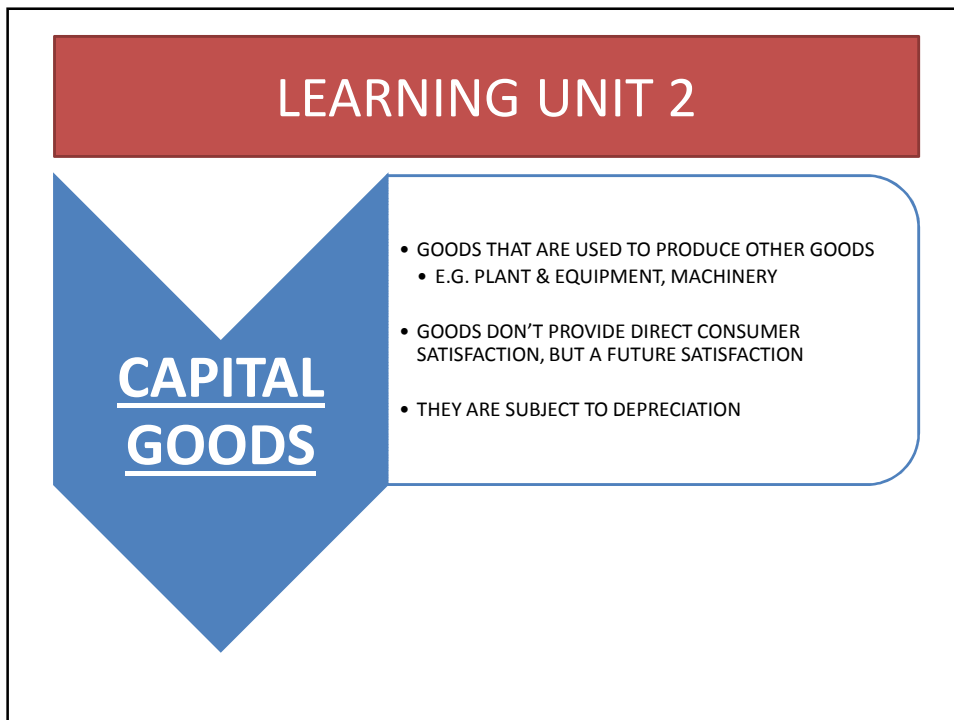


A slide titled "LEARNING UNIT 2" with a red header. On the left, a blue downward-pointing arrow contains the text "CONSUMER GOODS" in white, underlined. To the right, a white rounded rectangle with a blue border contains a bulleted list of characteristics for consumer goods.

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CONSUMER GOODS

- GOODS THAT ARE USED OR CONSUMED BY INDIVIDUALS
 - E.G. FOOD; CLOTHING
- CAN BE DIVIDED INTO 3 GROUPS:
 - NON-DURABLE
 - SEMI-DURABLE
 - DURABLE



A slide titled "LEARNING UNIT 2" with a red header. On the left, a blue downward-pointing arrow contains the text "CAPITAL GOODS" in white, underlined. To the right, a white rounded rectangle with a blue border contains a bulleted list of characteristics for capital goods.

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CAPITAL GOODS

- GOODS THAT ARE USED TO PRODUCE OTHER GOODS
 - E.G. PLANT & EQUIPMENT, MACHINERY
- GOODS DON'T PROVIDE DIRECT CONSUMER SATISFACTION, BUT A FUTURE SATISFACTION
- THEY ARE SUBJECT TO DEPRECIATION

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FINAL
GOODS

- GOODS THAT ARE MEANT FOR FINAL CONSUMPTION
- BY INDIVIDUALS, HOUSEHOLDS OR FIRMS

LEARNING UNIT 2

INTERMEDIATE
GOODS

- GOODS THAT ARE USED IN FURTHER PRODUCTION OF A GOOD THAT WILL BE SOLD TO CONSUMER, HOUSEHOLD OR FIRM
- E.G. SUGAR
- **NB!**
- SUGAR CAN BE BOTH A FINAL OR INTERMEDIATE GOOD
- HOW?

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**PRIVATE
GOOD**

- GOODS THAT ARE USED BY PRIVATE INDIVIDUALS/HOUSEHOLDS
- **DEFINING FEATURE:**
 - OTHER CONSUMERS CAN BE EXCLUDED FROM CONSUMING GOOD

This slide features a red header with the text 'LEARNING UNIT 2'. Below the header is a blue downward-pointing arrow containing the text 'PRIVATE' and 'GOOD' in white, with each word underlined. To the right of the arrow is a white rounded rectangle with a blue border containing a bulleted list of defining features for private goods.

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**PUBLIC
GOODS**

- GOODS USED BY PUBLIC IN GENERAL
- **DEFINING FEATURE:**
 - CONSUMPTION OF PRODUCT CANNOT BE EXCLUDED

This slide features a red header with the text 'LEARNING UNIT 2'. Below the header is a blue downward-pointing arrow containing the text 'PUBLIC' and 'GOODS' in white, with each word underlined. To the right of the arrow is a white rounded rectangle with a blue border containing a bulleted list of defining features for public goods.

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ECONOMIC GOODS AND FREE GOODS

- **ECONOMIC GOODS**
 - GOODS THAT ARE MADE USING THE SCARCE RESOURCES
- **FREE GOODS**
 - THEY AREN'T SCARCE
 - THEY ARE NOT PRICED
 - 'FREE' MEANS THEY HAVE NOT BEEN PRODUCED BY MAN

LEARNING UNIT 2

HOMOGENEOUS AND HETEROGENEOUS PRODUCTS

- **HOMOGENEOUS PRODUCTS**
 - THEY ARE THE SAME IN ALL ASPECTS
- **HETEROGENEOUS PRODUCTS**
 - THEY ARE DIFFERENT IN ANY NUMBER OF WAYS

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- **PPC CURVE** pg 19

- ANSWERS THE QUESTION:
 - WHAT SHOULD BE PRODUCED
- TRANSFORMS (FROM C TO D)
- INEFFICIENCY (POINT H)
- UNATTAINABLE (POINT G)

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- **CHANGES TO THE PPC CURVE**

- IMPROVED TECHNIQUE FOR PRODUCING ONE GOOD FIG 2-2
- INCREASE IN QUANTITY OR PRODUCTIVITY OF AVAILABLE RESOURCES FIG 2-4
- EXAMPLES ON PAGES 20 AND 21

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- **HOW SHOULD THEY BE PRODUCED**
 - PRODUCE AS EFFICIENTLY AS POSSIBLE - SCARCITY
 - RESOURCES – CALLED **FACTORS OF PRODUCTION**
 - 4 FACTORS OF PRODUCTION
 - NATURAL RESOURCES (ALSO CALLED **PRIMARY**)
 - LABOUR (**PRIMARY**)
 - CAPITAL (**SECONDARY**)
 - ENTREPRENEURSHIP (**SECONDARY**)

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- **NATURAL RESOURCES**
 - FIXED IN SUPPLY I.E LIMITED
 - POSSIBLE TO EXPLOIT THESE RESOURCES
 - ALSO REFERRED TO AS **NON-RENEWABLE** OR **EXHAUSTIBLE ASSETS**
 - QUALITY AND QUANTITY IS IMPORTANT
- **LABOUR**
 - HUMAN MENTAL & PHYSICAL EFFORT IN PRODUCING GOODS & SERVICES
 - QUANTITY – DEPENDS ON SIZE OF POPULATION AND WILLINGNESS TO WORK
 - QUALITY OF LABOUR – DESCRIBED AS **HUMAN CAPITAL**
 - DIVISION OF LABOUR
 - SAVES TIME
 - CERTAIN TASKS ALLOCATED TO THOSE WHO DO THEM BEST
 - MECHANISATION BECOMES POSSIBLE
 - WORKERS DEVELOP SPECIFIC SKILLS
 - LEADS TO BETTER QUALITY
 - **BUT** DISADVANTAGE – MONOTONOUS
 - **SPECIALISATION** – REFERS TO TENDENCY OF PEOPLE, BUSINESSES, COUNTRIES TO CONCENTRATE ON ACTIVITIES BEST SUITED TO THEM
 - WORKER ALIENATION
 - INTERDEPENDENCY

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- **CAPITAL**
 - COMPRISES MANUFACTURED GOODS SUCH AS MACHINES, TOOLS ETC USED IN PRODUCTION IF OTHER GOODS
 - ACCOUNTANTS & ECONOMISTS VIEW OF CAPITAL IS DIFFERENT
 - SACRIFICE BETWEEN USING GOODS AS CAPITAL OR FOR CONSUMPTION
 - SUBJECT TO WEAR & TEAR – DEPRECIATION
- **ENTREPRENEURSHIP**
 - NEED PEOPLE TO COMBINE NATURAL RESOURCES, LABOUR AND CAPITAL EFFECTIVELY
 - THEY SEE OPPORTUNITIES
 - THEY TAKE RISKS
 - INITIATORS
- **TECHNOLOGY**
 - SOMETIMES REFERRED TO AS 5TH FACTOR
 - NEW KNOWLEDGE BRINGS ABOUT NEW WAYS OF PRODUCTION
 - DISCOVERY IS CALLED – **INVENTION**
 - INCORPORATING INVENTION KNOWLEDGE INTO PRODUCTION - **INNOVATION**

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- **MONEY**
 - IS NOT A FACTOR OF PRODUCTION
 - MERELY A MEDIUM OF EXCHANGE
 - FACILITATES EXCHANGE OF GOODS & SERVICES
- **CHOICE OF TECHNIQUE**
 - CHOOSING BEST METHOD
 - LABOUR INTENSIVE PRODUCTS
 - CAPITAL INTENSIVE PRODUCTS

LEARNING UNIT 2

- **FOR WHOM SHOULD IT BE PRODUCED?**
 - DOES **NOT** ONLY INCLUDE WHO GETS THE GOODS & SERVICES
 - WE ALSO LOOK AT WHO **OWNS** THE FACTORS OF PRODUCTION
 - NATURAL RESOURCES – EARN RENT
 - LABOUR – EARNS WAGES
 - CAPITAL – EARNS INTEREST
 - ENTREPRENEURSHIP – EARNS PROFIT
 - THE MORE FACTORS OF PRODUCTION YOU OWN THE MORE INCOME YOU WILL RECEIVE
 - **INCOME** IS KNOWN AS A **FLOW VARIABLE** - IT IS MEASURED OVER A PERIOD OF TIME EG. A YEAR/MONTH
 - **WEALTH** IS A **STOCK VARIABLE** - IT IS MEASURED AT A PARTICULAR **POINT** IN TIME

LEARNING UNIT 2

- **PRODUCTION OCCURS IN 3 MAIN SECTORS:**
 - **PRIMARY**
 - RAW MATERIALS
 - e.g. AGRICULTURE, FISHING, FORESTRY
 - **SECONDARY**
 - MANUFACTURING
 - e.g. RAW MATERIALS ARE USED TO PRODUCE OTHER GOODS
 - **TERTIARY**
 - SERVICES AND TRADE SECTIONS
 - e.g. TRADE, TRANSPORT, COMMUNICATION, EDUCATION

LEARNING UNIT 2

➤ SOLUTIONS TO THE CENTRAL QUESTIONS

- 'MECHANISMS' AVAILABLE TO HELP SOLVE CENTRAL QUESTIONS

➤ 1. TRADITIONAL SYSTEM

- ❖ OLDEST SOLUTION
- ❖ SAME GOODS PRODUCED AND DISTRIBUTED THROUGH AGES
- ❖ ESTABLISHED CUSTOMS
- ❖ RIGID SYSTEM – SLOW TO ADAPT TO CHANGES
- ❖ SUBSISTENCE ECONOMIES

➤ 2. COMMAND SYSTEM

- ❖ ANOTHER NAME – CENTRALLY PLANNED SYSTEMS
- ❖ CENTRAL AUTHORITY MAKES DECISIONS
- ❖ BASIS FOR SOCIALIST OR COMMUNIST SYSTEMS
- ❖ NB!! CENTRAL PLANNING NOT NECESSARILY SOCIALIST OR COMMUNIST
- ❖ CENTRAL PLANNING REFERS TO WAY IN WHICH ECONOMIC ACTIVITY IS CARRIED OUT
- ❖ SOCIALISM/COMMUNISM – WHO OWNS FACTORS OF PRODUCTION?

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➤ 3. MARKET SYSTEM

- ❖ WHO, WHAT AND HOW – DECIDED BY ACTIONS OF FREE MARKET
- ❖ DEMAND AND SUPPLY CO-ORDINATE THE SYSTEM
- ❖ WHAT IS A MARKET?
 - ✓ LOCAL MARKET
 - ✓ REGIONAL MARKET
 - ✓ NATIONAL MARKET
 - ✓ INTERNATIONAL MARKET
- ❖ PRICES
 - ✓ SIGNAL SCARCITY – CONSUMERS KNOW WHAT TO SACRIFICE TO GET WHAT THEY WANT
 - ✓ INDICATION TO OWNERS OF FACTORS OF PRODUCTION – HOW TO BEST EMPLOY THESE FACTORS

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➤ MARKET CAPITALISM

- IDENTIFIED BY:
 - FREEDOM
 - OWNERSHIP OF PRIVATE PROPERTY
 - PROPERTY RIGHTS
 - DECENTRALISED DECISION MAKING
 - LIMITED GOVERNMENT INTERVENTION
- PRODUCERS – MAXIMISE PROFITS
- CONSUMERS – MAXIMISE SATISFACTION
- **ADAM SMITH** – pg 59 OF MODULE MANUAL
 - 'INVISIBLE HAND'
 - WHAT? – ONLY GOODS THAT CONSUMERS WILL BUY, AND ON WHICH PRODUCERS CAN MAKE A PROFIT
 - HOW? – RESOURCES COMBINED IN CHEAPEST POSSIBLE WAY
 - WHOM? – BOUGHT BY THOSE WHO CAN AFFORD THEM
 - THEREFORE SYSTEM DRIVEN BY SELF-INTEREST
 - SELF-INTEREST KEPT IN CHECK BY COMPETITION

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➤ MIXED ECONOMY

- TODAY'S ECONOMIES ARE A MIXTURE OF THE 3 SYSTEMS DISCUSSED
- SA IS A MIXED ECONOMY:
 - PRIVATE PROPERTY/INITIATIVES/ SELF-INTEREST
 - ALSO GOVERNMENT INTERVENTION
 - COMPANIES OWNED BY GOVT
 - PRIVATISATION
 - NATIONALISATION
 - PRICE CONTROL
 - IMPERFECT COMPETITION – INDIVIDUAL BUYERS AND SELLERS CAN INFLUENCE PRICES (TRUE FOR SA)