

Economics

There is No Such Thing as a Free Lunch

Name: _____

What is Economics? The Merriam-Webster dictionary states that Economics is "the analysis of the production, distribution, and consumption of goods and services." But what does this mean? An Economics teacher once suggested that it just means that Economics is the study of choice. Choice! Yes, we all know what choices are. We make choices every day.

Questions:

1. What is an easy to understand definition of Economics?

2. What choice did you make today?

So, why do we make choices? Well, we cannot have everything we want or need. I may want a pizza, a movie ticket, and sports car. But I only have enough money to buy the pizza and the movie ticket. In other words, people make choices because wants and needs are always greater than the money we have and the goods (products) and services that exist. And that's what economists study. They study the choices that individuals, businesses, and even government leaders make.

Questions:

1. Why must people make choices?

2. What do Economists study?

People make choices because scarcity exists. Scarcity is an Economic concept. It is the idea that human wants are unlimited but the world's resources are limited. Again, people always want more than exists. So, because of scarcity, we cannot have everything we want. Due to scarcity, we must choose.

Question:

1. What is scarcity?

Yes, people choose but every choice has a cost because when a person chooses one thing, he gives up another. For example, if I have ten dollars, I can buy a pizza or a movie ticket. But I do not have enough money for pizza and a movie ticket. I must choose. Today, I will choose the pizza. I did not get the movie ticket. So, the cost of the pizza is the movie ticket or what I gave up when I got the pizza. Yes, it is sad but true, but every time I get something, I give something else up. Every choice has its cost.

Questions:

1. Why does every choice have its cost?

2. Provide an example of a choice and its cost.

This is why economists say that "there is no free lunch". Even if it seems "free", there is still a cost. For example, if a town uses land to build a park, it cannot also use the same land for a mall. Yes, every choice has its cost. We give something up every time we get something.

Question:

1. Why is there no such thing as a free lunch?

After we learn the truth that every choice has its cost, we can begin to make better choices. Why? We will begin to look at the benefits or advantages of a decision but also the costs of the decision. For example, we may want to sleep late and that may give us more energy for the day. But if we sleep late, we will miss Economics class. If we miss Economics class, it will be more difficult to pass the class. So, is it really a good decision to sleep late? Yes, Economics can help us make better choices, choices that benefit us more than they cost us.

Question:

1. How can understanding Economic ideas or principles help us make better choices?

Oh, and not all costs are the same. In other words, if I have ten dollars and I want a pizza, a movie ticket, a book, and a pair of nice socks, I only have enough money for one choice. So, I choose the pizza. I will not get the movie ticket, the book, or the pair of nice socks. But really, of all the things I did not get, it was only the movie ticket that I was upset about not getting. So, the movie ticket was the best choice I did not get. Yes, Economists have a word for this best thing we didn't get. It's called the Opportunity Cost. A formal definition of the opportunity cost is the most desirable alternative given up for the decision. But you can think of it as the best thing you didn't get.

Question:

1. When I chose the pizza, what did I not get?

2. Of the things that I did not get, what did I want the most?

3. What is the name of the Economic concept for the best thing I didn't get?

Quick Review

Scarcity	Opportunity Cost
<ul style="list-style-type: none">• It is the idea that a person's wants and needs are greater than the available resources, goods, and services.• <u>It is the realization that wants are unlimited but resources are limited.</u>• People always want more than they have.	<ul style="list-style-type: none">• Every choice has costs but the best thing we didn't get is the opportunity cost.• <u>It is the most desirable alternative given up for the decision.</u>• Of the many costs from a given decision, it is the most desirable cost.

Let's practice: Multiple-Choice Questions

Scarcity always exists because

- machines and people are inefficient.
- changes have occurred in global weather patterns.
- our needs and wants are not limited, but our resources are limited.
- there are more poor people than rich people.

All the goods and services we produce are

- expensive.
- scarce.
- recyclable.
- efficiently produced.

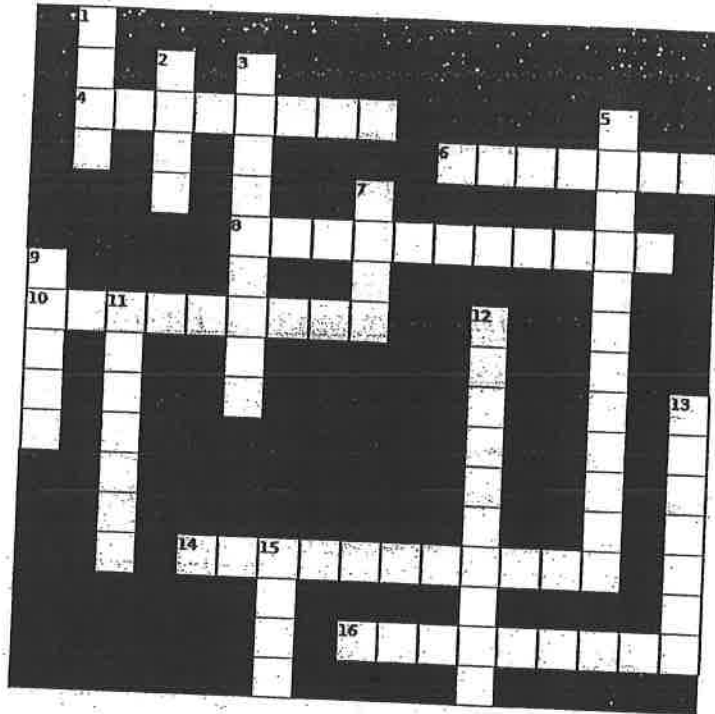
What is the opportunity cost of a decision?

- A. the series of alternative decisions that could have been made
- B. the best possible way the question could have been decided
- C. the different ways that a different person might have made the decision
- D. the most desirable alternative given up for the decision

Yes, it is sad but true, there is no such thing as a free lunch.

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The "No Free Lunch" Crossword Puzzle



Across

- 4 It is the concept that wants and needs are unlimited but resources are limited.
- 6 It is an action performed by one person for another person.
- 8 This cost is the most desirable alternative given up for the decision. It is the best thing we did not get.
- 10 There is no end to it.
- 14 It is the purchase or use of a good or service.
- 16 Trees, petroleum, and metals are examples.

Down

- 1 It is not really price. It is what we give up every time we choose.
- 2 It is something that we would like to have but can live without.
- 3 It is the study of choice.
- 5 It is the movement of goods and services.
- 7 It is an object like a coat or a loaf of bread.
- 9 Sadly, it is never really free.
- 11 There is a fixed amount. There is an end.
- 12 It is the act of making a good.
- 13 Due to scarcity, we must make them every day.
- 15 It is necessary for survival.

Word Bank:

Economics, Scarcity, Opportunity, Want, Need, Resources, Limited, Unlimited, Production, Distribution, Consumption, Lunch, Choices, Cost, Good, Service

A Scarcity Worksheet from South -Western College Publishing:
Breakfast on the Run

A growing number of working professionals are eating breakfast at the office, rather than at home. Others are eating during their commute. Reflecting these trends, a research firm, NPD Group, has found that since 1984 the number of breakfasts brought from home has doubled. Meantime, the number of people buying their breakfast from quick-service restaurants has doubled since 1995. Some employers have opened their cafeterias early in the morning so that employees can eat breakfast at work.

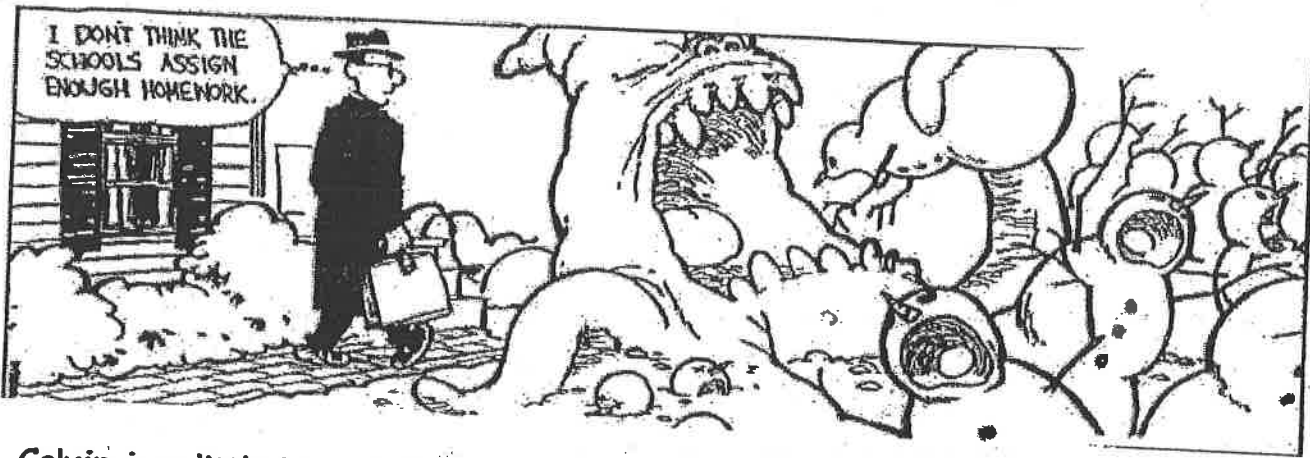
The reasons for the replacement of family time with work time include the fact that employees are working longer each week: since 1976, the proportion of employees working 49 hours or more has approximately doubled. As a result, work encroaches on to meal times. Second, breakfast time offers a quiet time in an otherwise hectic day for many workers to catch up on emails and talking to their secretaries. Third, commutes are growing longer, reducing the time people have for breakfast. More a tenth of morning commuters leave between 5 a.m. and 6 a.m.

(Stephanie Armour, "Breakfast eats time, so workers gobble at the office," USA Today, June 22, 2000)

Questions:

1. a) What is scarce in this news story?
 - b) What choices have to be made as a result?
 - c) What choice are many people making?
2. What is the opportunity cost of eating breakfast
 - a) at home?
 - b) on the way to work?
 - c) at work?
3. Explain the choice made by many people (in 1c above) in terms of opportunity cost.

Economic Fun with Calvin and Hobbes



Calvin is a little boy. His father returns home from work and says, "I don't think the schools assign enough homework."

O.K. Let's think economically:

1. Why does the father think Calvin does not get enough homework?

2. So, let's say that Calvin had more homework. Would Calvin have time to make all of these snowmen?

3. So, what is the opportunity cost of more homework?

4. And how does scarcity affect making snowmen?

