



# Lesson 1 – Economic Growth and Scarcity

## Introduction

In this lesson students are introduced to the concept of economic growth through the story of human progress and changing standards of living over time. Video clips, historical examples and a mini-activity engage students in the discovery of the institutions that foster economic growth.

### Mini-Activity

“Incentives Matter – Rice Pick-up”

## Objectives

At the end of this lesson students will be able to:

- Explain the relationship between scarcity and choice.
- Define Economic Growth
- Identify institutions that foster economic growth.

## Key Economic Concepts

Economic Growth

Productivity

Standard of Living

Incentives

Scarcity

Technological Chang

## Voluntary National Content Standards in Economics

<https://www.fte.org/teachers/teacher-resources/voluntary-national-content-standards-in-economics/>

**STANDARD 1: SCARCITY:** Productive resources are limited. Therefore people cannot have all the goods and services they want. As a result, they must choose some things and give up others.

**STANDARD 4: INCENTIVES:** People respond predictably to positive and negative incentives.

**STANDARD 15: GROWTH:** Investment in factories, machinery, new technology, and in the health, education, and training of people can raise future standards of living.



## Presentation Guidelines and Suggestions

1. Define scarcity – we cannot have all that we want – and establish that scarcity compels us to choose among alternatives.
2. Discuss growth. More goods and services being produced and exchanged allow us to have more. Economic growth raises standards of living, even in the continuing face of scarcity.
  - Discuss: Why should we care? Show the You Tube video, “Starving People,” <http://www.youtube.com/watch?v=cKjySRhVWbg> (Play from beginning to 1:30. Possibly show without sound?)
  - Growth raises standards of living. (Be prepared to address questions about growth vs. redistribution. See slides on economic freedom and the distribution of income: a bigger slice of the pie vs. a bigger pie.)
  - Does growth eliminate scarcity? No, but it affects the choices we face. (Note that more is good for the things that we want; otherwise, if we did not want more of something, then scarcity would not be an issue.)
  - Because scarcity places limits on our wants, we have incentives to find ways to obtain more goods with limited resources. When we are successful in obtaining more goods from the same limited resources, we call this economic growth.
3. Present snapshot of the history of economic growth:
  - Chart of Real per Capita GDP growth extracted from A. Maddison (slides)
  - Historically, some countries have had impressive growth – Western Europe & USA.
  - Historically, some countries have grown very little – African region – and people in these countries face the worst of scarcity – starvation and poor health. (Refer back to “Starving People” video)
  - Show life expectancy, infant mortality. (slides)
  - Show “People in Poverty” (percentages and numbers) trend lines to emphasize change that has occurred since 1980. (slides)
  - (Optional) Show the Income and Health video <http://www.youtube.com/watch?v=ITIC6ubhSh0>, which offers a big picture of the positive relationship between health and per capita income. (Play to 3:07 minutes to see the results up to Sub-Sahara Africa.)



4. Explain productivity and productivity growth.
  - Productivity is the output produced from a given amount of resources in a given period of time. Advances in productivity are measured as the rate of change, indicating greater output produced from a given amount of resources.
  - Establish connections between rising incomes and increasing productivity – greater output generally leads to higher incomes.
  - Illustrate with slide depicting timeline of population growth and major developments (*ala North*)
  - What creates productivity growth?
    - Human and technological innovations
    - Education and technological advances also give rise to increases in productivity
  
5. Explain that human innovation and technological advances do not occur in a vacuum. Certain institutions foster these activities.
  - Define institutions. Develop examples of institutions students are familiar with.
    - *What are the “accepted and expected patterns of interaction” in school?*
    - *The institution of dating makes a good example. Ask students for the formal and informal rules of the game, and then ask one of the older teachers.*
  - Highlight the role of institutions in shaping incentives.
    - Define incentives – incentives are rewards or penalties that influence people’s behavior

Optional Mini Activity: Incentives Matter “Rice Pick-up”

Bring whole grain rice to class. Drop some around the room on the table tops. Ask why students are not running to pick up the rice. Poor people in Africa run to pick up the rice! What’s the difference between you and them? A lot of answers may arise – we are not poor, we are not hungry, etc. Now, change the environment for the students by offering to pay \$5 to the first three people who pick up 20 pieces of rice in the next 30 seconds. Ready, set, go. Explain that incentives matter. In Africa, some people have incentive to pick up the rice because they are hungry. In this room, the incentive was to make a little extra money. Incentives matter – students initially did not have incentive enough to pick up the rice. In the next session we will explore this idea more, looking at the costs and benefits you face with your choices. Reinforce that institutions shape incentives.



- Briefly introduce the institutional arrangements that foster growth and state that differences in growth may be explained by differences in the *use* of these institutional arrangements. Explain that we will develop these institutional connections with growth as the week progresses:
  - Open Markets – “Trade creates wealth.”
  - Property Rights – “Rights of ownership facilitate exchange.”
  - Rule of Law – “Consistent legal arrangements applied uniformly encourage long-term investment.”
  - Entrepreneurship and Innovation – “Increasing the gains from creative endeavors adds to economic activity.”

TIP FOR EFL PROFESSORS:

- Create connections to evening activity for students by raising question about policies, institutions, and incentives that foster growth and reduce poverty. *(Show slide. Don't foreshadow the evening activity; just tell students to pay attention to this question – that the evening session will refer back to it – and that you and they will be offering similar policy questions throughout the week.)*

## Conclusion

- Scarcity forces us to choose among alternatives.
- Economic growth gives us more to choose from and raises standards of living.
- Certain institutions and institutional arrangements encourage economic growth and this growth improves the human condition, by reducing infant mortality, lengthening lives, reducing hunger, improving environmental quality, cutting the incidence of debilitating diseases, etc.