

# Topic: Introduction to Economics

- **Google classroom code:**

- **Resources:**

- Class website: [msclancyecon.com](https://msclancyecon.com)
- Exam Papers - [Studyclix](#)
- App: RTÉ news
- Social Media: RTÉ news, The Irish Times
- Podcast: David Mc Williams
- Book: Freakonomics by Stephen J. Dubner and Steven Levitt

## ASSESSMENT

<b>Written Exam</b>	2.5 hours	80%
<b>Section A</b>	Short Qs (choice)	20%
<b>Section B</b>	Long Qs (choice of extended long Qs)	60%
<b>Research Study</b>	Report	20%

### STRAND 1: WHAT IS ECONOMICS ABOUT?

- 1.1 Economics as a way of thinking
- 1.2 The economic concepts of scarcity and choice
- 1.3 Economic, social and environmental sustainability

### STRAND 2: HOW ARE ECONOMIC DECISIONS MADE?

- 2.1 The market economy
- 2.2 The consumer
- 2.3 The firm
- 2.4 Government intervention in the market

### STRAND 3: WHAT CAN MARKETS DO?

- 3.1 Market structures
- 3.2 The labour market
- 3.3 Market failure

### STRAND 4: WHAT IS THE RELATIONSHIP BETWEEN POLICY AND ECONOMIC PERFORMANCE?

- 4.1 National income
- 4.2 Fiscal policy and the budget framework
- 4.3 Employment and unemployment
- 4.4 Monetary policy and the price level
- 4.5 Financial sector

### STRAND 5: HOW IS THE ECONOMY INFLUENCED BY INTERNATIONAL ECONOMICS?

- 5.1 Economic growth and development
- 5.2 Globalisation
- 5.3 International trade and competitiveness

Watch [Introduction to economics](#)

## Economics in the News: match the headline to the topic

### Headlines

- A. Government plans to build 50,000 new homes by 2030
- B. Petrol prices rise again as oil costs increase
- C. Irish wages grow slowly, but food prices go up faster
- D. Unemployment rate falls to lowest level in 5 years
- E. Budget 2025 gives more money to health and housing
- F. New carbon tax introduced to fight climate change
- G. Supermarkets cut prices to compete with rivals
- H. Minimum wage will rise by €1 in January
- I. Electric car sales double in one year in Ireland
- J. Young people struggle to buy their first home
- K. Government gives energy credits to help with bills
- L. More Irish jobs expected as tech companies expand
- M. Central Bank warns about rising inflation
- N. Limerick to get new factory, creating 300 jobs
- O. Ireland's exports to Europe increase in 2025

Match each headline to one or more topics by entering the letter(s) next to the topic:

Topic Code	Topic Title	Headlines
1.1	Economics as a way of thinking	
1.2	Scarcity and choice	
1.3	Economic, social and environmental sustainability	
2.1	The market economy (demand, supply, market equilibrium)	
2.4	Government intervention in the market (taxes, subsidies)	
3.1	Market structures (monopoly, oligopoly)	
3.3	Market failure (eg. alcohol, vaping, gambling...)	
4.1	National income (GDP)	
4.2	Fiscal policy and the budget framework	
4.3	Unemployment	
4.4	Monetary policy and the price level (inflation)	
5.1	Economic growth and development	
5.2	Globalisation	

5.3	International trade and competitiveness	
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## Economics as a Way of Thinking

- Economics is a **social science**
  - It studies **human behaviour** and how the **scarce resources** of the world which have alternative uses are distributed in attempting to satisfy the **infinite needs and wants** of mankind
- Watch [60 seconds of economics](#)

## Positive V. Normative Economics

- Watch [Positive V. Normative statement](#)
- **Positive economics** is concerned with objective statements of how a market or an economy works
  - These statements can be shown to be true or false – by observing real world events
  - These are examples of positive economic statements
    - The Irish unemployment rate has fallen from 4% to 3.7% in the past three months
    - Increasing the minimum wage last year in Ireland resulted in improvements to wage inequality
    - Prices in the Ireland have risen dramatically, partly due to the 20% increase in the price of oil
- **Normative economics** involves making a value judgement or expression of an opinion about what ought to be true
  - These judgements are called normative economic statements
  - Normative economic statements are what separate political parties and the different economic agendas they put forward
  - These are examples of normative economic statements
    - Every economy should aim to provide free healthcare for its citizens
    - Corporation taxes in an economy should be higher than personal income taxes
    - The best way to deal with a rise in crime is to employ more Guards

## Categorise Statements as Positive or Normative

	Statement	Positive	Normative
1	Limerick City Council ought to subsidise the local bus routes so Castletroy students can travel into the city center for free.		
2	Ireland should prioritise tackling climate change as it poses serious long-term economic risks, especially in flood-prone areas like parts of Limerick.		
3	A rise in average temperatures will increase the demand for sun screen products		
4	Unemployment is more harmful than inflation		
5	The minimum wage in Ireland should be raised to €15.50 to help tackle working poverty.		
6	The retirement age should be raised to 70 to combat the effects of our ageing population.		
7	Rising living costs in Limerick have led more people to buy supermarket own-brand products.		
8	To reduce youth alcohol abuse, Ireland should consider raising the legal drinking age to 21.		
9	Women earn less money than men		
10	Ireland had a budget surplus of €8.5 billion in 2024, largely due to high corporate tax income.		
11	The 2024 increase in Jobseeker's Allowance didn't lead to a rise in unemployment in Limerick or nationally.		
12	More social housing should be built in cities like Limerick to support low-income families		
13	The price of a lunchtime chicken fillet roll in Castletroy College increased by 50 cents this year.		
14	Castletroy College should ban all cars from the school drop-off zone to reduce local traffic congestion and carbon emissions		

## The Economic Problem: Scarcity and Choice

- The basic economic problem is that resources are **scarce**
  - **Scarcity** means that the supply of resources / factors of production are **limited**
  - There are **finite resources** available in relation to the **infinite wants and needs** that humans have
  - In economics, these resources are called the **factors of production**
  - Due to the problem of scarcity, **choices** have to be made by producers, consumers and governments about the best (most efficient) use of these resources
- **Choice:** In Economics, resources are limited / finite / scarce and have alternative uses while wants are unlimited / infinite
  - As a result choices must be made and these choices involve an **opportunity cost**
- **Economics is the study of scarcity and its implications for resource allocation in society**

**Exam Q:** The fundamental economic problem is one of 'scarcity'. Explain this concept.


**Exam Q:** Outline why **choice** is fundamental to the study of economics


## Opportunity Costs

- **Opportunity cost** is the loss of the **next best alternative** when making a decision
- Due to the problem of **scarcity**, **choices** have to be made about how to best allocate limited resources amongst competing wants and needs
- There is an opportunity cost in the **allocation of resources**
  - E.g. When a consumer chooses to purchase a new phone, they may be unable to purchase new jeans. The jeans represent the loss of the next best alternative (the opportunity cost)
- **Trade off:** In Economics resources are limited / finite / scarce and have alternative uses while wants are unlimited / infinite. As a result there must be a trade off and this involves an opportunity cost

**Activity:** work in pairs to complete [google quiz](#)

**Exam Question: Ordinary Level**

### Question 9

- (i) Explain the term opportunity cost.

Explanation:

- (ii) Capital funding of €2.3bn has been allocated for social and affordable housing in Budget 2023.

Outline **one opportunity cost** involved in the government expenditure on social and affordable housing.

Outline:

## Factors of Production

- **Factors of production** are the resources used to produce goods & services
  - **Land, labour, capital & enterprise**
  - The production of any good/service requires the use of a combination of all four factors of production

### The Four Factors of Production

Land	Labour	Capital	Enterprise
Non man-made natural resources are available for production. Some countries have a vast amount of a particular natural resource & so are able to specialise in its production e.g. oil, wood, fish, corn, iron ore	The human input into the production process. Labour involves mental or physical effort. Not all labour is of the same quality. It can be skilled or unskilled. Some workers are more productive than others because of the education, training & experience they have	Capital is any man-made resource that is used to produce goods/services e.g. tools, buildings, machines & computers	Enterprise involves taking risks in setting up or running a firm. An entrepreneur decides on the combination of the factors of production necessary to produce goods/services with the aim of generating profit

### Rewards for the Factors of Production

- In a market economic system, the factors of production are privately owned by households or firms (The terms 'market' & 'free market' are used interchangeably)
- Households receive the following financial rewards for selling their factors of production. This reward is called factor income
  - The factor income for **land** → rent
  - The factor income for **labour** → wages
  - The factor income for **capital** → interest
  - The factor income for **entrepreneurship** → profit

**Exam Question: Ordinary Level**

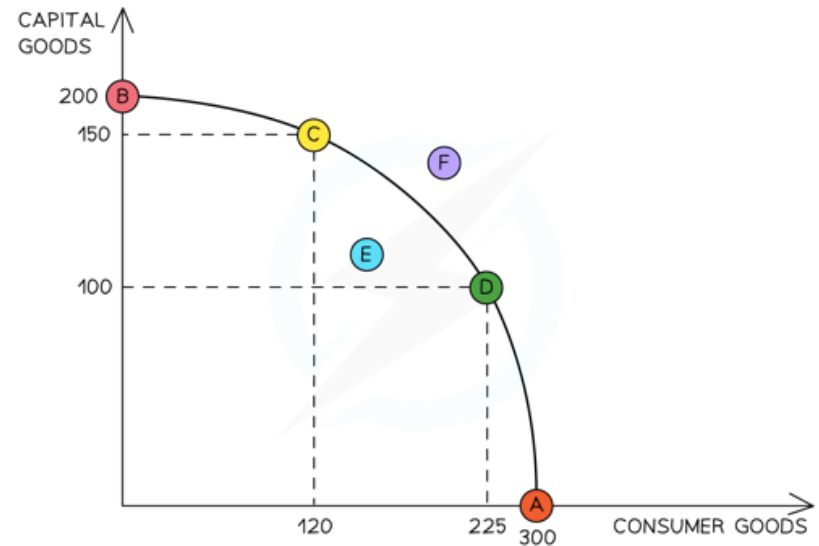
- (a) Complete the table below explaining, using examples, the factors of production, other than capital, required for the sale of fizzy drinks. One factor of production has been completed for you.

Factors of Production	Definition	Example
Land		
Labour		
Capital	Anything that is man-made that is used in the production of goods and services/wealth.	Machinery
Enterprise		

**Production Possibility Curves (PPC)**

- The Production Possibility Curve (PPC) is an economic model that considers the **maximum possible production (output)** that a country can generate if it uses all of its factors of production to produce only two goods/services
- Any two goods/services can be used to demonstrate this model
- Many PPC diagrams show capital goods & consumer goods on the axes
  - **Capital goods** are assets that help a firm or nation to produce output (manufacturing). For example, a robotic arm in a car manufacturing company is a capital good
  - **Consumer goods** are end products & have no future productive use. For example, a watch

Diagram: PPC



A PPC for an economy demonstrating the use of its resources to produce capital or consumer goods

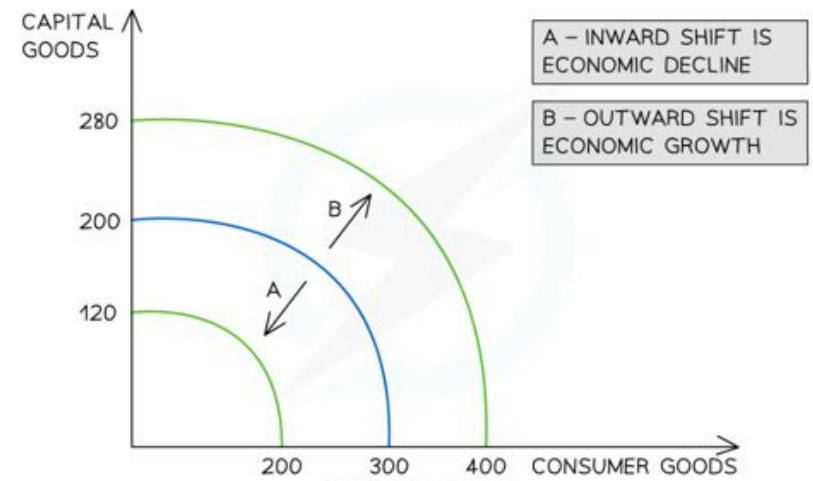
## Diagram Explanation

- The use of PPC to depict the **maximum productive potential** of an economy
  - The curve demonstrates the possible combinations of the maximum output this economy can produce using all of its resources (**factors of production**)
  - At A, its resources are used to produce only consumer goods (300)
  - At B, its resources are used to produce only capital goods (200)
  - Points C & D both represent full (efficient) use of an economy's resources as these points fall on the curve. At C, 150 capital goods and 120 consumer goods are produced
- The use of PPC to depict **opportunity cost**
  - To produce one more unit of capital goods, this economy must give up production of some units of consumer goods (limited resources)
  - If this economy moves from point C (120, 150) to D (225, 100), the opportunity cost of producing an additional 105 units of consumer goods is 50 capital goods
  - A movement in the PPC occurs when there is any change in the allocation of existing resources within an economy such as the movement from point C to D
- The use of PPC to depict **efficiency, inefficiency and impossible** production
  - **Efficient:** Any point on the boundary (A, B, C, D) are efficient as they are operating at maximum capacity. They are using all current resources.
  - **Inefficiency:** Any point inside the curve represents **inefficiency** (point E) because it doesn't use all the current scarce resources. It is possible to produce more.
  - **Impossible:** Cannot produce at point F (or anywhere outside this boundary) using current resources. They would need to increase factors of production

## Changes in Production Possibilities

Watch episode 10: [Shift in PPC](#)

Diagram: Inward & Outward Shift of PPC



### Diagram explanation

- **Economic growth** occurs when there is an **increase in the productive potential** of an economy
  - This is demonstrated by an **outward shift** of the entire curve. More consumer goods and more capital goods can now be produced using all of the available resources
- This shift is caused by an increase in the **quality or quantity of the available factors of production**
  - One example of how the **quality** of a factor of production can be improved is through the impact of training and education on labour. An **educated workforce** is a more productive workforce and the production possibilities increase
  - One example of how the **quantity** of a factor of production can be increased is through a change in **migration policies**. If an economy allows more foreign workers to work productively in the economy, then the production possibilities increase

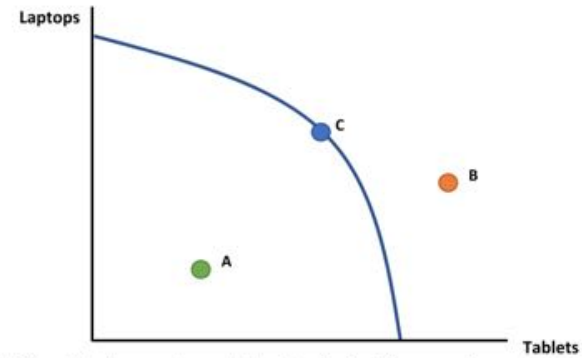
- **Economic decline** occurs when there is any impact on an economy that reduces the **quantity or quality** of the available factors of production
  - One example of how this may happen is to consider how the Japanese **tsunami** of 2011 devastated the production possibilities of Japan for many years. It shifted their PPC inward, resulting in economic decline

**Activity:** Whiteboards. Illustrate the following scenerios:

- Draw a PPF curve - show efficient / inefficient and impossible points
- Draw a PPF for Time Ltd, show combination of watches (50%) and laptops (50%)
- Illustrate a trade off between watches (20%) and laptops (80%)
- Illustrate the impact of an increase in labour on Time Ltd PPF
- Illustrate an improvement in technology to produce watches and laptops

**Exam Paper 2023**

- (a) The diagram below shows the Production Possibilities Frontier for a digital manufacturing company that produces both laptops and tablet devices.



Identify from the diagram above which option (A, B or C) represents,

- an efficient
- an inefficient
- and an impossible production point respectively.

- (b) Justify each of your choices you made in (a) above.

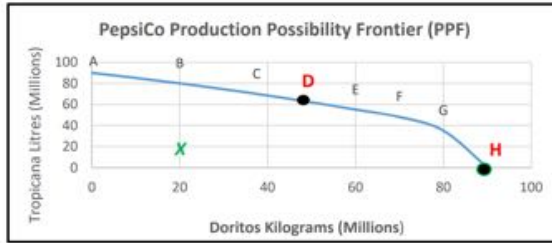
Efficient:
Inefficient:
Impossible:

SEC 2022

Cork based firm PepsiCo have 23 brands in total. Doritos and Tropicana are two of their most popular products.

- (a) Calculate the **opportunity cost** of PepsiCo moving production from point **D** to point **H** on the Production Possibility Frontier (PPF) curve.

	Doritos million (kg)	Tropicana million (l)
A	0	90
B	20	80
C	38	70
D	50	62
E	60	55
F	70	48
G	80	35
H	90	0



Calculations:

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Answer:

Explain your answer.

Explanation:

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- (b) The point **X (20,20)** is another production possibility for PepsiCo. Would you recommend them to produce at this point? Explain your answer.

Answer:

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Explanation:

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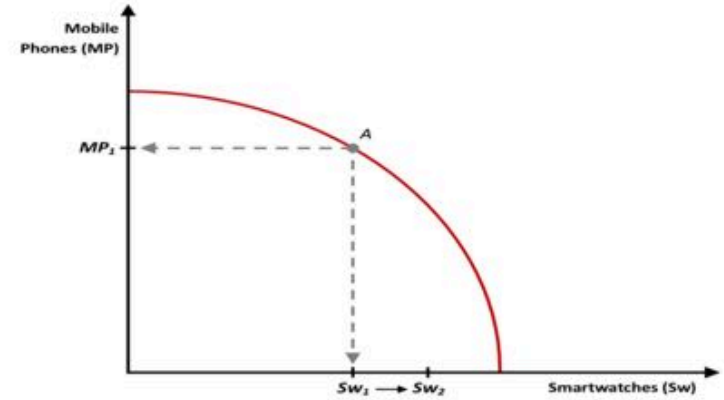


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- (b) The diagram below shows the Production Possibility Frontier (PPF) for a firm called ABC Ltd who produce both mobile phones and smartwatches. The firm's initial production combination is shown at point A.



- (i) Explain, and clearly illustrate using the diagram above, the **opportunity cost** for ABC Ltd, if it were to increase its production of smartwatches to  $Sw_2$ .

Explanation:

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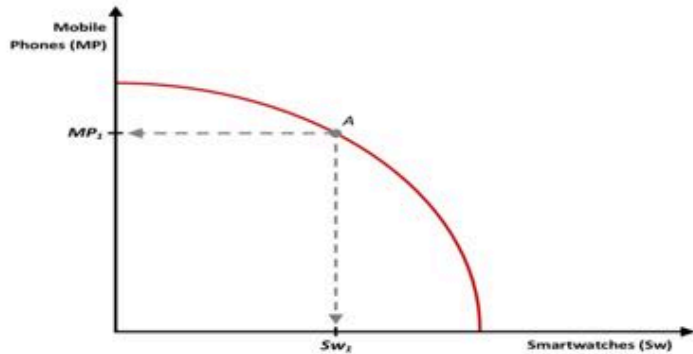


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(ii) Companies across industries, globally, have warned of an ongoing struggle to source computer chips for the IT industry.

Adapted from Reuters

Explain, and clearly demonstrate on the diagram below, how this development most likely alters the Production Possibility Frontier (PPF) for ABC Ltd.



Explanation:


### Economic Systems

Economic System	Explanation
<b>Command / Planned economy</b>	<ul style="list-style-type: none"> <li>Decisions are made by the government on behalf of the people and, in theory, in their best interests</li> </ul>
<b>Free market economy</b>	<ul style="list-style-type: none"> <li>All production is in private hands and demand and supply are left free to set wages and prices in the economy.</li> <li>The economy should work relatively efficiently and there should be few cases of surpluses and shortages</li> </ul>
<b>Mixed Economy</b>	<ul style="list-style-type: none"> <li>In reality, all economies are mixed economies. What is different is the degree of the mix from country to country.</li> <li>Some countries, such as China, have high levels of planning and government involvement in the economy.</li> <li>Even in the seemingly free economies, such as the USA, the UK, or even Hong Kong, government intervention is very much a part of the economic system.</li> </ul>

#### Categorise each Country to the Type of Economic System

Country	Command / Planned Economy	Free market economy	Mixed Economy
Ireland			
USA			
North Korea			
Cuba			
United Kingdom			

**Activity:** Complete [google quiz](#) on types of economies

## Pros & Cons of Free Market & Command Economies

Activity: Walking debate (Agree v. Disagree)

### Evaluation of Free Market Economies and Command Economies

Type of Economy	Advantages	Disadvantages
Free Market Economy	<ul style="list-style-type: none"> <li>• <b>Profit incentive</b> motivates people to work or develop entrepreneurial ideas</li> <li>• Greater variety of <b>goods/services</b></li> <li>• Competition leads to better <b>quality</b> of goods/services and lower prices of goods/services</li> <li>• Competition encourages <b>innovation</b> and product development</li> <li>• Profits, income and wealth are unlimited resulting in better <b>standards of living</b></li> <li>• More <b>efficient</b> use of scarce resources</li> </ul>	<ul style="list-style-type: none"> <li>• Wealth gets concentrated in the hands of the few</li> <li>• This increases <b>inequality</b> such that the gap between the rich and the poor continues to grow</li> <li>• Sometimes product quality falls as firms lower quality standards in order to increase profits</li> <li>• Workers get <b>exploited</b></li> <li>• Resource depletion and environmental degradation are often ignored</li> <li>• <b>Monopolies develop</b> as firms increase market power through mergers and acquisition</li> </ul>
Command Economy	<ul style="list-style-type: none"> <li>• <b>Social equality</b> is the goal of the system as opposed to profit maximisation, so there is less inequality</li> <li>• All workers receive the same wage irrespective of role or career. This helps create social equality</li> <li>• <b>Less unemployment</b></li> <li>• Resources of the nation can be directed towards urgent priorities quickly</li> <li>• The government owns monopoly businesses so consumer exploitation through <b>high prices can be avoided</b></li> </ul>	<ul style="list-style-type: none"> <li>• Receiving the same wage <b>disincentives</b> people from gaining difficult skills (e.g. doctor) as 8 years of study results in the same wage as no study</li> <li>• A lack of competition means that there is <b>less innovation</b> and product development</li> <li>• There is a continual <b>lack of efficiency</b> as central planning always results in surpluses or shortages of goods/services</li> <li>• <b>Black markets</b> multiply as the population seeks to address shortages</li> <li>• Access to higher standards of living is limited for most of the population</li> <li>• Personal <b>freedoms are restricted</b></li> </ul>

## Sustainable Development

- **Sustainable development** is defined as development that meets the needs of the present generation without compromising the ability of the **future generations** to meet their own needs
  - Activity: [Watch SDG video](#)



## Types of Sustainability

Types	Explanation
Social	<ul style="list-style-type: none"> <li>• Social sustainability is the ability of a social system to operate indefinitely at a defined level of <b>social well-being and harmony</b>.</li> <li>• It focuses on quality of life, equal opportunities, law and ethics, and community development. <ul style="list-style-type: none"> <li>◦ E.g., housing/shelter for all, health equity, community development, social support, human rights, labour rights</li> </ul> </li> </ul>
Environmental	<ul style="list-style-type: none"> <li>• In a sustainable environment, a system would be able to maintain populations, biodiversity and overall functioning over an extended period.</li> <li>• Environmental sustainability is the ability of the environmental system to support a defined level of behaviour indefinitely. <ul style="list-style-type: none"> <li>◦ <b>Resource depletion:</b> the reduction of available natural resources. E.g., oil, gas, and coal all cannot be replaced.</li> <li>◦ <b>Resource degradation:</b> This is when natural resources become less productive over time. E.g., a river used for fishing becomes polluted.</li> </ul> </li> </ul>
Economic	<ul style="list-style-type: none"> <li>• This is the ability of an economy to support a definite level of economic activity indefinitely</li> <li>• It refers to practices that support <b>long-term economic growth</b> without negatively impacting social, environmental and cultural aspects of the community</li> </ul>

### Exam Question: Ordinary Level

#### Question 9

Answer either (a) or (b)

(a) Name the 3 pillars of sustainability.

1.
2.
3.

