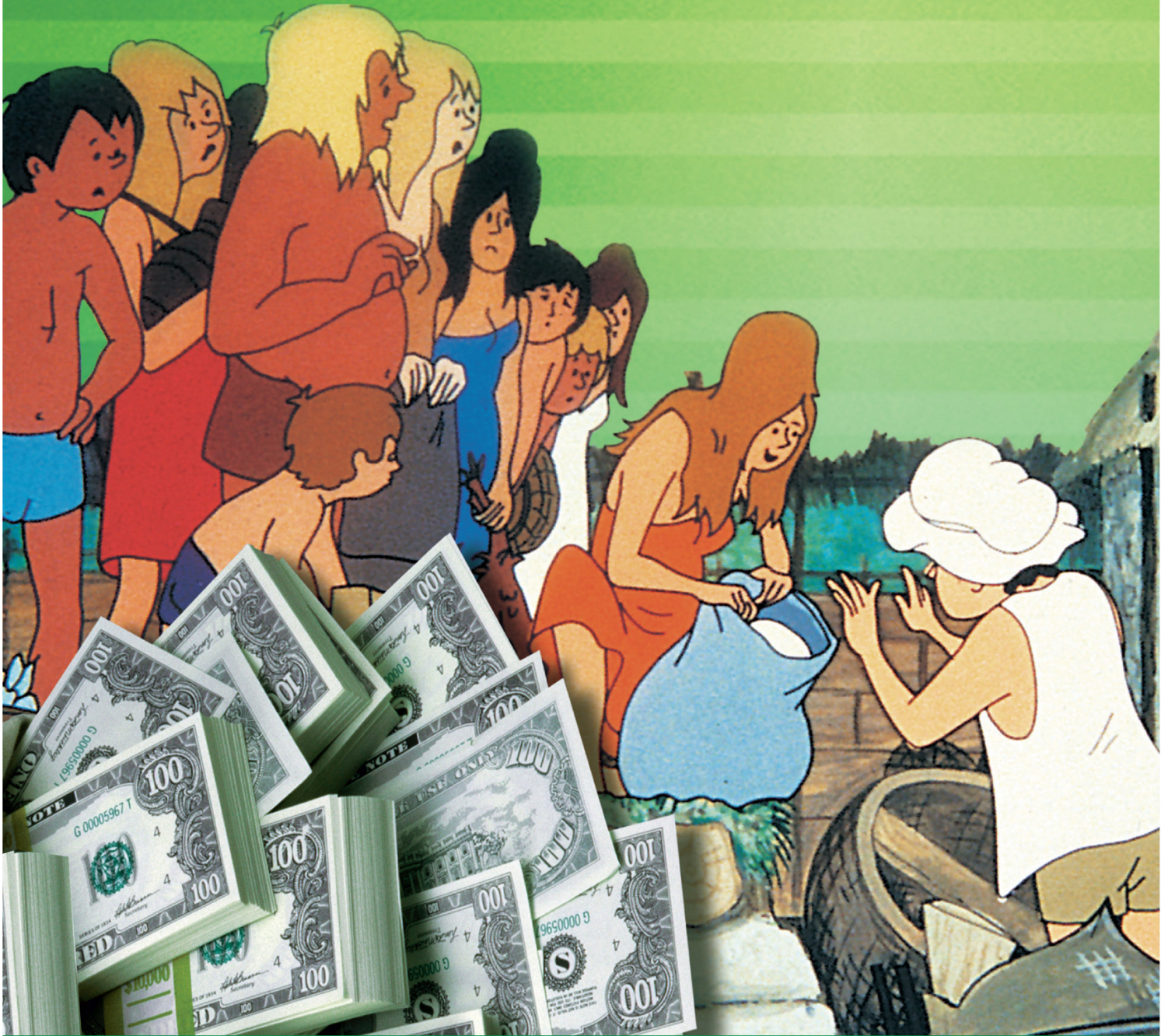


TEACHER'S GUIDE

(Adapted from the original U.K. version © Ludisco 2004)

The Foundations of Wealth



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Video Page



THE FOUNDATIONS OF WEALTH

The goal of this series of videos is to help you to understand what the subject of **Economics** is all about. The first important point to understand is that all of us make economic decisions every day even though you may not be aware of this fact. You can learn a great deal by thinking about the choices you make such as:

*How do you choose to spend your time and money?
Who made the things you use?
Why and how were these things made?*

This series of ten videos will explain a great deal about the way in which these decisions are made. These worksheets will help you to learn and understand. The questions will help you to stay focused - most of the answers to these questions will be revealed if you listen and watch the video carefully; some others may be answered through your own experiences or after some class discussion. You will be given time to write these down so concentrate fully. But before we begin, why is this series called 'The Foundations of Wealth'?

INTRODUCTION

About 250 years ago, a revolution took place. Unlike most revolutions, this one was not planned and did not result in the overthrow of the government or the King. In fact it was a very quiet, gradual revolution at first - but, in time, it was a revolution that would spread across the whole world and transform the way of life of millions of people. Without this revolution you would not be sitting here today.

What was this revolution called? _____

In 1776, a Scotsman by the name of Adam Smith wrote a book in which he tried to explain the rapid changes which were taking place at that time. He called his book: **AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS**, which is a bit of a mouthful and so often it was abbreviated to: **The Foundations of Wealth**. Many people now regard Adam Smith to have been the first **economist**, or the founding father of **Economics**.

Most of us associate wealth with money but **REAL** wealth can only be achieved through the **PRODUCTION** and **DISTRIBUTION** of goods and services. This series of programs will explain how society evolved in such a way to enable a huge increase in production to be achieved. Of course there were no television cameras or film crews around to record what happened so this series uses cartoons to illustrate how things might have been all those years ago!! The cartoon section is followed by real clips showing how this is relevant today.

So, on with the show...

VIDEO 1: HOW IT ALL BEGAN

1. How long ago does the cartoon take place? _____

2. How does the couple get to the twenty first century? _____

3. What things 'disappear' as they travel back in time? _____

4. What was the average age a man could expect to live to in these primitive societies?

5. Name 4 dangers or problems people faced with this way of life? _____

6. What name do we give to this type of economy or society? _____

*Can you guess where we get this term from? People in this kind of society are barely surviving or existing. The term really means **below existence level**. The priority for people living this way was **SURVIVAL**. That is the most basic of all human **WANTS**.*

7. What proportion of the world's population live in a similar way today? _____

8. What percentage of the people work on the land in most poor countries? _____

9. What percentage of people work on the land in Britain? _____

10. What proportion of the food eaten in Britain do British farmers produce?

11. What percentage of people work on the land in the U.S.A? _____

12. What do American farmers do with their huge surpluses? _____

13. What do they get in return? _____

14. What is the 'secret' which enables a society to start improving its' way of life?

*This video ends with these words: 'It is also the beginning of the science of Economics'. So even after only one video we can now use the ideas we have seen to explain what economics is all about. Firstly, it is about our **wants and needs**. And we have seen how our most basic need is survival. In our rich country, we take survival for granted most of the time unless we are faced with serious illness or danger or an accident, but we still have plenty of wants. And even if we win the lottery, we cannot have everything we want, so we have to make **choices or decisions**.*

*Economics is about the decisions that **we** make every day. The word 'we' means your decisions, your teacher's decisions, your parents' decisions... everybody's decisions so when we use the term 'WE' we mean all of us, or society. It includes our choices as individuals but also when we group together as a community in families, schools, hospitals, firms and the government. We all have things we want or need and in order to satisfy these wants, these things have to be made – or produced. We can use one word – **products** – to describe all the things that are produced. In order to make products we need other things that we call **resources**.*

We now have two simple definitions of Economics:

- ***Economics is about how we use things to make things, or***
- ***Economics is about how we use resources to make products.***

VIDEO 2: THE DIVISION OF LABOR BY PRODUCT

In the first video we travelled back 10,000 years to illustrate what life might have been like. But we also pointed out that there are millions of people living in very poor conditions on our planet today. The video ended with a 'secret'!

1. What is the 'secret' which enables a society to start improving its way of life?

This video reveals how a society can start to improve its way of life...but it begins with some reminders from the previous program.

2. What is the subsistence trap? _____

3. What disaster hits the village? _____

The community now has a BIG PROBLEM!

4. What will happen if they do not do something to overcome this problem? _____

5. What do they have to build to enable their cattle to graze? _____

They know what they need to produce [build], but...

6. Why can't they build this? _____

This illustrates the basic economic problem we all face.

The basic economic problem is that human wants are greater than human resources.

7. What is Mr. Tailor's suggestion? _____

8. What name is given to the process by which each family specializes in what it does best?

9. Which two families are 'left over'? _____

10. What is the first thing these two families make? _____

11. Why do the Farmers, Shepherds and Fishers produce more than before? _____

12. What is the second thing the Masons and Carpenters make and what is the result?

13. List some of the advantages of the division of labor shown in the video. _____

14. What is 'at the heart of all progress and prosperity'? _____

The video ends with a number of examples of products made all over the world. You might want to examine some of the products that you have with you at school. Where were these made?

Key Concepts

*This program has shown you how **the division of labor by product** is at the heart of all progress and prosperity. We have now covered many key concepts that are crucial to understanding what the subject of Economics is all about. At the end of program one, we said that producing more than you need just to survive was the secret that would enable a society to start improving its way of life. Our simple definition of Economics was: **Economics is about how we use resources to make products.***

In this program, we have identified the basic economic problem:

The basic economic problem is that human wants are greater than human resources.

*In order to solve their most immediate problem, the village had to build a bridge and they had to work out how they were going to do this. This example illustrates **the first two questions that all societies must answer**, namely:*

- 1. What to produce?***
- 2. How to produce? What resources will be needed to make the things required?***

*We can now identify the main **resources** that are needed to make any **products**. We need the natural resources of the earth or **LAND**. We need people to make things – when people use their time and energy to make things we say they are using their **LABOR**. But we have also seen how labor is used to increase **PRODUCTION**, so by getting people to **SPECIALIZE**, the community was able to produce much more with the same amount of resources. Building the bridge was vital to enable the community to survive. The bridge is an example of **CAPITAL**, something we shall return to in program four. Finally, none of these changes would have been made if it was not for the **IDEAS** which the Tailors had. They needed to **ORGANIZE** the other families in order to find a way to build the bridge and increase production. In Economics this is an example of **ENTERPRISE**.*

*To sum up: we can group all the resources we need to make any product into one of four categories: **LAND, LABOR, CAPITAL and ENTERPRISE**. A combination of these is needed to make any product. We call these four resources **THE FACTORS OF PRODUCTION**.*

The Factors of production are the resources needed to make any product. They are land, labor, capital and enterprise.

Homework Ideas

- 1. Do a survey of twelve different items that you own or are in your home. Then list the country in which they were made.**

The video showed you how each family specialized in doing one particular task or job. It is the same in today's world.

- 2. a) Make a list of the jobs that your parents, friends or family friends have.
b) Do they specialize in just one type of job or career?
c) How long did they have to train to develop the skills that they need and use?**

Discuss with one or two of them the reasons why they do that particular job.

VIDEO 3: THE DIVISION OF LABOR BY PROCESS

This video begins with some reminders showing the subsistence trap and then goes on to explain how production increased in the village.

1. What did Mr Tailor suggest was the very first reason for production increasing?

This shows you the importance of IDEAS!

2. List at least two of the explanations Mrs Tailor gives for the village surplus?

3. How long does it take Mrs Tailor to make one shawl? _____

4. What is a trader? _____

5. How many shawls did the trader want to buy? _____

*In the last video we learned that: **The basic economic problem is that human wants are greater than human resources.** The villagers WANT the goods the trader has, but in order to get them they must produce more shawls. But how? Remember... the first two questions that all societies must answer are:*

- 1. **What to produce?** to this, we can now also add – how much to produce?*
- 2. **How to produce?** what resources will be needed to make the things required?*

6. What does Mrs Tailor suggest they all do in order to make more shawls?

7. What two other reasons does Mr Tailor think will cause production to increase?

*There are a number of different **processes** involved in making a shawl. In order to make the shawls the villagers used their time and energy to convert the raw materials such as the sheep wool into finished goods. This is an example of **PRODUCTION**.*

8. Define production in your own words. _____

9. What happens to their 'productivity' as a result of specialization? _____

10. Give TWO explanations for this increase in production: _____

11. What is this kind of specialization called? _____

12. What do the villagers do with their surplus? _____

13. What do we do with our surplus production in the modern world? _____

Economics is about how we use resources to make products. We can make more products (increase production) with more resources but we can also make more products if we use our resources more efficiently. In the last two programs, we have seen how the village has made better use of their resources and so production increased.

Productivity refers to the amount that is produced with a certain amount of resources. In this video we saw how the villagers were able to double their productivity (producing 20 shawls instead of 10) by organizing production more efficiently.

VIDEO 4: MECHANIZATION

This video begins with a review of some of the major changes that have taken place in the community.

1. What term describes the situation where each worker produces one particular type of product?

2. What term describes the situation where each worker specializes in doing one particular task in the production of a product?

One advantage of these new methods of production is that the Tailors now have some spare time. Mr Taylor makes a 'hoop'.

3. Describe the first two practical uses made of the 'hoop' in the film?

a. _____

b. _____

4. What did Mr Taylor do to make plowing the fields easier? _____

5. What did Mrs Taylor invent? _____

6. What was and remains the purpose of any machine? _____

***Mechanization** involves using machines and other equipment to assist with production.*

***Capital**, in Economics, refers to any tool, machine or building that is used mainly to produce something else.*

*Throughout history, humans have invented new and better machines to help increase production. These changes have usually been very difficult since machines have often replaced **LABOR** and workers have lost their jobs, but over time the greater use of capital equipment has enormously increased the standard of living of most people.*

7. In addition to water and animal power, what sources of energy are shown?

a. _____ b. _____

c. _____ d. _____

8. In the Industrial Revolution, what new form of power was developed? _____

9. How was this power obtained or generated? _____

10. What was the first type of transport to use this new energy source on land?

The use of these forms of energy creates a surplus – more products are made. So far we have only really considered manufactured GOODS. But other PRODUCTS are made when resources are used to produce SERVICES.

11. Name four different types of services mentioned in the film?

a. _____ b. _____

c. _____ d. _____

*All these people are specialists – they specialize in one particular job or career. The division of labor is an example of **specialization** and we often use these terms together. But specialization can also apply to the other factors of production – land and capital, as well as to labor; some land is used for farming, some for homes or factories, some for leisure such as golf courses etc.*

Homework/Follow-Up Work

1. Make a list of all the ‘machines’ you make use of in a typical day and briefly describe their function (what they do).

2. Write out and learn these definitions or concepts covered so far:

a) A subsistence economy

b) Economics

c) The division of labor by product

d) The division of labor by process

e) Production

f) Productivity

g) Capital

h) Mechanization

i) The factors of production

j) Specialization

VIDEO 5: A LIFE WORTH LIVING

This video marks the end of the first half of this series and it draws together the main themes covered so far.

1. What three ideas helped the community to achieve a surplus?

a. _____

b. _____

c. _____

2. What was the most useful invention shown on the film? _____

3. In what four different ways were the forces of nature harnessed to produce energy?

a. _____ b. _____

c. _____ d. _____

4. List and briefly explain the five ways in which the community used the surplus they had created.

a. _____

b. _____

c. _____

d. _____

e. _____

The cartoon section ends with the comment that although what you have seen is imaginary, all the developments and inventions that are illustrated must have taken place at some time or another. Scientists estimate that our planet is about 4 BILLION years old.

5. Approximately how long have humans been on earth? _____

This is only a tiny fraction of the history of the earth. Many of you may be aware that dinosaurs became extinct about 65 million years ago, long before mankind evolved. These figures are hard to relate to, so imagine instead that the earth is only one day old. On this scale, dinosaurs became extinct at about 11.35p.m. and the human species came into existence at about 2 minutes to midnight!

For the vast majority of human history, our species were hunter-gatherers. We can again use the 24-hour clock to put the time scale in perspective. If humans evolved at midnight – the start of the day, it was nearly 24 hours later (12 minutes to midnight) before a dramatic change took place in our way of life.

6. What dramatic change in the history of mankind took place about 10, 000 years ago?

7. In what type of land did these early civilizations develop? _____

8. Where were the first four of these located?

a. _____ b. _____

b. _____ d. _____

9. Describe the processes shown in the television factory and explain what the workers do with the 'surplus' goods that they help to produce?

Through a mixture of specialization and mechanization, the workers in the factory are able to produce a huge surplus and exchange this for products made by other people. Most of the time we take our way of life for granted without thinking how it is we come to obtain the food we eat, the clothes we wear etc. These first five programs have explained how society has increased production enormously. The next five will explain the systems that have developed to distribute or allocate these products to people.

Homework

Using many of the concepts and ideas covered so far, explain how the range of goods and services that you buy or use has been produced.

VIDEO 6: THE MARKET

The basic economic problem is that human wants are greater than human resources.

So far in this series we have explained the main ways in which the community has increased their PRODUCTION through the division of labor and mechanization. In other words, they have worked out:

- 1. What to produce and how much to produce?*
- 2. How to produce?*

Now we are going to examine the different ways in which the villagers DISTRIBUTE or ALLOCATE the goods that they produce. This is the third vital decision that all societies have to make, namely:

- 3. How are the products to be allocated or distributed?*

But firstly, a bit of revision...

1. Where do the villagers put all their produce at the start of the video? _____

2. What happens when you spend all your time at one job? _____

3. What did the Tailors make to increase their production? _____

4. What extra things did the Fishers make to increase their catch?

a. _____ b. _____

5. What was the Shepherd family doing that annoyed Mrs Taylor and Mrs Coward?

6. Why doesn't sharing seem to work? _____

We can now see at least three problems with the DISTRIBUTION or ALLOCATION system the community are using:

- a) the share out is not equal or fair*
- b) some people may produce things that are not really wanted, such as the 'glut of vegetables'*
- c) there can be disputes over how the goods are allocated*

7. What does Mr Mason suggest? _____

Many societies have evolved in this way, where the strongest and most powerful make most of the decisions over how products are to be allocated. This can apply to whole countries or states, in which case the leader often allocates a high proportion of the country's wealth to himself and his family! They rarely tolerate any opposition and may stay in power for decades. We call this system a DICTATORSHIP.

8. What was Mr Taylor's inspirational idea? _____

9. How did the others react at first? _____

10. What must people do if they specialize in only making one type of good? _____

This is very important. It means we all depend on each other to produce the things that we need in order to live. In Economics we say that we are INTERDEPENDENT.

11. What did the 'swapping' day come to be called? _____

12. How did this new system alter the Shepherd family's behavior? _____

This way of allocating products is called a MARKET SYSTEM.

13. List four things people find out on this day:

a. _____

b. _____

c. _____

d. _____

These are very important! They summarize the main advantages of a market system. Markets provide INCENTIVES to people. By working hard and increasing production people are able to obtain more products from other people, but only if they produce what other people want and need. In our modern world the same still applies. Those who work hard and are successful at what they do usually earn more. In the same way, firms or businesses that are successful are those that produce what consumers want and respond quickly to changing tastes and technology.

But some groups or societies do try alternative systems or ways of allocating products...

14. List two communities that still allocate by sharing where possible.

a. _____ b. _____

Markets evolve or change over time and new ways of trading or swapping can develop.

15. List two new types of markets shown on the video.

a. _____ b. _____

16. What is the most common type of market in the world? _____

17. As well as swapping, what other type of 'system' operates in every market?

The video ends with an explanation of why some markets succeed and others fail. Markets that succeed are those that satisfy people's wants. At the end of the first video in this series we defined Economics in two ways:

***Economics is about how we use things to make things, or
Economics is about how we use resources to make products.***

*These definitions focus on PRODUCTION, but this video has focused on the importance of DISTRIBUTION or ALLOCATION. Most of the subject of Economics is concerned with the different systems that have evolved to both produce **and allocate** the products that we make with our resources. A more complete definition might be:*

Economics is about how we use our scarce resources to produce goods and services and how these resources and products are distributed to satisfy some of our wants.

VIDEO 7: MONEY

*It is vitally important to understand that our resources are **LIMITED** or **SCARCE** and that we have to **CHOOSE** how to use these resources in order to satisfy wants and needs. We cannot possibly satisfy all of our wants because we do not have enough resources. So we have to make choices or decisions. We make decisions every day that influence which products will be made in the future. Every time we buy a product, such as a candy bar, we are in fact 'voting' for production to continue. As long as enough people 'vote' (there is enough demand) the product will continue to be made. But if demand falls, firms may cease production. At the end of the previous video we amended our definition of Economics to include these vital aspects of the subject:*

Economics is about how we use our scarce resources to produce goods and services and how these resources and products are distributed to satisfy some of our wants.

We also saw how a market developed in which each family were able to trade or swap the goods they had produced for the goods produced by other families. But this system can also have its problems...

1. What two types of fish did the Fishers catch? _____

2. Which of these were they able to swap for the most goods? _____

3. What information does the market provide producers? _____

4. What did people feel about the old design of shawls? _____

5. What did people want from the market? _____

6. As variety increased, what happened to the market? _____

7. Complete this table to show how the Tailors finally got what they wanted...

FAMILY

Tailors

WANTED TO BUY

12 eggs

WANTED TO SELL

Red shawl

8. What was being wasted in the market? _____

9. What proper use should be made of these scarce resources? _____

This form of exchange or trade is called BARTER.

Barter is the exchange of one thing for another without the use of money.

This is what the community is doing in the video so far, but we have just seen one of the big disadvantages of barter - if you want to buy something from someone you have to have something they want in exchange - otherwise trade will not take place. This is sometimes called the need for a double coincidence of wants. Now the video explores alternative ways of trading...

10. What were the advantages of using corn for trading? _____

11. What were the disadvantages? _____

12. Why couldn't water be used as a means of exchange? _____

13. What was wrong with using strawberries? _____

14. What was wrong with using beads? _____

15. What does Mrs Taylor finally recommend they use? _____

16. What did Mr Smith do with the gold people gave him? _____

The Tailors are, in fact, trying to invent MONEY. Mr Smith has made the first COINS or MONEY. By melting the gold into coins of different sizes he has made gold divisible! Stop and think what money is for a moment. We use money to buy things all the time.

Money is a medium of exchange that is generally acceptable.

*By considering all these examples the video has shown you most of the QUALITIES that money should have. There is a memory aid to help you to learn these if you are ABLE! (Four of the six end in ABLE!). The memory aid is **ADDS UP!***

17. Explain each of these six qualities that money should have:

Acceptable: _____

Divisible: _____

Durable: _____

Stable [or Scarce]: _____

Uniform: _____

Portable: _____

18. What sorts of things have been used as money throughout history? _____

Listen carefully and Mrs Taylor will give a definition of money.

19. Write out the definition of money: _____

This is the first FUNCTION of money, but the video explains that money has other uses.

*Try and learn these three **FUNCTIONS OF MONEY**.*

They can be remembered by 'M & Ms' (Means, measure, saving)

Money is a means of exchange (sometimes called a MEDIUM of exchange - a method by which we trade things with each other, for example when we shop).

Money is a measure of value or worth - we PRICE all goods and services in terms of their money VALUE, which enables us to make comparisons.

Money can be STORED or SAVED, which enables us to buy things in the future.

VIDEO 8: SUPPLY AND DEMAND

1. THE CONSUMER

1. Why did the Tailors give up the weaving business? _____

2. What would happen to people in a market economy if they do not have any income?

The Tailors now give up making clothes and start to pick some mushrooms and plums to sell in the market. Watch the video and wait until the figures appear on the screen before copying down the figures.

3. Complete the following table, which shows how the Tailors collected produce to sell:

	PRODUCT	PRICE	QUANTITY	TOTAL REVENUE
		c	COLLECTED SOLD	c
<u>DAY ONE</u> WHAT HAPPENED	Mushrooms		_____	
	Plums		_____	
	TOTAL		_____	

4. How do you calculate TOTAL REVENUE? _____x_____

Now the Tailors calculate what they think they could have made if they had charged different prices on both days.

5. Complete the table.

	PRODUCT	PRICE	QUANTITY	TOTAL REVENUE
		c	COLLECTED SOLD	c
<u>DAY ONE</u> What could have happened	Mushrooms		_____	
	Plums		_____	
	TOTAL		_____	

<u>DAY TWO</u> WHAT HAPPENED	Mushrooms		_____	
	Plums		_____	
	TOTAL		_____	

<u>DAY TWO</u> What could have happened	Mushrooms		_____	
	Plums		_____	
	TOTAL		_____	

So the Tailors started to collect apples and peaches.

6. What answer did Mr Taylor give to those who thought he was charging a high price for peaches?

7. Why were some people able and willing to buy peaches despite the high price?

There are a number of vital economic ideas in this short clip. Some people could afford peaches but others could not. Those that could afford them and wanted them badly enough were the ones who were ALLOCATED the peaches. This is how the market system works.

8. How are scarce resources and finished products ALLOCATED in a market?

The fact that some people were willing to go without other things in order to buy peaches is an example of opportunity-cost. Every time we choose to spend our money on one product we are giving up the opportunity to buy another product with that same money. For us it might mean choosing between a bag of chips or a candy bar. In Economics we call this the REAL cost or OPPORTUNITY-COST. The same applies to the decisions we make with our time - we may watch television or play a computer game.

Opportunity-cost refers to the alternatives given up whenever we make a choice.

9. What did Mrs Taylor do in order to sell off the remaining apples? _____

10. Complete the table by writing the two different prices charged for apples and the amount sold at each price.

	PRODUCT	PRICE	QUANTITY	TOTAL REVENUE
		c	COLLECTED	SOLD
				c
<u>DAY THREE</u>	Peaches		_____	
What	Apples 1		_____	
happened	Apples 2		_____	
	TOTAL		_____	

This scene ends with Mrs Taylor saying: "It's an unavoidable fact of life that goods have to be allocated somehow." The video has shown you how the market allocates scarce goods through the PRICES charged and the INCOMES that people have. If prices do not adapt to the amount that is available and that people want there can be problems...

11. What happens when price is too low? _____

12. What happens when price is too high? _____

13. Why is water so expensive near the equator? _____

14. Why is water so cheap in some other countries? _____

So just because we need water (and lots of it) does not mean it has to be expensive.

15. What does the value of anything depend on? _____

16. What does the PRICE of anything help to regulate? _____

17. Fill in the missing words.

“Every _____ you see on every thing that’s for sale has a story to tell. It tells you, for example, how _____ or _____ something is in relation to the number of people who are not only _____ to buy it, but are _____ to buy it”.

This is very important – there are lots of things we might like to buy but we cannot afford and there may be other things that we can afford to buy but we do not like. In Economics, we say that DEMAND is not EFFECTIVE unless it is backed up by money.

DEMAND means the amount of a good or service that consumers are both able and willing to buy, at a range of prices, in a certain period of time.

For example – the number of bags of chips you might buy in a week if the price is \$0.25.

18. Why does the price of some products vary at different times of the year? _____

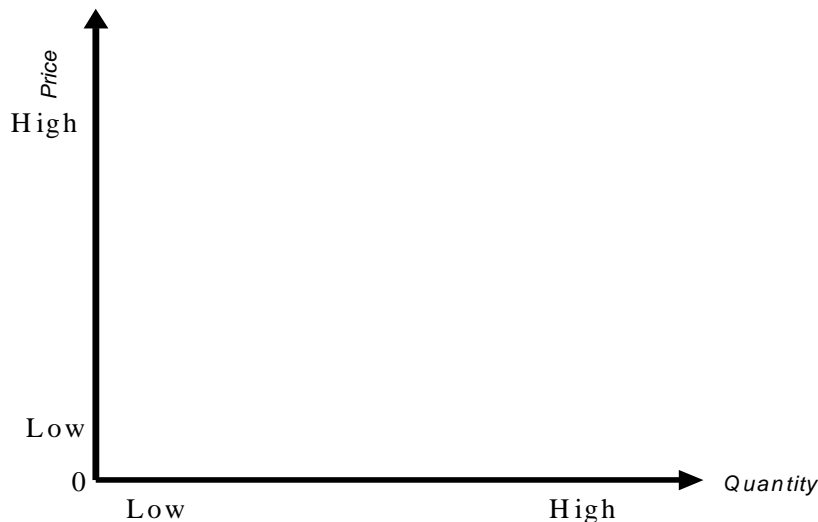
19. What happens to PRICE if DEMAND increases? _____

20. What happens to PRICE if SUPPLY increases or DEMAND decreases? _____

21. What is the first 'law' of DEMAND? _____

We can draw a simple graph to show this relationship between price and demand. The vertical (y) axis is always used to show the PRICE and the horizontal (x) axis is used to show the QUANTITY. In this case it is the quantity demanded so the line we should draw is the DEMAND CURVE, which we can label D for short. The point where the two axes intersect is the origin and on this graph it should represent ZERO on both axes. The closer to the origin, the lower the price and the lower the quantity. The further away from the origin, the higher the price and the higher the quantity. Your answer to question 20 should help you to sketch what this graph should look like. Start with a high price and demand should be low. Mark the point where the high price and low quantity would intersect on your graph. Now, if the price is low the quantity demanded should be higher so mark this point on your graph. Now join the two dots...

22. Draw a graph to sketch the normal relationship between PRICE and the QUANTITY DEMANDED.



VIDEO 9: SUPPLY, DEMAND AND PRICE

2. PRICE AND THE PRODUCER

In the last video we saw how the DEMAND for anything is affected by changes in the PRICE. We also saw how the PRICE changes when demand or SUPPLY changes. Now we look in more detail at how producers respond to changes in price.

1. How does raising the price of a good effect demand? _____

2. What effect does lowering prices have on demand? _____

3. Why did the villagers need salt? _____

4. Why were the villagers not prepared to buy salt from Mr Taylor at first? _____

5. What happened to the price of salt after the trader's first visit and why? _____

6. How did this act as an INCENTIVE to some other families? _____

7. What happened to the price of salt as more families started to sell it? _____

8. What happened to the price of shawls and why? _____

9. What happened to the price of salt after the trader's second visit? _____

10. Explain what happens to PRICE when:

a. Supply decreases: _____ b. Supply increases: _____

11. What does a busy stand tell the producer? _____

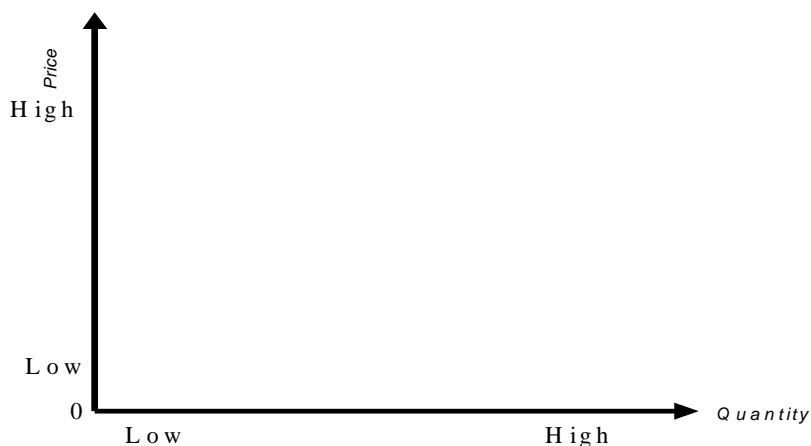
12. What does a slow period in the market tell the producer or seller? _____

13. What do high prices stimulate? _____

14. How do sellers respond to low prices? _____

*This is where it can become rather confusing! In the video we have seen how a decrease in supply causes the price to rise – so **if supply goes down, price goes up**. So far so good! But we have also seen how a rise in price encouraged more families to mine salt – so **a rise in price leads to an increase in supply, but when the price fell there was a fall in supply**. At the end of the last video you drew a DEMAND curve to show how demand responds to a change in price.*

15. Use the above information and your answers to questions 13 and 14 to draw a SUPPLY curve.



16. What makes the price adjust (change) in the market? _____

So changes in both demand and supply cause the price to change.

17. Fill in the missing words that explain how a typical manufacturer decides on his selling price?

He works out his _____, estimates how many he can _____ at various _____

and then chooses the _____ which will give him the biggest _____.

18. So, what do most producers hope to obtain from producing and selling goods?

19. What happened to the price of bread during the UK bread strike and why?

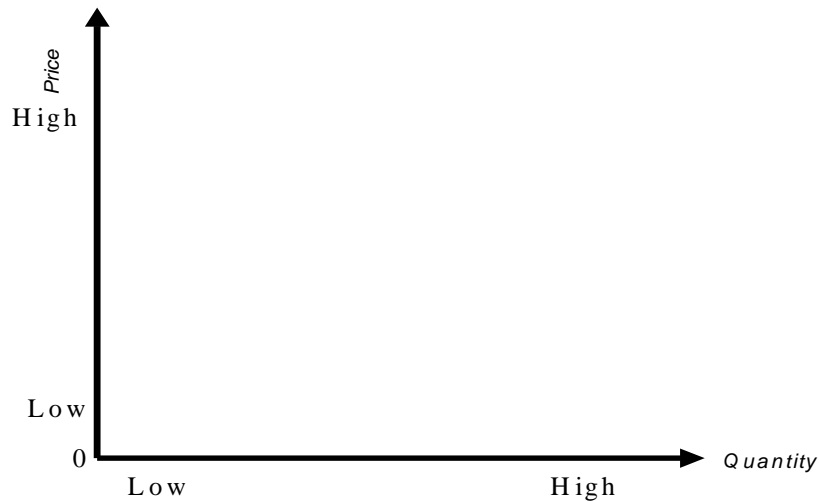
20. What happened to the price of oil in 1974? _____

21. What did the high price do to consumers of oil? _____

22. How did producers of oil react to the high price? _____

23. What was the effect on other energy sources? _____

24. Now draw a demand curve AND a supply curve on the graph below:



*Look at the point where the price is high – which is greater, supply or demand? If you have drawn the graph correctly it should be supply. We call this **EXCESS SUPPLY**.*

25. What happens when the price is too high? _____

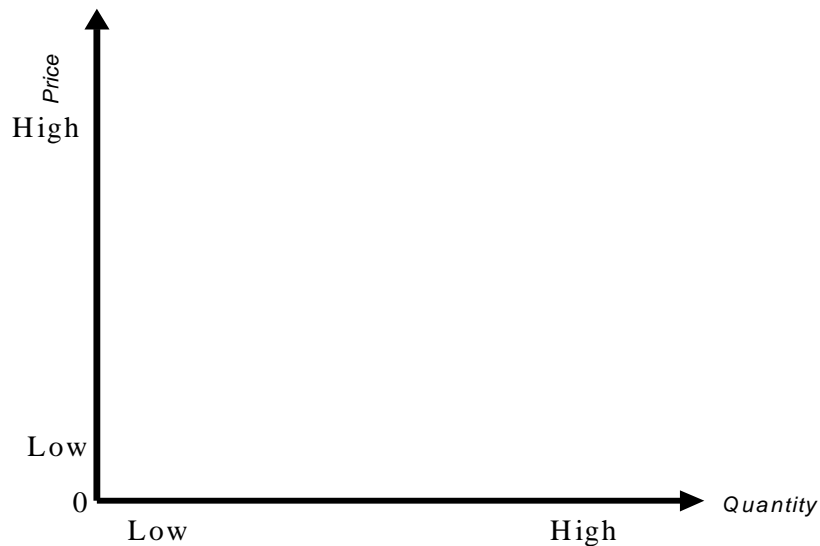
26. What happens to the amount produced if the price falls to a low point? _____

27. What can happen in a market when there is excess demand? _____

28. What do we call the price at which SUPPLY = DEMAND? _____

This is a difficult but very important term. If markets work properly the price will almost always adjust to reach an equilibrium or balance between supply and demand.

29. Draw a supply and demand curve on this graph and put the letter E where they intersect. Now draw a dotted line across from point E to the price axis, and label the price, P1. This is the EQUILIBRIUM PRICE where supply is equal to demand. Now draw a dotted line down from point E to the quantity axis and label this Q1. This is the EQUILIBRIUM QUANTITY.

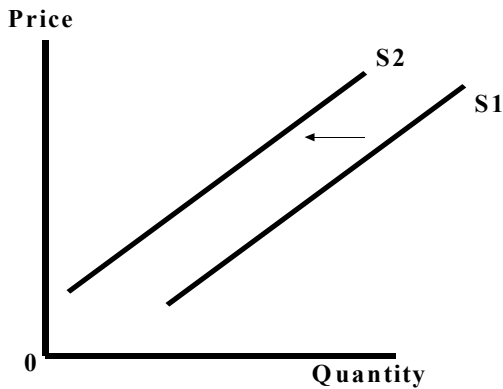


The video ends with the 'law' of supply.

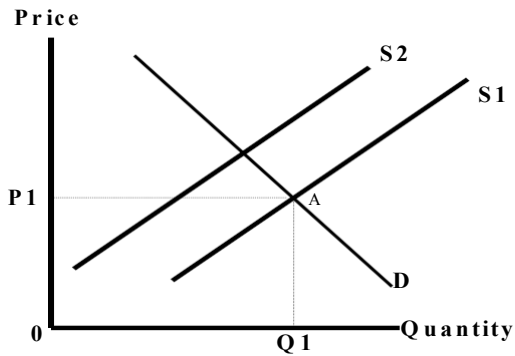
30. Write out the 'law' of SUPPLY. _____

Follow Up Work:

If you have answered Q15 correctly the graph you have drawn should show the normal relationship between price and supply. However, this video has also shown you that supply can change for other reasons. After the trader's salt mine caved in there was a big DECREASE in the supply of salt. We can show this on a graph by drawing TWO supply curves – S1 shows supply BEFORE and S2 shows supply AFTER.

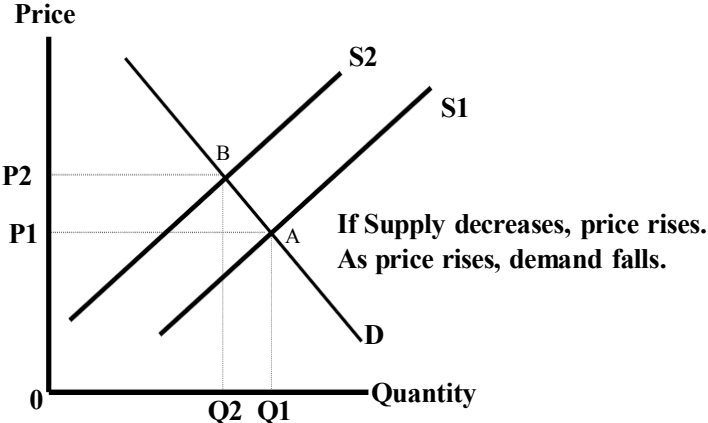


Your answers to the questions in the video should have shown that this decrease in supply caused the price of salt to rise. We can show this if we draw a demand curve on this same graph.

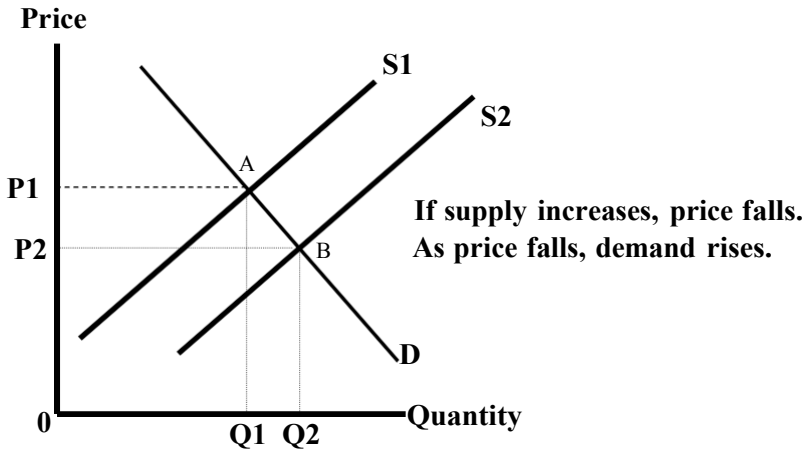


Point A shows where this demand curve intersected the original supply curve, S1. The price at which demand equals supply, [THE EQUILIBRIUM PRICE] is P1 and the quantity that would be bought and sold would be Q1.

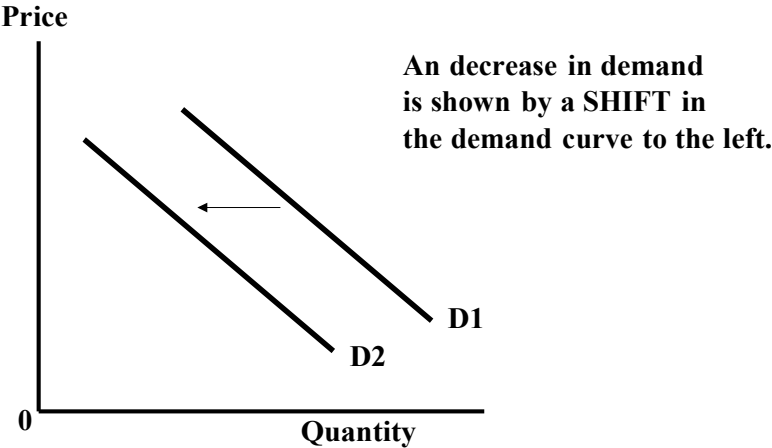
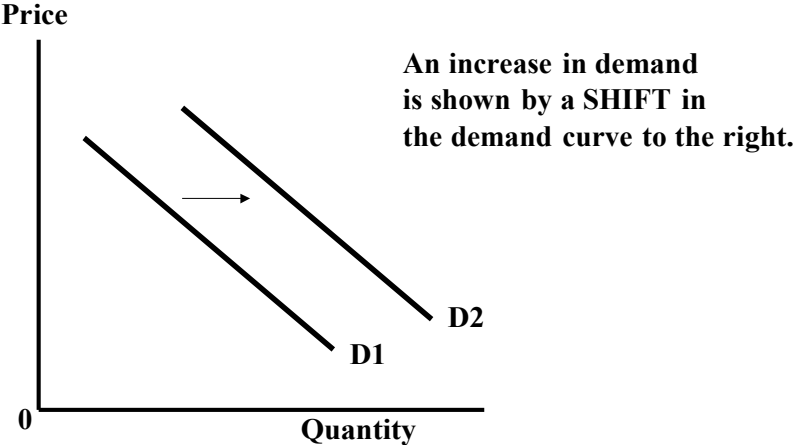
Now if supply decreases we can show this with the new supply curve, S2. If the price had remained at P1 the quantity supplied would now be less than the quantity demanded – there would be EXCESS DEMAND. The price would rise until demand was equal to the new supply curve, S2. This is shown at point B with a new equilibrium price of P2 and the quantity sold falls to Q2.



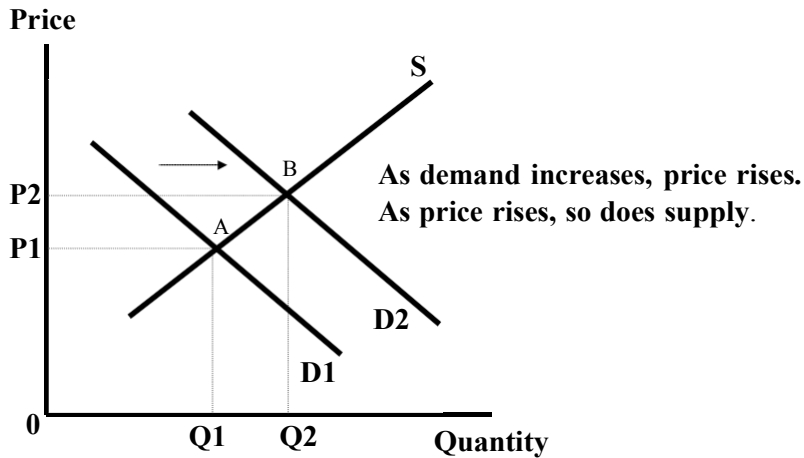
The opposite happened when the Tailors and the other families started to mine their own salt and bring it to the market. Supply increased and the price fell back.



Demand can also increase or decrease for a number of reasons apart from changes in price. In video 8, we saw how people who had higher incomes were able and willing to buy peaches – their demand had **INCREASED**. We can use graphs to show increases and decreases in demand by drawing 2 separate curves.

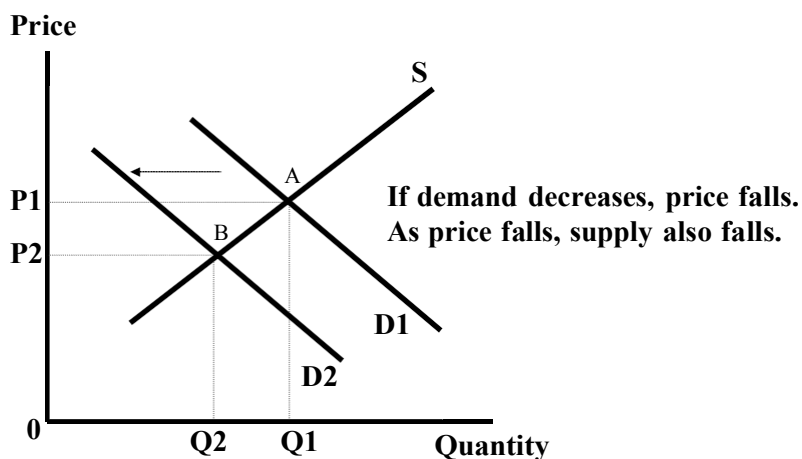


We can now show the effect that these changes in demand have on the **PRICE** by adding a supply curve to each graph...



The original demand curve, $D1$ intersects the Supply curve (S) at point A . The **EQUILIBRIUM PRICE** is $P1$ and the **EQUILIBRIUM QUANTITY** is $Q1$. An **INCREASE** in demand causes the demand curve to **SHIFT** to the right. This now intersects the supply curve at point B . The price rises to $P2$ and the quantity rises to $Q2$.

In the graph below the starting point is again at point A where the demand curve, $D1$ intersects the supply curve (S). But in this case there is a **DECREASE in demand**. The demand curve **SHIFTS** to the left to $D2$. This intersects the supply curve at point B . This time the equilibrium price falls to $P2$ and the quantity sold also falls to $Q2$.



VIDEO 10: THE MIXED ECONOMY

In this video, the Tailors venture outside their own community and discover another village where things are a little different!

1. What material is used to make cloth in this new village? _____

2. How is this material obtained? _____

3. What two ideas or concepts did this community not understand?

a. _____ b. _____

4. What name did they have for the group that makes the key decisions? _____

5. What two decisions does this group make?

a. _____

b. _____

This community, like all others, has to find a way to answer these basic questions:

1. What to produce, and how much?
2. How are these goods going to be produced?
3. How are the goods to be allocated?

6. Where do they put all their products? _____

7. How do they ensure that nobody 'cheats'? _____

This village decided to allocate the goods by a system of RATIONING. This means that the elders distribute the goods to each family.

8. As well as producing for the whole village, most people keep some of what they grow for themselves. What do they call this piece of land?

The video compares this way of doing things with the system developed in the Tailor's village.

9. Describe five steps in the process by which decisions are made and goods allocated in the Tailor's village:

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

10. What two advantages does this system seem to have?

- a. _____
- b. _____

The visitors have some questions for the Tailor's.

11. Give one example of the way in which people in the Tailor's village may have to follow instructions.

12. Give some examples of problems that people in the Tailor's village might face.

13. How are these problems sorted out? _____

14. In what ways are the two villages similar?

- a. _____
- b. _____

Mrs Taylor explains: "What we have seen is an imaginary illustration of the two principle economic systems." The first is a **market economy**.

15. What is a market economy based on?

a. _____

b. _____

16. How are hardships and the need for public amenities (such as roads) dealt with in a market economy?

*A compulsory contribution to pay for these sorts of things is what we call a **TAX**.
The cotton growers' village is an example of a **PLANNED ECONOMY**.*

17. How are decisions made in a planned economy? _____

*The video shows how each village has a mixture of both systems. The main differences lie in the extent to which each village organizes **production and distribution** using each method. In the real world, different countries have also used different systems. For example Russia (or the old Soviet Union) used to be an extreme example of a planned economy.*

18. How were decisions taken in the old Soviet Russia?

a. _____

b. _____

19. What term describes the way farming was organized? _____

The United States of America (USA) is often given as a prime example of a market economy but even here the government spends billions of dollars each year.

20. How does the government raise money to spend? _____

21. List five types of goods or services that the government provides:

a. _____ b. _____ c. _____ d. _____ e. _____

22. In what other ways are these provided in the USA? _____

This video has shown you two different ways in which a society can resolve the basic economic problems we all face. They seem to be the opposite of each other but in reality all countries use a mixture of both systems. In the first video in this series we saw how a very poor country barely produces enough food to enable its people to survive.

23. Name four different economic systems we have seen in the videos:

- a. _____
- b. _____
- c. _____
- d. _____

The basic economic problem is that human wants are greater than human resources. Economics is about how we use our resources to make products to satisfy some of our wants. All societies have to make certain CHOICES or decisions about how we use our resources. These are:

- 1. What to produce and how much to produce?**
- 2. How to produce?**
- 3. How are the products to be allocated or distributed?**

*In the videos we have seen now **specialization and mechanization** led to a huge increase in the amount produced. We also saw how **markets** developed to find the answers to these questions and how **money** developed to make trade a lot easier and more efficient. In a market there must be a buyer (**demand**) and a seller (**supply**) and they must agree on the **PRICE** of the product to be exchanged. So we can say that the **MECHANISM** by which these questions are answered in markets is **THE PRICE MECHANISM**.*

*If you go on to study Economics in more detail you will spend a lot of time studying how markets work. But the last program showed that there is an alternative to the market system and that is where some system of **PLANNING and COLLECTIVE** agreement develops.*

These three key questions can be answered in two main ways:

- 1. The MARKET system (where the PRICE MECHANISM operates)**
- 2. A PLANNED system (the GOVERNMENT or the STATE takes these decisions) or we can have a mixture of both, which we call...A MIXED economy.**

Answer Key

INTRODUCTION

What was this revolution called? **THE INDUSTRIAL REVOLUTION.**

VIDEO 1: HOW IT ALL BEGAN

1. *How long ago does the cartoon take place?*
10,000 YEARS AGO.
2. *How does the couple get to the twenty first century?*
IN A TIME MACHINE.
3. *What things 'disappear' as they travel back in time?*
SHOPS, OFFICES, FACTORIES, CARS, EVEN THEIR CLOTHES!
4. *What was the average age a man could expect to live to in these primitive societies?*
ABOUT 30 YEARS OLD.
5. *Name four dangers or problems people faced with this way of life?*
WILD ANIMALS; ILLNESS AND DISEASES; THE WEATHER; STARVATION.
6. *What name do we give to this type of economy or society?*
A SUBSISTENCE ECONOMY.
7. *What proportion of the world's population live in a similar way today?*
TWO THIRDS.
8. *What percentage of the people work on the land in most poor countries?*
NINETY-FIVE PERCENT.
9. *What percentage of people work on the land in Britain?*
APPROXIMATELY ONE PERCENT.
10. *What proportion of the food consumed in Great Britain is produced by British farmers?*
ABOUT HALF.
11. *What percentage of people work on the land in the U.S.A?*
APPROXIMATELY TWO PERCENT.
12. *What do American farmers do with their huge surpluses?*
THEY SELL (EXPORT) SURPLUS FOOD TO OTHER PEOPLE ALL OVER THE WORLD.
13. *What do they get in return?*
TRACTORS, CARS, FENCING, HOUSING – ALL THE FOODS AND SERVICES MADE BY OTHER PEOPLE.
14. *What is the 'secret' which enables a society to start improving its' way of life?*
PRODUCING MORE THAN YOU NEED JUST TO SURVIVE.

VIDEO 2: THE DIVISION OF LABOR BY PRODUCT

1. *What is the 'secret' which enables a society to start improving its' way of life?*
PRODUCING MORE THAN YOU NEED JUST TO SURVIVE – MAKING A SURPLUS!
2. *What is the subsistence trap?*
PEOPLE WORKING EVERY DAY, USING ALL THEIR ENERGY AND TIME TO JUST PRODUCE ENOUGH FOOD TO EAT, WITH NOTHING LEFT OVER.
3. *What disaster hits the village?*
A LANDSLIDE CUTS OFF THEIR GRAZING LAND.
4. *What will happen if they do not do something to overcome this problem?*
THEIR CATTLE WILL DIE AND THE PEOPLE WILL STARVE.
5. *What do they have to build to enable their cattle to graze?*
A BRIDGE.
6. *Why can't they build this?*
THEY DO NOT HAVE ENOUGH RESOURCES.
7. *What is Mr Taylor's suggestion?*
EACH FAMILY SHOULD SPECIALIZE IN MAKING ONLY ONE PRODUCT - THE ONE THEY PRODUCE BEST.
8. *What name is given to the process by which each family specializes in what it does best?*
THE DIVISION OF LABOR BY PRODUCT.
9. *What two families are 'left over'?*
THE MASONS AND THE CARPENTERS.
10. *What is the first thing these two families make?*
THE BRIDGE.
11. *Why do the Farmers, Shepherds and Fishers produce more than before?*
BECAUSE THEY ARE DOING WHAT THEY ARE BEST AT AND THEY GET BETTER WITH PRACTICE.
12. *What is the second thing the Masons and Carpenters make and what is the result?*
THEY BUILD AN IRRIGATION CHANNEL TO WATER THE CROPS – MORE FOOD IS PRODUCED.
13. *List some of the advantages of the division of labor shown in the video.*
 - **THEY ALL BECOME MORE SKILLED AT WHAT THEY DO**
 - **THEY PRODUCE MORE GOODS**
 - **THEY CAN MAKE A SURPLUS**
 - **GOODS BECOME CHEAPER TO MAKE**
14. *What is 'at the heart of all progress and prosperity'?*
THE DIVISION OF LABOR BY PRODUCT.

VIDEO 3: THE DIVISION OF LABOR BY PROCESS

1. *What did Mr Taylor suggest was the very first reason for increasing production?*
HIS IDEA OF DIVIDING THE COMMUNITY SO THAT EACH FAMILY SPECIALIZED.
2. *List at least two of the explanations Mrs Taylor gives for the village surplus?*
 - **EACH FAMILY BECAME MORE SKILLED AT THEIR JOBS.**
 - **THEY WERE ABLE TO PRODUCE MORE IN LESS TIME THAN BEFORE.**
3. *How long does it take Mrs Taylor to make one shawl?* **TWO WEEKS.**
4. *What is a trader?*
SOMEONE WHO EXCHANGES HIS SURPLUS GOODS FOR OTHER GOODS PRODUCED BY SOMEBODY ELSE.
5. *How many shawls did the trader want to buy?* **20 SHAWLS.**
6. *What does Mrs Taylor suggest they all do in order to make more shawls?*
EACH PERSON SHOULD SPECIALIZE IN DOING JUST ONE PROCESS OR TASK REQUIRED TO MAKE A SHAWL.
7. *What two other reasons does Mr Taylor think will cause production to increase?*
 - **TIME WOULD NOT BE WASTED IN GETTING THINGS OUT AND PUTTING THEM AWAY AGAIN.**
 - **EVERYBODY WILL GET BETTER AT THEIR JOB WITH MORE PRACTICE.**
8. *Define production in your own words.*
PRODUCTION IS ABOUT USING RESOURCES (THE FACTORS OF PRODUCTION) AND COMBINING THEM TOGETHER TO MAKE FINISHED GOODS AND SERVICES (PRODUCTS).
9. *What happens to their 'productivity' as a result of specialization?*
THEY DOUBLED THEIR PRODUCTIVITY FROM 10 SHAWLS TO 20 SHAWLS.
10. *Give TWO explanations for this increase in production.*
 - **THEY ALL BECAME MUCH MORE SKILLED AT THEIR ONE PARTICULAR TASK.**
 - **A LOT OF TIME AND EFFORT WAS SAVED BECAUSE THEY DID NOT HAVE TO KEEP CHANGING JOBS.**
11. *What is this kind of specialization called?*
THE DIVISION OF LABOR BY PROCESS.
12. *What do the villagers do with their surplus?*
THEY SWAPPED THEIR SHAWLS FOR THE GOODS THE TRADER HAD TO SELL.
13. *What do we do with our surplus production in the modern world?*
WE TRADE IT FOR GOODS WE ARE NOT ABLE TO PRODUCE OURSELVES, SUCH AS TEA AND COFFEE.

VIDEO 4: MECHANIZATION

1. *What term describes the situation where each worker produces one particular type of product?*
THE DIVISION OF LABOR BY PRODUCT.
2. *What term describes the situation where each worker specialises in doing one particular task in the production of a product?*
THE DIVISION OF LABOR BY PROCESS.
3. *Describe the first two practical uses made of the 'hoop' in the film?*
TO MAKE WHEELS FOR A CART AND TO MAKE A PULLEY AND LEVER TO EXTRACT WATER FROM THE RIVER.
4. *What did Mr Taylor do to make plowing the fields easier?*
HE MADE THE OX PULL THE PLOW.
5. *What did Mrs Taylor invent?*
A WATER MILL TO GRIND THE CORN.
6. *What was and remains the purpose of any machine?*
TO DECREASE THE AMOUNT OF TIME AND EFFORT NEEDED TO DO A JOB.
7. *In addition to water and animal power, what sources of energy are shown?*
WIND, COAL, OIL AND URANIUM (NUCLEAR) POWER.
8. *In the industrial revolution, what new form of power was developed?*
STEAM POWER.
9. *How was this power obtained or generated?*
BY BURNING COAL TO BOILWATER.
10. *What was the first type of transport to use this new energy source on land?*
A TRAIN.
11. *Name four different types of services mentioned in the film?*
NURSES, TEACHERS, POSTMEN AND FIRE FIGHTERS.

VIDEO 5: A LIFE WORTH LIVING

1. *What 3 ideas helped the community to achieve a surplus?*
THE DIVISION OF LABOR BY PRODUCT, THE DIVISION OF LABOR BY PROCESS AND MECHANIZATION.
2. *What was the most useful invention shown on the film?*
THE WHEEL.
3. *In what four different ways were the forces of nature harnessed to produce energy?*
WIND, WATER, COAL AND OIL.
4. *List and briefly explain the five ways in which the community used the surplus they had created?*
 - **STORES – OR RESERVES SUCH AS FOOD.**
 - **TRADE – EXCHANGING THEIR SURPLUS FOR SOMEONE ELSE’S SURPLUS.**
 - **CAPITAL – SUCH AS MACHINES, TOOLS, PLOWS AND THE BRIDGE.**
 - **SERVICES – SUCH AS HEALTH CARE AND EDUCATION.**
 - **LEISURE – SPARE TIME TO RELAX (E.G: HOLIDAYS).**
5. *Approximately how long have humans been on earth?*
1-2 MILLION YEARS.
6. *What dramatic change in the history of mankind took place about 10, 000 years ago?*
FARMING – GROWING CROPS AND KEEPING HERDS OF ANIMALS.
7. *In what type of land did these early civilizations develop?*
RIVER VALLEYS.
8. *Where were the first four of these located?*
THE YELLOW RIVER IN CHINA.
THE RIVER INDUS IN PAKISTAN.
THE RIVERS TIGRIS AND EUPHRATES IN IRAQ.
THE RIVER NILE IN EGYPT.
9. *Describe the processes shown in the television factory and explain what the workers do with the 'surplus' goods that they help to produce?*
THE FACTORY EMPLOYS PEOPLE WHO EACH SPECIALIZE IN JUST ONE PARTICULAR TASK. THIS ILLUSTRATES THE DIVISION OF LABOR BY PROCESS. THEY USE MACHINES (MECHANIZATION) AND PRODUCE MANY TELEVISIONS, WHICH ARE THEN TRADED (SOLD). EACH WORKER RECEIVES A PAYMENT, WHICH ENABLES THEM TO BUY GOODS AND SERVICES PRODUCED BY OTHER PEOPLE.

VIDEO 6: THE MARKET

1. *Where do the villagers put all their produce at the start of the video?*
IN A COMMON STORE OR BARN.
2. *What happens when you spend all your time at one job?*
YOU BECOME MORE SKILLED AT IT AND YOU PRODUCE MORE IN LESS TIME. THE QUALITY ALSO IMPROVES.
3. *What did the Tailors make to increase their production?*
A LOOM.
4. *What extra things did the Fishers make to increase their catch?*
A NET AND A BOAT.
5. *What were the Shepherds doing that annoyed Mrs Taylor and Mrs Coward?*
THEY WERE TAKING LOTS OF FOOD FROM THE BARN AND PUTTING VERY LITTLE IN.
6. *Why doesn't sharing seem to work?*
THE SHARE OUT IS NOT EQUAL OR FAIR.
7. *What does Mr Mason suggest?*
THAT HE IS PUT IN CHARGE – HE WOULD MAKE SURE EVERYTHING WAS PUT IN THE BARN AND HE WOULD DISTRIBUTE THE PRODUCTS HIMSELF.
8. *What was Mr Taylor's inspirational idea?*
NO ONE SHOULD PUT ANYTHING IN THE BARN; THEY SHOULD ALL KEEP WHAT THEY MADE.
9. *How did the others react at first?*
THEY WERE SHOCKED – THEY WANTED TO KNOW HOW THEY WOULD BE ABLE TO GET THE OTHER THINGS THAT THEY DID NOT MAKE THEMSELVES.
10. *What must people do if they specialize in only one type of good?*
THEY MUST TRADE THEIR GOODS FOR GOODS MADE BY OTHER FAMILIES.
11. *What did the 'swapping' day come to be called?*
MARKET DAY.
12. *How did this new system alter the Shepherds family's behavior?*
IT MADE THEM BRING MORE SHEEP TO THE MARKET SO THAT THEY COULD OBTAIN OTHER THINGS INSTEAD.

13. *List four things people find out on this day?*
- **THE VALUE (OR WORTH) OF THE PRODUCTS THEY HAVE TO SELL.**
 - **HARD WORK IS REWARDED – PEOPLE HAVE AN INCENTIVE TO MAKE AND SELL A LOT.**
 - **THEY FIND OUT WHAT IS GOING ON IN THE VILLAGE.**
 - **THEY FIND OUT WHAT PEOPLE WANT SO THAT THEY KNOW WHAT TO PRODUCE NEXT TIME.**
14. *List two communities that still allocate by sharing where possible.*
- THE KIBBUTZ IN ISRAEL AND NEW-AGE TRAVELLERS OR HIPPIE COMMUNES.**
15. *List two new types of markets shown on the video.*
- CAR BOOT SALES AND THE INTERNET.**
16. *What is the most common type of market in the world?*
- FOOD MARKETS.**
17. *In addition to trading, what other type of ‘system’ operates in every market?*
- AN INFORMATION SYSTEM.**

VIDEO 7: MONEY

1. *What two types of fish did the Fishers catch?*
SALMON AND PERCH.
2. *Which of these were they able to swap for the most goods?*
SALMON.
3. *What information does the market provide producers?*
IT TELLS THEM WHAT PEOPLE WANT AND DON'T WANT TO BUY.
4. *How did people feel about the old design of shawls?*
THEY WERE BORED WITH THE OLD DESIGNS.
5. *What did people want from the market?*
VARIETY AND CHOICE.
6. *As variety increased what happened to the market?*
TRANSACTIONS (TRADE) BECAME MUCH MORE COMPLICATED.
7. *Complete this table to show how the Tailors finally got what they wanted.*

<u>FAMILY</u>	<u>WANTED TO BUY</u>	<u>WANTED TO SELL</u>
Tailors	12 eggs	Red shawl
Farmers	Salmon	12 eggs
Fishers	Butter	Salmon
Cowherds	Stool	Butter
Carpenters	Red shawl	Stool
8. *What was being wasted in the market?*
TIME AND ENERGY.
9. *What proper use should be made of these scarce resources?*
THEY COULD AND SHOULD BE SPENT ON PRODUCING THE THINGS THAT PEOPLE WANTED TO BUY.
10. *What were the advantages of using corn for trading?*
PEOPLE WOULD ACCEPT IT AND IT COULD BE STORED.
11. *What were the disadvantages?*
IT WAS HEAVY TO CARRY AND WAS NOT ACCEPTABLE AFTER THE HARVEST.
12. *Why couldn't water be used as a means of exchange?*
IT WAS NOT SCARCE – PEOPLE COULD GET AS MUCH AS THEY WANTED FOR FREE.
13. *What was wrong with using strawberries?*
THEY DO NOT LAST! (NOT DURABLE)
14. *What was wrong with using beads?*
THEY ARE NOT DIVISIBLE INTO SMALLER AMOUNTS.

15. *What does Mrs Taylor finally recommend they use?*
GOLD.
16. *What did Mr Smith do with the gold people gave him?*
HE MELTED THE GOLD AND MADE COINS OF DIFFERENT SIZES.
17. *Explain each of these six qualities that money should have:*
ACCEPTABLE: PEOPLE MUST BE WILLING TO ACCEPT IT IN EXCHANGE FOR THINGS OF VALUE.
DIVISIBLE: IT SHOULD BE ABLE TO BE DIVIDED UP INTO SMALLER AMOUNTS.
DURABLE: IT SHOULD LAST (BE HARD-WEARING).
STABLE (OR SCARCE): IT SHOULD MAINTAIN ITS VALUE OVER TIME.
UNIFORM: IT SHOULD BE RECOGNIZABLE AS MONEY (ALL LOOK THE SAME).
PORTABLE: IT SHOULD BE LIGHTWEIGHT AND EASY TO CARRY.
18. *What sorts of things have been used as money throughout history?*
IRON RINGS, SHELLS AND TOBACCO, BUT MAINLY PRECIOUS METALS.
19. *Write out the definition of money:*
MONEY IS A MECHANISM FOR MAKING IT EASY TO EXCHANGE THINGS.

VIDEO 8: SUPPLY AND DEMAND – THE CONSUMER

1. *Why did the Tailors give up the weaving business?*
NOBODY WAS BUYING THEIR CLOTHES.

2. *What would happen to people in a market economy if they do not have any income?*
THEY WOULD HAVE NO MONEY AND WOULD BE UNABLE TO BUY ANYTHING – THEY COULD STARVE!

3. *Complete the following table, which shows how the Tailors collected produce to sell:*

	<u>PRODUCT</u>	<u>PRICE</u>	<u>QUANTITY</u>		<u>TOTAL REVENUE</u>
		cents	collected	sold	cents
DAY ONE	Mushrooms	10	60	10	100
WHAT	Plums	10	10	10	<u>100</u>
HAPPENED	TOTAL				200

4. *How do you calculate TOTAL REVENUE?*
PRICE X QUANTITY SOLD.

5. *Complete the table.*

	<u>PRODUCT</u>	<u>PRICE</u>	<u>QUANTITY</u>		<u>TOTAL REVENUE</u>
		cents	collected	sold	cents
DAY ONE	Mushrooms	5	60	60	300
WHAT COULD	Plums	30	10	10	<u>300</u>
HAVE HAPPENED	TOTAL				600
DAY TWO	Mushrooms	10	10	10	100
WHAT	Plums	10	60	10	<u>100</u>
HAPPENED	TOTAL				200
DAY TWO	Mushrooms	30	10	10	300
WHAT COULD	Plums	5	60	60	<u>300</u>
HAVE HAPPENED	TOTAL				600

6. *What answer did Mr Tailor give to those who thought he was charging a high price for peaches?*
THEY DID NOT HAVE TO BUY IF THEY DID NOT WANT TO.

7. *Why were some people able and willing to buy peaches despite the high price?*
BECAUSE SOME PEOPLE HAD PLENTY OF MONEY AND OTHERS WERE WILLING TO GIVE UP SOMETHING ELSE IN ORDER TO BUY PEACHES.

8. *How are scarce resources and finished products ALLOCATED in a market?*
THEY ARE ALLOCATED (SOLD TO) PEOPLE WHO ARE ABLE (CAN AFFORD TO) AND WILLING (WANT) TO PAY THE PRICE BEING CHARGED.

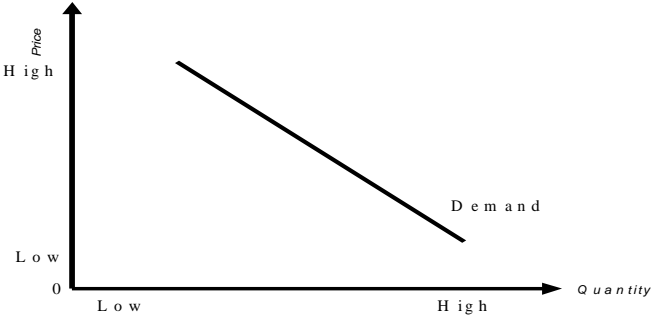
9. *What did Mrs Tailor do in order to sell off the remaining apples?*
SHE REDUCED THE PRICE EVEN MORE THAN BEFORE.

10. Complete the table by writing the two different prices charged for apples and the amount sold at each price.

	PRODUCT	PRICE	QUANTITY		TOTAL REVENUE
		cents	collected	sold	cents
DAY THREE	Peaches	30	10	10	300
WHAT	Apples 1	5	60	48	240
HAPPENED	Apples 2	2.5		12	<u>30</u>
	TOTAL				570

11. What happens when price is too low?
THERE CAN BE FIGHTS AND LONG LINES.
12. What happens when price is too high?
THERE CAN BE HUGE STOCKS OF UNSOLD GOODS.
13. Why is water so expensive near the equator?
BECAUSE IT IS VERY SCARCE.
14. Why is water so cheap in some other countries?
THERE IS PLENTY AVAILABLE.
15. What does the value of anything depend on?
DEMAND AND SUPPLY.
16. What does the PRICE of anything help to regulate?
SUPPLY AND DEMAND.
17. Fill in the missing words.
“Every **PRICE** you see on every thing that’s for sale has a story to tell. It tells you, for example, how **PLENTIFUL** or **SCARCE** something is in relation to the number of people who are not only **ABLE** to buy it, but are **WILLING** to buy it.”
18. Why does the price of some products vary at different times of the year?
SOMETIMES THEY ARE SCARCE (IN SHORT SUPPLY) AND AT OTHER TIMES THEY ARE PLENTIFUL.
19. What happens to PRICE if DEMAND increases?
PRICE RISES.
20. What happens to PRICE if SUPPLY increases or DEMAND decreases?
IT FALLS.
21. What is the first ‘law’ of DEMAND?
THE HIGHER THE PRICE, THE LOWER THE QUANTITY THAT WILL BE DEMANDED. THE LOWER THE PRICE, THE HIGHER THE QUANTITY THAT WILL BE DEMANDED.

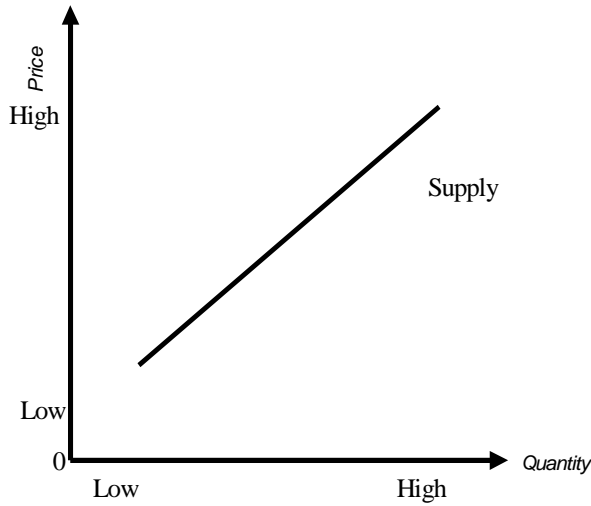
22. Draw a graph to sketch the normal relationship between PRICE and the QUANTITY DEMANDED.



VIDEO 9: SUPPLY, DEMAND AND PRICE – PRICE AND THE PRODUCER

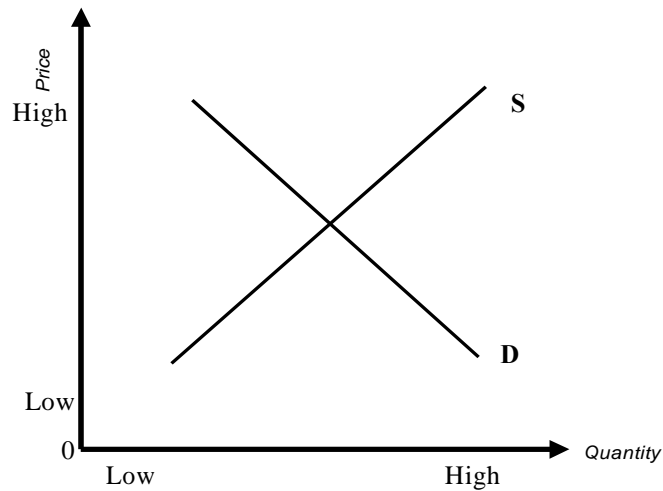
1. *How does raising the price of a good effect demand?*
IT REDUCES THE AMOUNT THAT PEOPLE WANT TO BUY.
2. *What effect does lowering prices have on demand?*
IT USUALLY INCREASES DEMAND – IT ACTS AS AN INCENTIVE TO BUY MORE.
3. *Why did the villagers need salt?*
TO PRESERVE THEIR MEAT AND FISH.
4. *Why were the villagers not prepared to buy salt from Mr Taylor at first?*
BECAUSE HIS PRICE WAS MUCH HIGHER THAN THE PRICE THE TRADER USUALLY CHARGED.
5. *What happened to the price of salt after the trader's first visit and why?*
IT WENT UP BECAUSE IT WAS IN SHORT SUPPLY AND HIGH DEMAND.
6. *How did this act as an INCENTIVE to some other families?*
IT ENCOURAGED THEM TO MINE FOR SALT.
7. *What happened to the price of salt as more families started to sell it?*
AS SUPPLY INCREASED THE PRICE STARTED TO FALL AND IT KEPT ON FALLING.
8. *What happened to the price of shawls and why?*
THEIR PRICE WENT UP BECAUSE THEY WERE IN SCARCE SUPPLY.
9. *What happened to the price of salt after the trader's second visit?*
IT DECREASED EVEN MORE.
10. *Explain what happens to PRICE when:*
A) SUPPLY DECREASES: IT RISES.
B) SUPPLY INCREASES: IT FALLS.
11. *What does a busy stand tell the producer?*
THESE GOODS ARE POPULAR AND IT IS WORTHWHILE MAKING OR SELLING MORE OF THEM.
12. *What does a slow period in the market tell the producer or seller?*
PEOPLE DO NOT WANT THE PRODUCT AND IT IS NOT WORTH SELLING OR MAKING.
13. *What do high prices stimulate?*
INCREASED PRODUCTION (HIGHER SUPPLY).
14. *How do sellers respond to low prices?*
REDUCED PRODUCTION (LOWER SUPPLY).

15. Use the above information and your answers to questions 13 and 14 to draw a SUPPLY curve.

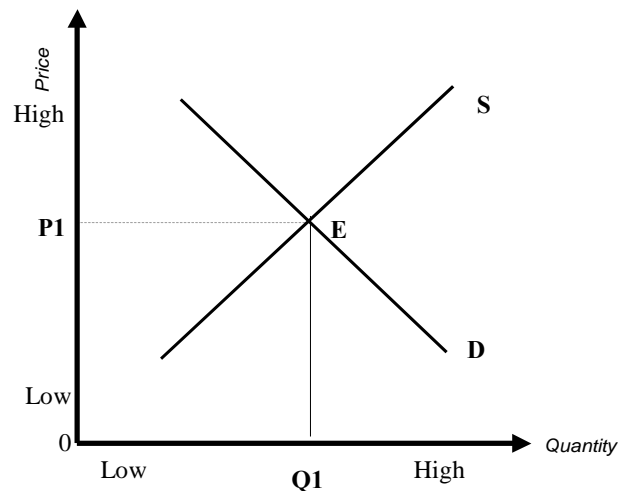


16. What makes the price of anything adjust (change) in the market?
CHANGES IN EITHER DEMAND OR SUPPLY.
17. Fill in the missing words, which explain how a typical manufacturer decides on his selling price.
HE WORKS OUT HIS COSTS, ESTIMATES HOW MANY HE CAN SELL AT VARIOUS PRICES AND THEN CHOOSES THE PRICE WHICH WILL GIVE HIM THE BIGGEST PROFIT.
18. So, what do most producers hope to obtain from producing and selling goods?
THEY HOPE TO MAKE AS BIG A PROFIT AS POSSIBLE.
19. What happened to the price of bread during the UK bread strike and why?
IT INCREASED DRAMATICALLY BECAUSE IT WAS IN SCARCE OR LIMITED SUPPLY.
20. What happened to the price of oil in 1974?
IT QUADRUPLED (FROM \$3 TO \$12 A BARREL).
21. What did the high price do to consumers of oil?
IT 'RATIONED' THEM BY ENCOURAGING THEM TO CUT DOWN ON THE AMOUNT THEY PURCHASED.
22. How did producers of oil react to the high price?
IT GAVE THEM AN INCENTIVE TO EXPLORE FOR OIL IN MORE DIFFICULT AREAS SUCH AS THE NORTH SEA.
23. What was the effect on other energy sources?
IT ENCOURAGED FIRMS TO START DEVELOPING ALTERNATIVE SOURCES OF ENERGY.

24. Now draw a demand curve AND a supply curve on the graph below:



25. What happens when the price is too high?
THERE IS EXCESS SUPPLY – FIRMS HAVE UNSOLD GOODS.
26. What happens to the amount produced if the price falls to a low point?
THERE IS EXCESS DEMAND – SOME CONSUMERS ARE UNABLE TO OBTAIN THE GOODS THEY WANT TO BUY.
27. What can happen in a market when there is excess demand?
THERE MAY BE FIGHTS OR LONG LINES.
28. What do we call the price at which SUPPLY = DEMAND?
EQUILIBRIUM PRICE.
29. Write out the 'law' of SUPPLY.
THE HIGHER THE PRICE, THE HIGHER THE QUANTITY THAT WILL BE SUPPLIED. THE LOWER THE PRICE, THE LOWER THE QUANTITY THAT WILL BE SUPPLIED.
- 30.



VIDEO 10: THE MIXED ECONOMY

1. *What material is used to make cloth in this new village?*
COTTON.
2. *How is this material obtained?*
IT GROWS ON PLANTS.
3. *What two ideas or concepts did this community not understand?*
MONEY AND THE MARKET.
4. *What name did they have for the group that makes the key decisions?*
THE COUNCIL OF ELDERS.
5. *What two decisions does this group make?*
**A) HOW MUCH THE COMMUNITY NEEDS TO PRODUCE EACH YEAR.
B) WHAT EACH FAMILY WILL BE REQUIRED TO PRODUCE.**
6. *Where do they put all their products?*
IN A COMMON STORE.
7. *How do they ensure that nobody 'cheats'?*
THEY HAVE 'GUARDS'.
8. *As well as producing for the whole village, most people keep some of what they grow for themselves. What do they call this piece of land?*
THEIR 'PRIVATE' PATCH/GARDEN.
9. *Describe each step in the process by which decisions are made and goods allocated in the Tailor's village:*
**A) EVERYBODY GROWS OR MAKES WHATEVER THEY WANT.
B) PEOPLE BRING WHAT THEY WANT TO THE MARKET.
C) THEY USED TO SWAP GOODS WITH EACH OTHER.
D) THEY INVENTED MONEY TO MAKE TRADING EASIER.
E) PRICE SIGNIFIES A 'BALANCE' BETWEEN SUPPLY AND DEMAND.**
10. *What two advantages does this system seem to have?*
**A) NOBODY TELLS ANYBODY ELSE WHAT THEY HAVE TO PRODUCE.
B) NOBODY TELLS ANYBODY ELSE WHAT THEY HAVE TO CONSUME (OR BUY).**
11. *Give one example of the way in which people in the Tailor's village may have to follow instructions.*
ONE PERSON MAY PAY ANOTHER FOR DOING SOME WORK. IN THIS CASE THE EMPLOYER MUST TELL THE EMPLOYEE WHAT THEY WANT THEM TO DO.
12. *Give some examples of problems that people in the Tailor's village might face?*
THERE COULD BE FLIES OR PESTS WHICH COULD WIPE OUT A FAMILY'S CROP, LEAVING THE ENTIRE VILLAGE WITHOUT IT.

13. *How are these problems sorted out?*
A VILLAGE MEETING IS HELD WHERE EVERYONE HAS THEIR SAY. EVERYONE COMES TO AN AGREEMENT ABOUT WHAT TO DO.
14. *In what two ways are the two villages similar?*
**A) EACH HAS SOME VOLUNTARY EXCHANGES.
 B) EACH HAS SOME SYSTEM OF PLANNING AND ALLOCATION.**
15. *What is a market economy based on?*
**A) VOLUNTARY EXCHANGES.
 B) THE PRICE MECHANISM IS USED TO SOLVE ALL THE PROBLEMS.**
16. *How are hardships and the need for public amenities (such as roads) dealt with in a market economy?*
THERE IS SOME FORM OF CENTRAL DIRECTION OR CONTROL AND PEOPLE ARE FORCED TO MAKE SOME KIND OF COMPULSORY CONTRIBUTIONS.
17. *How are decisions made in a planned economy?*
CENTRAL DIRECTION AND CONTROL.
18. *How were decisions made in the old Soviet Russia?*
**A) THE GOVERNMENT SET A FIVE YEAR PLAN.
 B) EVERY INDUSTRY WAS GIVEN A QUOTA OR PRODUCTION TARGET.**
19. *What term describes the way farming was organized?*
COLLECTIVE FARMING.
20. *How does the government raise money to spend?*
TAXATION.
21. *List five types of goods or services that the government provides:*
ROADS, POLICE, SCHOOLS, HOSPITALS AND PUBLIC HOUSING.
22. *In what other ways are these provided in the USA?*
BY THE PRIVATE SECTOR.
23. *Name four different economic systems we have seen in the videos:*
**A) THE MARKET SYSTEM (OR MARKET MECHANISM)
 B) A PLANNED ECONOMY
 C) A MIXED ECONOMY
 D) A SUBSISTENCE ECONOMY**

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