

Economics and Business

Year 6

Trade-offs and impacts of consumer and financial decisions



Content Descriptors

Choices about the use of resources result from the imbalance of limited resources and unlimited wants (i.e. the concept of scarcity)

Decisions about the alternative use of resources result in the need to consider trade-offs (e.g. using the land to grow crops or to graze cattle)

The impact consumer purchasing decisions can have on a family, the broader community (e.g. purchasing from the local growers' market or a supermarket chain) and the environment (e.g. pollution, waste)

Businesses provide goods and services in different ways (e.g. shopping centres, local markets, online stores, small independent stores, remote community stores) to earn revenue

About this material

This material has been developed to assist teachers implementing the Economics and Business component of the HASS (Humanities and Social Sciences) learning area. It is primarily addressed to teachers in Western Australian schools following the WA Curriculum mandated by SCSA (Schools Curriculum and Standards Authority). It is, however, applicable to Australian Curriculum material (ACARA). The material has no official standing - it has been written by experienced teachers of Economics affiliated with ETAWA (Economics Teacher's Association of WA).

This document is part of a series developed across Years 5-10 to assist teachers with key teaching points or key content in the Economics and Business syllabus. Each has a set of notes or comments for teachers and one or more learning activities. The learning activities usually try to incorporate relevant skills developed in two-year bands in WA Curriculum.

The notes are provided to link the curriculum content to well-understood economics and business concepts and to provide some insight into each content description. It is not intended that the notes and comments be 'taught' to students. Where relevant, answers are provided or suggested for the learning activities.

It is suggested that Year 6 teachers allocate one hour per week for one school term to allow students to investigate Economics and Business. One hour per week could be specifically allocated as a "HASS hour", with other opportunities to use these materials when linked to other learning areas.

Content Descriptions

Choices about the use of resources result from the imbalance of limited resources and unlimited wants (i.e. the concept of scarcity)

Decisions about the alternative use of resources result in the need to consider trade-offs (e.g. using the land to grow crops or to graze cattle).

These content descriptors are considered together in order to reduce repetition from the Year 5 WA Curriculum unit - scarcity and choices.

Key teaching points

- Economic resources (natural, human and capital) are scarce relative to the wants and needs people wish to satisfy.
- Due to scarcity, choices must be made about how to use resources to satisfy as many wants as possible. Making choices involves trade-offs.
- The difference between trade-offs and opportunity cost: all economic decisions have many 'trade-offs' - the best alternative from all of them is the **opportunity cost**. All decisions involve opportunity costs.

Choices and trade-offs.

There are more wants than resources, so choices have to be made about which resources to use, and how to use them, to get the best outcome/s possible.

Students should understand that wants and needs are unlimited and never-ending, but the productive resources available to satisfy them are limited. This means that (a) all decisions are choices between alternatives (how to use resources available) and (b) all decisions involve trade-offs (choosing one way to use a resource means other possibilities cannot be followed at any point in time).

Teacher notes

For an introduction to the key ideas, see the [Spark presentation](#) for this section.

Better students should understand the definition of opportunity cost and be able to apply the concept. From an economic perspective, the real cost of something is what you have to give up to obtain it. Economists call this 'opportunity cost'.

This topic should focus on resource-use decisions, not consumer decisions. Perhaps start with some local, easy to understand examples of the 'imbalance' between resources and wants that result in choices having to be made. Then move on to some broader, more complex examples (see learning activities 1 - 3. Choose or substitute as appropriate. Activity 3 refers to water security - a global problem brought about by the scarcity of a key natural resource (water) compared to the number of uses it can be put to. Emphasise the number of trade-offs that decision-makers could think about. Probably spend no more than three of your teaching sessions on these two content descriptors before moving on new content.

3. Experiment. Arrange with the class or student group that operates the garden to plant **two** new crops. Recommended crops (suitable for south west WA conditions) include:

Vegetable planting guide			
<i>Vegetable</i>	<i>When to plant</i>	<i>Days until harvest</i>	<i>Plant spacing (cm)</i>
Broad beans	May-August	90	25
Broccoli	April - August	85	30
Tomatoes	August - Nov	80	80

Keep a daily record of the specific resources used to grow your experimental crop (e.g. total hours spent in the garden; the costs of inputs used). Your record should include your organisational and management time.

When the crop has grown, record the size of the harvest for each crop chosen. Visit a local supermarket or grocery store to determine the selling price of each vegetable. Use the commercial price comparison to make a judgement as to whether your vegetable garden is a efficient use of school resources (the patch of land allocated; the staff and student time allocated; the costs of resources and so on). From your school's point of view, what other benefits are there in maintaining the garden, even if it is not economically productive?

Imagine you are a farmer who currently has half the farm allocated to a wheat crop, and half to sheep for wool. Now imagine the price of wheat rises by twenty per cent, and the price of wool falls by the same amount. How would this change your resource-use decisions? What difficulties might you face in trying to take advantage of the change in prices?

Opportunity cost

Teacher notes

Opportunity Cost is a concept that seems very confusing until students 'get it', after which it becomes a very powerful tool to understand issues. In Economics and Business, the term opportunity cost has been defined as:

- "a benefit, profit, or value of something that must be given up to acquire or achieve something else. Since every resource (land, money, time, etc.) can be put to alternative uses, every action, choice, or decision has an associated opportunity cost". Source: [Business Dictionary](#);
- "the value of the next-highest-valued alternative use of that resource" Source. D.R. Henderson, The [Concise Encyclopedia of Economics](#);
- "the cost of any choice in terms of the next best alternative foregone". Source: [Tutor2U \(Economics\)](#).

This may be hard for Year 6 students to understand, as it is an abstract concept. Some examples:

- If a person chooses to take a day off work, they may miss out on \$250 pay. This could be considered the 'income foregone for leisure'.
- The Australian Defence Forces purchased 2 new Landing Helicopter Dock ships. The amount of money (> \$3 billion) could have paid for the new Royal Adelaide Hospital.
- If a family chooses to buy new furniture, they miss out on the opportunity to put the money in a savings account to earn interest.
- Consider a teacher starting another university course, and choosing to study full-time. The tuition fees (monetary cost) could be \$30,000 p.a. But the teacher also forgoes a year's salary – perhaps \$90,000. If the teacher considers working to be the best alternative to studying, then the **real (opportunity) cost** of the year is \$90,000. The **full cost** is \$120,000 (monetary costs plus opportunity cost).

Note that deciding the 'best' alternative forgone is a matter of personal choice. Weighing the costs and benefits associated with alternative choices constitutes effective economic decision making.

Nothing is free - everything comes at some cost. Even when someone gets something without having to pay money for it, they should say they received the item for a zero price. The real cost - the opportunity cost - is the highest-valued alternative given up.

See learning activities 4-5.

Learning Activity 3 - What to do after school?

After school today, you have about two hours of leisure time before you have to maybe do some homework and have dinner with your family.

List at least five things that you would *like to do* during that two-hour leisure period. Rank them in order of preference 1-5 (best option first). Assume you will actually spend your time on the first ranked option. What economic label would be used to describe the other four options that you did not choose on this occasion? What economic label would be used to describe the second-best choice?

Now think of the two-hour leisure period as a choice in itself. What are the alternative ways in which you could use your time? When you look back in ten years, how might you describe the opportunity cost of having some leisure time off after school?

Learning Activity 4 - A cheap sport?

The following article appeared in a newspaper in 2016.

Running - cheap and good for you!

Long- distance running must be one of the cheapest sports available. For a minimal outlay - \$40 for some shorts; \$25 for a tank-top; \$75 for shoes; \$20 for a water bottle and \$25 for a cap - you can set off to compete in one of the many running events around Australia each weekend - even in the tropical summer. Running is as popular as it has ever been, and many Australians find it a low-cost way to keep fit, maintain their weight, and socialise with like-minded people.

Typically, joining a running club will cost less than \$100, which is excellent value when you consider they offer members' events, coaching, nutrition tips and so on. For all but the top events, entry fees are low. Much cheaper than golf, tennis or yachting!



1. What is the monetary cost (i.e. cost in dollar terms) of participating in a sport such as long-distance running? Do you think the costs mentioned in the article are realistic for serious runners?
2. List the productive resources that would be required to satisfy the runners' want.
3. The article does not mention trade-offs and opportunity costs at all. Suggest three alternatives that the runners in the picture might have traded off in order to participate in this race.
4. Rewrite the article with a modified heading that reads 'Running - more expensive than you might think'. Focus on the economic concepts of resources, scarcity, trade-offs and opportunity cost. Try to write two or three paragraphs!

Content Description

The impact consumer purchasing decisions can have on a family, the broader community (e.g. purchasing from the local growers' market or a supermarket chain) and the environment (e.g. pollution, waste)

Which means: any economic decision has many flow on effects, including possibly some which we would rather have avoided.

Key teaching points

- Everyone's spending is somebody else's income. All personal and household consumer and financial decisions to purchase goods or services thus create income for other people.
- Communities have natural, human and capital resources which are the foundation of the economic activity within that area.
- Consumer and business decisions often have unintended consequences (e.g. social change, environmental impacts, and waste)

Economic links

Students should understand that because everyone's spending is somebody else's income, consumer and financial decisions can have a very wide impact.

The basic idea is that every person's spending is someone else's income. Nobody in developed economies can satisfy all their own wants. So everyone in the economy is dependent on others – **economic interdependence**.

The goods and services that satisfy our wants in modern economies are now very complex, often produced from many resources that have been combined together. See learning activity 5.

Learning activity 5 - Decisions and impacts

Choose one of the following consumer decisions:

- to buy a salad roll from the school canteen at lunchtime
- to buy a new piece of sporting equipment (your choice)
- to buy a new family car
- to buy a holiday - flying and staying in Melbourne or Sydney.

Make a list of 15-20 economic resources that are used to produce, distribute and sell the product you have chosen. Make sure you include all the resource types - natural, human and capital. You could also be more specific by mentioning jobs or occupations that might be involved. e.g. natural resource for salad roll is wheat, grown by a farmer.

Now describe how a financial decision (e.g. starting a savings account at a bank; paying a bill (e.g. to the

doctor for an appointment); using a credit card to pay for items at the supermarket) will impact on other people. These will be flows of money e.g. paying for my appointment means the doctors' surgery can pay the people that work there such as the nurse, receptionist and so on.

Are you surprised by the number of flow-on effects of a simple transaction?

The impact of consumer and financial decisions

Students should understand that because everyone's spending is somebody else's income, any consumer or financial decision can have a wide and ongoing impact.

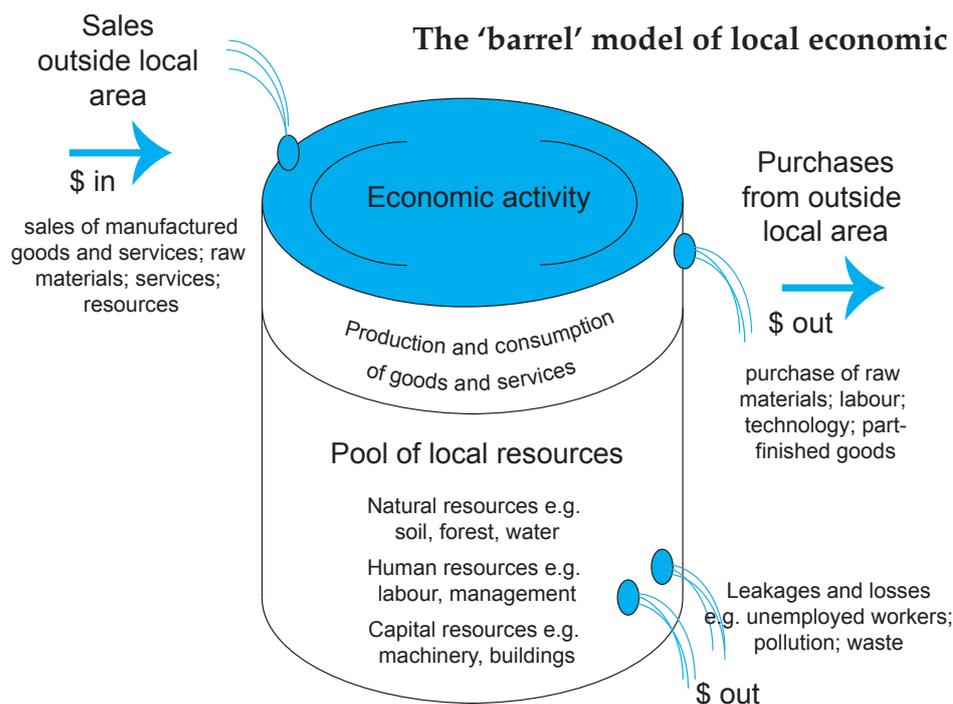
Teacher notes

The simplified model of an economy below illustrates that:

- economic activity (the production and consumption of goods and services) is founded on the stock of resources available in the 'local' area (i.e. the natural, human and capital resources that are in the 'barrel' - the local economy);
- the local economy is likely to purchase resources and inputs from outside the community e.g. from other regions, states or countries - dollars have to 'leave the barrel' to pay for them.
- the local economy also sells goods and services to other regions, states and countries; and
- there may be a number of 'losses' or 'problems' or 'unforeseen events' that can have negative impacts on the local economy.

Use the model to explain how the welfare (health) of the economy (whether at local or national scale) is determined by how well it develops and manages available resources; the extent to which it is able to interact with other communities or economies; and its ability to limit waste and leakages.

'Water' (income) flows into the bucket from outside sources – anything the local economy sells



or 'exports'. These might include the sale, or export, of goods and services to outside entities, investment income from external sources, and payments received from outside entities. On the other hand, local residents also make purchases outside the local economy - goods and services; tax payments to non-local levels of government; investments in enterprises outside the local economy; payments to individuals outside the local economy.

The amount of water in the bucket depicts the level of prosperity in the economy. This is influenced by the amount coming in, and the amount flowing out. Local prosperity can be increased if the holes in the bucket are smaller - a slower outflow of dollars. This is the idea behind many 'buy local' campaigns.

An interesting thing in modern economies is that the buyer / seller relationship may be much more distant than it once was. Only a few years ago, consumers bought goods and services that were likely to have a high degree of local content (the economic resources used to make them can from the 'local' area). Nowadays, consumer wants might be met from much wider sources – roses for Mothers Day come from India and South Africa; oranges come from the US when they are out-of-season in Australia, fish may come from a southeast Asian river. This raises the globalisation idea.

Why has this happened? Primarily because business firms are always seeking ways to use the economic resources they employ more efficiently (less cost) so that operations become more profitable. Is it good or bad? Like all things economic, there are both advantages and disadvantages.

The definition or area of the 'local' economy can be changed to fit school circumstances e.g. a small country school might think of itself as part of a wider area.

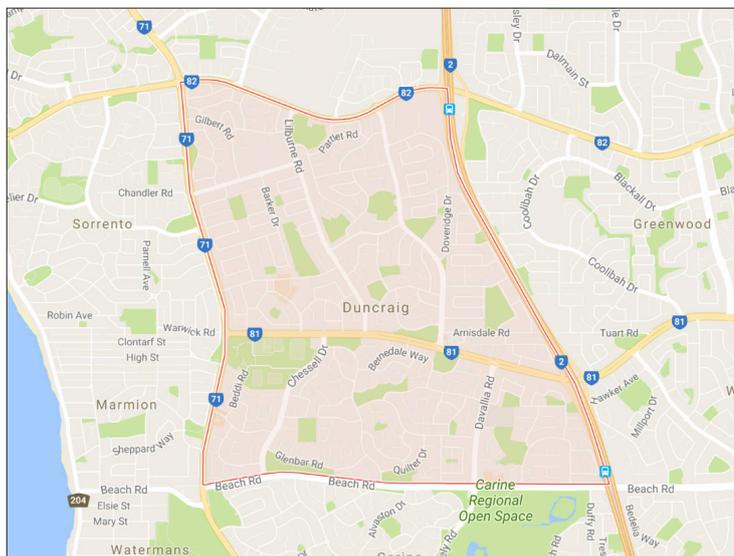
Learning activity 6 - Your 'local' economy

Download a 'Google map' of the area around your school. Draw a circle of perhaps 3-4 Km radius around your school. Your map could have a larger radius in country areas, and may be smaller in an urban area. Alternatively, the suburb may have boundaries, as shown in the map below.

On the map, locate the following:

- schools, including your own
- shopping & retail centres
- petrol stations
- movie theatres
- clubs (tennis, golf, bowls etc)
- office blocks
- factories or warehouses
- doctors surgeries
- banks

Also make a list of places you have shown on the map.



1. Does the area you have drawn (your local economy) have any major or 'special' resources that might set it apart from other communities or areas?
2. Who do you think would be the major employers in your area? Estimate how many people are employed in businesses in the area you have drawn.
3. What businesses or facilities might attract a lot of people from outside the area you have drawn? How often would those people visit? How long might they stay?
4. For what reasons might people temporarily leave the local economy, even for a short period?

On the list of places / businesses, place an asterisk (*) next to those that you think are 'truly local' businesses - that is they are *not* owned by national chain stores or franchises. What proportion of the businesses on your list could be classed as 'truly local'?

Learning activity 7 - Buyer survey

Each student in the class should ask adult members of their family, or other people from within the local area, where they would go to purchase the following goods and services. In the blank columns, label them L for 'local' and O for 'outside'. The product list can be expanded as appropriate.

Good or service	Local or outside?	Good or service	Local or outside?
Bread		Vegetables	
Fruit		Petrol	
Clothes		Meat / chicken / fish	
Television set		Accountant	
Doctor		University course	
New car		Computer	
Holiday (travel agent)		Church	

1. What seems to be common amongst the products purchased locally and those purchased more widely?
2. Put an asterisk (*) next to any item that you have listed as 'obtained outside' the local area which could have been purchased locally.
3. How would you go about starting a campaign for people to 'buy local'? Would it be a good or a bad thing?

Content Description

Businesses provide goods and services in different ways (e.g. shopping centres, local markets, online stores, small independent stores, remote community stores) to earn revenue

Key teaching points for this content descriptor

- Business firms also face the problem of scarce resources - their objective is to use the resources at their disposal as well as they can to produce goods and services that attract buyers.
- Different types of businesses continue to evolve in order to offer consumers new things and try to attract consumer spending.

Why do businesses exist?

Students should understand that businesses exist to provide goods and services to people that they could not provide for themselves.

See our Adobe Spark introductory video [here](#).

For primary students, the question 'why do businesses exist' may seem to have an obvious answer - **to make a profit**. But delving down into this answer exposes why people are willing to pay for what a business offers. So a better answer is... **Businesses exist to provide goods or services that people cannot provide for themselves.**

Learning activity 8 is based on house-building, but you could easily substitute goods such as cars, clothes, cooked food or electrical items, or perhaps apply the idea to firms that provide services - such as doctors, dentists and schools.

The idea being for students to realise that buyers face fewer potential problems and costs if they use a firm (business) to **coordinate** all the stages of production, rather than try to make the goods and services they need for themselves. Another example - most people are willing to pay for their children to be educated in businesses called 'schools' because schools coordinate all the things necessary for a child to be educated. The alternative is 'home-based schooling'.

Learning activity 8 - Build a house

Have you ever seen a new house being built in your area? if so, you know it can take over a year to complete, and there are always 'tradies' coming and going. As the picture shows, a lot of materials go into the building of a house. Most of the building involves specialised work skills - bricklayers, carpenters, tilers, grano workers (concrete), electricians, plumbers, plasterers, designers, draftsmen and so on.

Imagine your family decided to build your own house, including doing all of the work required. What would be the advantages and disadvantages of building your own house?

Now imagine you gave up on your building idea, and decided instead to employ each of the trades people and suppliers separately. Surely it would be cheaper to have separate arrangements with each person? Can you think of any advantages and disadvantages.

Why do you think so many people hire a building company to construct their house? What does the building company actually do that you could not do for yourself (or perhaps would choose not to do because of the knowledge, skills or time required).