

Primary Knowledge of **Economics**

Basic Fact Sheet

Third Grade Economics 2001 Standards of Learning

Life is full of choices. People make many choices everyday. Choices, often called decisions, vary in their difficulty. Regardless of the level of difficulty, all choices carry costs and benefits. Young children make many choices/decisions. Research reveals that they should begin to learn decision-making skills at an early age. Learning basic economics concepts and principles fosters the development of good decision-making skills.

Economics is the study of choice under scarcity. Our resources are limited, and our wants are unlimited (scarcity). Scarcity is the inability to satisfy all of our wants at the same time. We must make choices about how to use our limited resources.

Basic facts:

Resources are things used to produce goods and services.

People (**Sellers/Producers**) use **human resources, natural resources, and capital resources** to **produce goods and services**.

Sellers/Producers must make **choices** about what to produce with the limited resources.

People (**Buyers/Consumers**) use or consume goods and services.

People have different skills and abilities.

People use their skills and abilities to specialize in the production of certain goods and services. (**Specialization**)

Because people specialize, interdependence occurs.

People depend on others to provide goods and services they need and want. (**Interdependence**)

Interdependence results in trade/exchange.

Basic Fact Sheet for the Third Grade Economics SOL

Basic facts:

(Continued)

Producers and **consumers** are **interdependent**. Producers depend on consumers to buy and use their product; consumers depend on producers to make the goods and services they need and want.

Resources are limited but people's wants are unlimited (**scarcity**).

People make **choices** about how to use limited resources (**decision making**).

Whenever choices are made, something is given up (**opportunity cost**).

For more explanation, read "Expanding the Economics Facts".

For additional resources to assist with teaching the economics strand of the K-3 Standards of Learning, contact:

Elementary Instructional Services
Virginia Department of Education
PO Box 2120
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Expanding The Economics Facts

for the Third Grade 2001 Standards of Learning

When many teachers hear the word economics, they cringe. Memories of a challenging college course and supply and demand curves come rushing forth. The challenges of how to present economics to young students soon override the memories. Teaching economics to students of all ages can be exciting, rewarding, and fun.

Economics is the study of choice under scarcity. Scarcity is defined as the inability to satisfy all of our wants at the same time. We experience economic scarcity because our resources are limited, and our wants are unlimited. This scarcity forces us to make choices about how to use our limited resources. Elementary students can relate to this basic definition. Just like adults, they have limited resources. They must choose how to use those resources. Studying economics helps students develop decision-making and critical-thinking skills.

The following information is aligned to the economics strand of the Virginia 2001 third grade History and Social Science Standards of Learning.

3.7 *The student will explain how producers use natural resources (water, soil, wood, and coal), human resources (people at work), and capital resources (machines, tools, and buildings) to produce goods and services for consumers.*

Natural resources are things found in nature such as water, soil, wood, and coal. Human resources are people at work. Capital resources are things that have been produced (man-made) such as machinery, tools, and buildings that are used in the production of other goods and services.



Natural



Human



Capital

Natural, human, and capital resources are limited. Producers must make choices about what goods and services to produce. Resources used in the production of one good or service cannot be used or used at the same time to produce other goods and services. Remember that wood burned to produce heat cannot be used to make furniture. Likewise, workers who produce shoes are not available to produce food at the same time.

Producers combine natural, human, and capital resources to make goods and services. The amount of each resource the producer uses varies based on the good or service being produced. A producer who combines the resources and takes the risk of starting a new business is called an entrepreneur. To have a successful business, the producer or entrepreneur needs consumers to purchase the goods or services produced.



Producers combine natural, human, and capital resources to make goods and services.

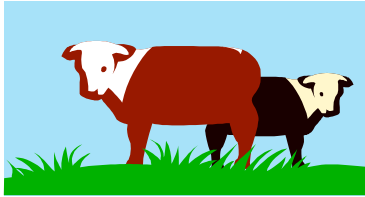
Consumers use goods and services. Producers depend on consumers to use their product and consumers depend on producers to make the goods/services they need and want. This dependency on each other for goods/services is called interdependence. The interdependence that exists between producers and consumers requires that each pay careful attention to the other. Producers must be aware of consumer likes and dislikes to know what to produce, how much of it to produce, and when to produce it. Consumers must understand the difficulties of production and provide good consumer feedback to the producer.

3.8 *The student will recognize the concepts of specialization (being an expert in one job, product, or service) and interdependence (depending on others) in the production of goods and services (in ancient Greece, Rome, the West African empire of Mali, and in the present).*

People possess different skills and abilities. They use their skills and abilities to produce certain goods and services. Concentrating on the production of certain goods/services is called specialization. Specialization increases the quantity and quality of the goods and services produced. Because people specialize at producing only certain goods/services, they must depend upon other people to produce other things they need and want. For instance, the dairy farmer specializes in dairy cattle. He must depend on the poultry farmer for eggs and chickens, the wheat farmer for grain, as well as the many other people who produce all of the non-food items he uses. Likewise the poultry and grain farmers, as well as all the other people, must depend on the dairy farmer for milk.

This dependence on each other is called interdependence. Interdependence leads to barter and trade. People exchange their surplus goods/services for other needs and wants, either directly through barter or indirectly through the money economy.

Dairy farmer



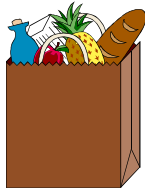
Wheat farmer



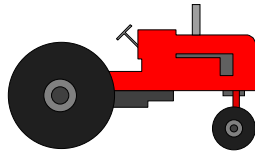
Poultry farmer



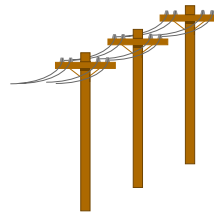
Each farmer is dependent on the other and on many other people for



Food



Equipment



Services



Clothing

Interdependence is not a new concept. People in ancient civilizations specialized as rulers, soldiers, builders, and farmers. They relied on each other for certain goods and services. They traded the surpluses of their specialty for the other things they wanted and did not possess. The trading extended beyond their community. For example, the empire of Mali traded with Egypt, Morocco, and Europe. They traded gold and ivory for salt and jewelry.

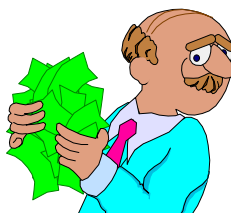
3.9 *The student will identify examples of making an economic choice and will explain the idea of opportunity cost (what is given up when making a choice).*

Resources are limited and people's wants are unlimited, thus scarcity exists. Scarcity forces people to make choices about which wants they will satisfy. Economic decision making involves examining the alternatives/choices that are available, establishing criteria for the decision making, evaluating each alternative/choice against the criteria, and making the decision.

Examine the choices,



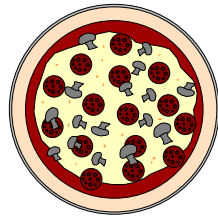
establish criteria,



evaluate the choices against the criteria, and make a decision.

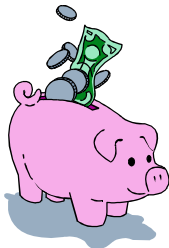


Students make choices throughout the day; what color crayons to use when coloring a picture; whether to buy or pack lunch; whether to play on the swings or play ball at recess. While these may not seem like economic choices, they all involve the use of resources. Whenever choices are made, something is given up. The item given up is called the opportunity cost. Opportunity cost is not all of the alternatives available but rather the next best thing the person could choose, or simply the person's second choice. Coloring the apple red may mean an opportunity cost of coloring the apple yellow. Packing lunch may mean an opportunity cost of a slice of pizza served in the cafeteria. And if playing ball is a student's second choice at recess, then it becomes the opportunity cost for playing on the swings.



Opportunity Cost

For every choice there is an opportunity cost. Opportunity cost is the highest valued alternative/choice not chosen-the second choice-the next best thing that could have been done with the resource. When children think of cost they think of money. While the choice made may or may not involve money, it will always involve an opportunity cost. If Sally saves her money rather than spending it, her opportunity cost is the enjoyment of whatever she might have purchased with the saved money.



Sally saves money



Sally's opportunity cost to enjoy
the new toy she could have purchased

Consult *Virtual Economics*, CD-ROM sent to each school division by Virginia Department of Education in January 1999, for teaching activities and lesson plans on these and other economics topics.

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Appendix A

A decision-making grid may help students understand choices and the decision-making process.

PACED is a good model:

- P Problem or decision that must be resolved.
- A Alternatives or choices from which to choose
- C Criteria or things that should be considered; things that are important or desired from the decision
- E Evaluation of the criteria to the alternatives
- D Decision

Criteria →				
↓ Alternatives				

Appendix B

Sample PACED decision-making grid:

- P Problem or decision that must be resolved.
- A Alternatives or choices from which to choose
- C Criteria or things that should be considered; things that are important or desired from the decision
- E Evaluation of the criteria to the alternatives, using yes/no or plus/minus signs
- D Decision

Choosing A New Toy

Criteria →	Cost – must be \$5.00 or less	Can play indoors or outdoors	Can play alone or with friends	
↓ Alternatives				
Computer Game	No	No	Yes	
Bike	No	No	Yes	
Puzzle Book	Yes	Yes	Yes	
Jump Rope	Yes	No (Mom does not allow jumping in the house)	Yes	

Not everyone's alternatives and criteria will be the same. For the example, the puzzle book matches the criteria and would probably be the best choice. Some people might choose the jump rope because they place more importance in the other two criteria. The computer and bike would be eliminated because of the cost criteria.