



Economics B

Transition Booklet
(Year 11 to Year 12)

Read the below introduction to some important aspects of economics and answer the questions that follow - you may have to research some of your answers!

The problem of scarcity

The basic economic problem is scarcity. Wants are unlimited and resources are finite, so choices have to be made. Resources have to be used and distributed optimally.

Scarcity refers to the shortage of resources in relation to the quantity of human wants.

For example, if you only have £1 and you go to a shop, you can buy either the chocolate bar or the packet of crisps. The scarcity of the resource (the money) means a choice has to be made between the chocolate and the crisps.

Questions:

What is the basic economic problem?

What does the word 'scarcity' mean?

Think of a real life example in your life to explain the basic economic problem.

Choices and potential trade-offs

The problem of scarcity gives rise to opportunity cost. The opportunity cost of a choice is the value of the next best alternative forgone. In the above example, the opportunity cost of choosing the crisps is the chocolate bar.

If a car was bought for £15,000 and after 5 years the value depreciates by £5,000, the opportunity cost of keeping the car is £5,000 (which could have been gained by selling the car), regardless of the starting price.

Opportunity cost is important to economic agents, such as consumers, producers and governments. For example, producers might have to choose between hiring extra staff and investing in a new machine. The government might have to choose between spending more on the NHS and spending more on education. They cannot do both because of finite resources, so a choice has to be made for where resources are best spent.

When producing goods, the economy has to consider the following questions:

- What to produce: determined by what the consumer prefers. Consumers tell producers what they prefer by demanding goods and using their 'spending votes' and demanding certain goods.
- How to produce it: producers seek profits and aim to minimise production costs.
- For whom to produce it: whoever has the greatest purchasing power in the economy, and is therefore able to buy the good.

Questions:

What does 'opportunity cost' mean?

What is an 'economic agent'?

For each of the below economic agents, give an example of an opportunity cost they may face:

- Consumers

- Government

- Producers

Task 2: As an economist it is vitally important that you read around the subject and can apply theories learnt in the classroom to news articles that you might read. As an economics student you receive a free subscription to the Financial Times - we highly recommend you take this out and read as many articles that interest you as possible! An example of an article we can apply to scarcity is below - please read it then answer the questions that follow.

Scarcity of organic cows puts pressure on UK milk supplies, warn experts

Consumer demand for more expensive milk returns as cost of living pressures ease



The dwindling numbers of organic cows in the UK is threatening to limit supermarket supplies of milk this year, as shoppers' appetite for more expensive dairy returns, experts warn.

Organic milk production has plummeted in recent years as record inflation forced many dairy farmers to switch to conventional milk in the hope of earning higher profits.

But this year, consumer demand for organic milk has rebounded following a sharp slump in sales during the cost of living crisis. "Once

organic farms have switched to conventional, it is a fairly long process to switch back," said Susie Stannard, lead analyst for dairy at the Agriculture and Horticulture Development Board, an advisory board to British farmers. "This could result in some shortages of organic milk until supplies build back up," she added.

Demand for organic milk grew 3.9 per cent in the year to March, according to Nielsen data. The number of organic dairy farms fell from 400 in 2021 to just over 300 this year, according to official statistics. Building back supply will take time, as it takes two to three years for a farm to convert its crops to achieve organic status. "You can't just turn the tap back on and off," said John Allen, founder of Kite Consulting, a consultancy for the dairy sector.

He expects a shortfall of supply this September and October after a spring surplus of organic milk runs out. Organic milk is more expensive to produce than conventional milk, with the cost of production at 50 pence per litre compared with 40 pence per litre for conventional, according to Kite. When the cost of fuel, fertiliser and feed began to rise from 2021, some dairy processors, who buy milk from farmers and process it for sale to retailers, increased the price they paid farmers to ensure a steady supply.

Others, however, continued to pay the same rate, prompting farms to reduce their herd numbers or leave the organic sector altogether. "While organic production does command a premium, some farmers felt the premium offered was not sufficient to encourage them to maintain production," said Stannard. The subsequent milk shortfall coincided with a slump in demand for organic food as inflation-hit shoppers sought to cut back their grocery spend.

Inflation rose to a 41-year peak of 11.1 per cent in October 2022. In April of this year, it stood at 2.3 per cent. According to the organic certification body, the Soil Association, organic food and drink supermarket sales volumes fell 6.7 per cent in 2023.

Demand has recovered slightly this year, with organic sales outpacing non-organic in the 12 weeks to April. However, consumer confidence was still fragile and more economic shocks and uncertainty could put a dampener on the return of demand, said AHDB's Stannard.

Questions: 1) Please research and define the key terms that came up in that article:

Inflation -

Demand -

Supply -

Profit -

Cost of production -

Consumer confidence -

2) Explain how the article demonstrates the idea of 'scarcity'.

Task 3: Data is used heavily in Economics, here are some basics that you should know at all times.

Use the internet to find out the below statistics for the UK (the data will likely be from 2019 as we haven't finished 2020 yet)

<https://www.ons.gov.uk/economy>

Rate of Inflation (CPI) (%)	
Unemployment Rate (%)	
Interest Rates (%)	
GDP Growth (%)	

Evaluate if the UK economy is going well. *Tip: you may wish to discuss more than just these pieces of data.*