

Exercise 1.1

Read and discuss the following story and the questions it asks us.

Let's meet Kenisha. She is in the fifth grade. Kenisha and her classmates make school money called "Bling" for performing certain duties everyday at school. Although bling are not U.S. dollars, Kenisha and her classmates can use it as money at school. In school, bling can be exchanged for a variety of goods and services.

Money is anything that is generally accepted in exchange for goods and services.

Is bling money in Kenisha's school? *Right – we know that it is because she can spend it (exchange it) for things she wants to buy.*

Is bling money outside Kenisha's school? Do you think she can use it at the McDonald's to buy french fries? Not likely, is it. Outside of school, U.S. currency is **money**.

As you know, the symbol for American dollars is \$. The symbol for bling is β .

If Kenisha performs all her duties perfectly each week, she earns 20 bling. Listed below are some of the goods and services she can buy – and the price of each.

- Lunch with the teacher $\beta 5$
- 3 designer pencils $\beta 1$
- soda/candy $\beta 2$
- End of term trip $\beta 150$

Like all of her classmates, Kenisha has her own special list of wants – material, social, and spiritual:

- She likes to write with nice pencils and would like to buy 3 new pencils each week.
- She likes to have lunch with her teacher once a week
- She definitely wants to go on the term trip to the Black History Museum and the lunch out in another city!
- She wants to be a servant leader following the example of Jesus Christ by donating $\beta 2$ each week to support poor children in Sri Lanka.

Each school term is 10 weeks.

Let's see if Kenisha's resources (bling) will satisfy all of her wants, **or** if she will bump into scarcity.

Kenisha's Earnings:

Remember that Kenisha can only make 20 β /week if she performs all her duties perfectly. Kenisha is like Mary Poppins. She's not perfect; she is practically perfect. A normal income for Kenisha is 18 β /week.

1. How much will Kenisha earn during the 10-week term?

_____.

Kenisha's Wants:

Below is Kenisha's list of wants. Decide whether each of the items on her list is a short-term want (to be satisfied soon, today, tomorrow, or this week) and long-term wants that won't be satisfied until farther into the future – maybe not until the end of the term.

- 3 pencils a week β 1 2. _____ -term
- end of term trip β 150 3. _____ -term
- lunch with the teacher β 5 4. _____ -term
- Support poor child β 2 5. _____ -term

6. How many bling will Kenisha spend each week if she satisfies her short-term wants? β _____

7. Hmmm. Things seem to be fine. Do you think maybe Mr. Scarcity won't be visiting after all?. Explain your answer.

8. Now let's look at her long-term goal(s). How many bling will she need to satisfy her long-term goal(s)? β _____

9. Can Kenisha satisfy both her long-term **and** her short-term wants? _____

- Reminder: How much will she make this term? Right, β 180.
- How many bling will it take to satisfy both her short-term and long-term wants? β _____

Kenisha, meet Mr. Scarcity!

Scarcity Forces Kenisha to Choose

We face scarcity all the time; we can't even escape it when we're kids! And the fact is that scarcity forces us to choose. When we're trying to decide what to choose, we think about trade-offs.

The practice of making trade-offs is something we do all the time, usually without even recognizing it.

A trade-off occurs when we give up something in order to have something else.

Kenisha realizes that she won't have enough money to satisfy all of her short and long-term wants. She knows that she'll have to choose – but it's hard! She has so many conflicting feelings: She is not willing to give up her end of the term trip. She has learned that without her support, the poor child in Sri Lanka will have very little food, dirty water to drink, and no health care, so she doesn't want to stop helping. However, she also feels that working with bright new pencils helps her to do good schoolwork. And, last but not least, she loves having lunch with her teacher.

On the other hand, as Kenisha runs through her list of wants, she realizes that some are more important to her than others, and some items can wait, and some have pretty good substitutes. Lunch with her teacher, for example. After all, her friends are fun and her mother makes pretty good lunches if Kenisha helps her buy the right things at the store on Saturday. She would be willing to trade-off (give up) the lunches in order to go on the trip at the end of the year.

10. Take another look. If Kenisha gives up lunches with her teacher, will she be able to go on the year-end trip? _____

<u>Earnings</u>	<u>Wants</u>
$\beta 18 \times 10 \text{ weeks} = \beta 180$ _____	Sri Lanka support: $\beta 2 \times 10 \text{ weeks} =$ _____
	3 pencils/week $\times 10 \text{ weeks} =$ _____
	year end trip = _____
	Total Expenses = β

Kenisha Bears an Opportunity Cost

Because of scarcity, Kenisha has to make economic choices. She can't satisfy all of her wants because her resources are limited. So, like all of us, Kenisha considers trade-offs. She asks herself what is more important to her. She asks herself if there is something she could substitute for one of the items on her list of wants. In the end, she decided that she was willing to trade-off lunches with her teacher for lunches with her friends in order to save enough bling to satisfy her long-term want – going on the school trip.

In economics, we say that Kenisha's decision to go on the end of school trip had an **opportunity cost**.

Opportunity cost = the opportunity that was given up

Or

the next-best alternative

11. Kenisha chooses to go on the end of year trip. What was the opportunity cost of going on the trip? (Hint: What did Kenisha give up to be able to go on the trip?)

It's important to notice that **β150** was the price of Kenisha's trip, not the opportunity cost. To identify the opportunity cost, we would ask ourselves: What would Kenisha have done if she hadn't decided to go on the trip? *Right! She would have enjoyed lunch with her teacher each week.*