

# ECONOMICS

TEACHER GUIDE

GRADE 9

**Writers:**

Hussien Mohammed (M.Sc.)

Tadesse Ababu (M.Sc.)

**Editors:**

Mesfin Ketema (M.Sc.) (Content Editor)

Enguday Ademe (Ph.D) (Curriculum Editor)

Birhanu Engidaw (Ph.D) (Language Editor)

**Illustrator:**

Endalkachew Mengesha (M.Sc.)

**Designer:**

Derejaw Lake (M.Sc.)

**Evaluators:**

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## Foreword

Education and development are closely related endeavors. This is the main reason why it is said that education is the key instrument in Ethiopia's development and social transformation. The fast and globalized world we now live in requires new knowledge, skill and attitude on the part of each individual. It is with this objective in view that the curriculum, which is not only the Blueprint but also a reflection of a country's education system, must be responsive to changing conditions.

It has been almost three decades since Ethiopia launched and implemented new Education and Training Policy. Since the 1994 Education and Training Policy our country has recorded remarkable progress in terms of access, equity and relevance. Vigorous efforts also have been made, and continue to be made, to improve the quality of education.

To continue this progress, the Ministry of Education has developed a new General Education Curriculum Framework in 2021. The Framework covers all pre-primary, primary, Middle level and secondary level grades and subjects. It aims to reinforce the basic tenets and principles outlined in the Education and Training Policy, and provides guidance on the preparation of all subsequent curriculum materials – including this Teacher Guide and the Student Textbook that come with it – to be based on active-learning methods and a competency-based approach.

In the development of this new curriculum, recommendations of the education Road Map studies conducted in 2018 are used as milestones. The new curriculum materials balance the content with students' age, incorporate indigenous knowledge where necessary, use technology for learning and teaching, integrate vocational contents, incorporate the moral education as a subject and incorporate career and technical education as a subject in order to accommodate the diverse needs of learners.

Publication of a new framework, textbooks and teacher guides are by no means the sole solution to improving the quality of education in any country. Continued improvement calls for the efforts of all stakeholders. The teacher's role must become more flexible ranging from lecturer to motivator, guider and facilitator. To assist this, teachers have been given, and will continue to receive, training on the strategies suggested in the Framework and in this teacher guide.

Teachers are urged to read this Guide carefully and to support their students by putting into action the strategies and activities suggested in it.

For systemic reform and continuous improvement in the quality of curriculum materials, the Ministry of Education welcomes comments and suggestions which will enable us to undertake further review and refinement.

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MINISTRY OF EDUCATION

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# Introduction to the Teacher's Guide

The teaching-learning process can run smoothly in order to convey the appropriate information only when there is a favorable environment and a good relationship between the teacher and the students. Obviously, the teacher cannot expect to establish solutions to all the challenges that are likely to be encountered in the teaching-learning process. Hence, the teacher should regularly be interested and ready to withstand them through various methods. The teaching of economics has strange features and obstacles since it deals with the scarcity of resources, which is the basic problem of all societies. Furthermore, it is closely related to people's daily activities and is challenged by their insatiable human desires. Above all, several constraints, including time, skilled labor, and physical capital, have challenged it. Consequently, it requires a persistent struggle to overcome the subsequent problems, and the burden rests on the committed teacher. Apparently, the teacher should commit himself or herself to fulfilling the crucial responsibilities of teaching.

In order to achieve the expected learning objectives, the task of coordinating and facilitating the teaching-learning process is delegated to the teacher. Accordingly, the teacher should understand the interests, abilities, and other mental faculties of the students and empower him or herself by being attentive to handling the vibrant situations in the school environment. This is possible only when the teacher constantly updates and enriches him or herself with timely information. In general, the teacher should always strive to improve himself or herself and learn from his colleagues' experiences.

Besides, as indicated in numerous disciplines, the teacher possesses the following qualities:

- It has to be a model for the community in general and for the students in particular.
- It should have faith in the teaching profession in general and in his subject in particular.
- It should develop a sense of impartiality and a scientific attitude in the teaching process.
- It has to develop integrity and be adherent to the principle that honesty is the best policy.
- It should give love and affection equally to all students.
- It should be an ideal citizen, equipped with modern principles, laws, and procedures.

## General Guide to the Teacher

The basic philosophy of preparing the Teacher's Guide is that a teacher is a part of the whole process of collection, preparation, and maintenance of teaching learning materials (TLM). Whether the TLMs are to be procured or prepared, you, as a teacher, should involve students at each stage as it is considered an integral part of an effective teaching and learning process. This guide book will bring together the various suggested teaching and learning methods that are used to make classroom teaching and learning interesting and effective.

The effective teaching learning process can be recognized when the teacher is adequately familiar with the appropriate methods of teaching suggested in the teacher's guide. The suggested methods include:

### Introduction

This part of the teaching process enables the teacher to organize the lesson in various ways, such as motivating students by linking it to their prior knowledge. This plays a key role in enhancing the curiosity of the students, which stimulates their attention to the lesson.

### Presentation

This method is used to deliver the lesson concretely with the help of teaching materials. It is directed towards making the students familiar with the relevant information. Furthermore, it inspires interaction between students and the teacher, thereby promoting a participatory method of teaching.

### Summarizing

This is useful to conclude the lesson using the key points. The lesson can be made tangible by deriving definite principles or laws. Hence, students must be motivated to generate ideas that help formulate principles or laws.

### Applying

This method is important for presenting the lesson in practical ways so that students can develop the necessary skills and apply the knowledge with the ideas they generate.

### Reviewing

This is the final step of delivering each lesson in which the teacher can ensure the students' progress. It is a tool used to identify the students' understanding of the main points of the lesson.

**Questioning**

This is a method used in the course of the teaching process that aims to check the earlier knowledge of the students and focus their attention. It encourages students to develop an interest in the topic under discussion and motivates them to memorize and explain their points of argument. In addition, it is indispensable to obtain pertinent information from the students, which is useful for further clarification. In effect, it paves the way for appraising the value system of the students and judging their level of knowledge.

**Group discussion**

This method ensures student participation and raises their awareness of what they are learning. It helps to stimulate the activities of students that empower them to develop confidence and express their opinions easily. It is also useful to increase the interaction among the students in the group.

**Group work**

This method inspires team teaching, tutorial classes, discussions, and mentoring. It enables the teacher to handle a bigger class size by dividing it into smaller, manageable groups. The group formation must take into account the capabilities, attentiveness, attainments, and promptness of the students. Such a kind of group formation discourages selfishness and promotes cooperation, uniformity, and healthy competition among the students.

**Brainstorming**

Teaching the lesson begins through asking critical questions for discussion, which helps to evaluate the previous knowledge of the students about the topic of the lesson. It is a useful device used to attract the attention of students and inspire them to further participation.

**Problem solving**

This is one of the practical methods of delivering the contents of the subject under consideration. It enhances the curiosity and investigation skills of students while they are stimulated and informed to be sensitive to the techniques of solving problems. It convinces students to justify their knowledge of everything they want to know through justification based on actual examples. This method enables the students to make meaningful and fair decisions in all aspects of life in general and in their study of every lesson in particular.

**Open ended questioning**

This is one way of comprehending students' understanding of the lesson. It allows students to assess and discuss the issue from their own point of view. It also molds their knowledge and helps them to expresse their views pertaining to the topic under discussion. It is interactive and enhances the dialogue between groups and the teacher.

The teacher's guide is organized into 8 units. Unit 1 deals with introducing economics. Unit 2 focuses on the basic economic problems and economic systems. Unit 3 deals with economic resources and markets. Unit 4 presents an introduction to demand and supply. Unit 5 is concerned with an introduction to production and cost. Unit 6 introduces the concept of money. Unit 7 presents an introduction to macroeconomics. Finally, Unit 8 presents basic entrepreneurship.

# Unit 1
# Introducing Economics

*Periods Allotted: 10*

**Introduction**

Economics is the study of how people allocate scarce resources for production, distribution, and consumption, both individually and collectively. Since there are many possible applications of human labor and many different ways to acquire resources, it is the task of economics to determine which methods yield the best results. This unit deals with the definition and nature of economics, branches of economics, methods and approaches of studying economics, and decision making units in an economy.

**Unit Objectives:**

At the end of this unit, the teacher will enable students to:

- Define economics.
- Explain the differences between microeconomics and macroeconomics.
- Describe the methods used to study economics.
- Explain the characteristics of the three decision making units.

## 1.1 Meaning of Economics

*Periods Allotted: 3*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define the term economics; and
- Explain the nature of economics.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References
- Other resources

**2. Suggested Teaching Methods**

- Brainstorming
- Discussion and debate
- Explanation

**3. Pre lesson Preparation**

- Identify the necessary materials and organize them.
- Prepare notes, activities and exercises.
- Design the most appropriate teaching methods that you think are relevant.
- Decide the most appropriate means of assessment

**4. Lesson Presentation**

**a) Introduction to the lesson**

This section may be introduced with reference to the famous and one of the greatest books of all time, namely, The Wealth of Nations by Adam Smith (published in 1776). Though many other writers expressed important economic ideas before Adam Smith, the subject of economics as a distinct subject started with Adam Smith's book. We may also point out the fact that in the beginning, the name of the subject was Political Economy, and make references to the shift of focus from wealth to welfare, scarcity, etc., in the definitions of economics given by other economists during the last 200 years. Once the students have grasped the concept and meaning of economics, we should tell them about its nature.

**b) Body of the lesson**

Adam Smith, who was the first writer to define economics, defined it as "the study of the nature and causes of the wealth of the nations."

David Ricardo shifted the emphasis from the production of wealth to the distribution of wealth. According to him, "To determine the laws which regulate the distribution of wealth is the principal problem in political economy."

According to Say J.B., economy is "the science that deals with wealth."

Walker F.A. writes, "Political economy or economics is the name of the total part of knowledge that relates to wealth."

Mill J.S. defined economics as "the practical science of the production and distribution of wealth."

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the lesson by organizing the students into groups and asking them to do **Activity 1.1**.

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves so that they can contribute more to the discussion.

**b) Follow-up**

In the meantime, take a tour around the class and check whether the students are actively involved in this activity, and in the meantime, ask them about the meaning and nature of economics.

## 1.2 Branches of Economics

*Periods Allotted: 2*

**Specific Objective**

At the end of this section, the teacher will enable students to:

- Distinguish between microeconomics and macroeconomics.
- Describe the fundamental problem of microeconomics and macroeconomics.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References
- Other resources

**2. Suggested Teaching Methods**

- Brainstorming
- Explanation
- Questioning

**3. Pre lesson Preparation**

- Identify the necessary materials and organize them.
- Prepare notes, activities and exercises.
- Design the most appropriate teaching methods that you think are relevant.
- Decide the most appropriate means of assessment

**4. Lesson Presentation**

**a) Introduction to the lesson**

Resources are inputs used in the process of production in order to make goods and services available to society. There are two types of resources; namely, free resources and economic resources.

**b) Body of the lesson**

You can present the lesson with the following explanation.

The field of economics is growing over time and has come to incorporate a wide range of themes. Hence, different new branches of the subject have emerged over time.

But the foundation of modern economics rests on its two major branches. These are microeconomics and macroeconomics.

Microeconomics deals with the economic behavior of individual decision making units like households, firms, markets and industries. In other words, it deals with how households and firms make decisions and how they interact in specific markets. Macroeconomics deals with the effects and consequences of the aggregate behaviour of all decision-making units in an economy. In other words, it examines the interrelations among various aggregate economic variables.

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the main contents of the lesson by asking the questions in **Activity 1.2.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

**b) Follow-up**

- Guide the students to come up with answers for the given questions in this activity.
- Check and record their achievements.

**Note to teachers:**

There could be some students who work below the minimum level required. As their guide in the comprehensive teaching-learning practice, you are required to be somewhat extra watchful of the students. We suggest that some special problem-based support schemes must be designed and implemented for these students. Prompt communication with them, as well as a systematic analysis of their individual problems, family and communal settings, and specific personalities and skills, could be extremely beneficial in putting such schemes in place so that they can achieve the minimum learning competencies.

## 1.3 Methods and Approaches of Studying Economics

*Periods Allotted: 3*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Explain the methods of studying economics; and
- Make a distinction between positive and normative economics.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Relevant references
- Other resources

**2. Suggested Teaching Methods**

- Brainstorming
- Questioning
- Pair and Group Discussion

**3. Pre Lesson Preparation**

- Get ready in advance with the suggested teaching aids and other reference materials.
- Prepare notes, activities and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

Since this section deals with the methods of studying economics, we should emphasize the nature of economics as a science and tell the students that, like other sciences, economics has also formulated certain economic laws and theories, adopting a certain methodology. This naturally creates a curiosity to find out about the methodology of economics. Explain briefly the various methods used in constructing economic laws and theories, and the difference between positive economics and normative economics.

**b) Body of the lesson**

Most of the economic theories have been constructed through the deductive method. The deductive method involves reasoning from certain principles to the analysis of specific facts.

The inductive method derives economic theories on the basis of observations and experiments. In this method, detailed data is collected with regard to a certain economic

phenomenon. The inductive method involves the process of reasoning from particular facts to general principles.

In other words, the deductive and inductive methods are complementary. They are not conflicting methods. Currently, economists develop economic hypotheses through logical deduction and empirically test them, using statistical or econometric methods.

From the perspectives of positive economics and normative economics, economics can be analysed. Positive economics is like a science that deals with knowledge and facts, while normative economics entails value judgments in applying the knowledge to solve problems.

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the main contents of the lesson by asking the questions in **Activity 1.3.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves, and they can contribute more to the discussion.

**b) Follow-up**

- Guide the students to come up with answers for the given questions in this activity.
- Check and record their achievements.

## 1.4 Decision Making Units

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Identify the decision-making units of an economy; and
- Explain the objectives of each decision-making unit.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References
- Other sources on Decision making

**2. Suggested Teaching Methods**

- Brainstorming
- Explanation

- Questioning
- Individual and group work

**3. Pre Lesson Preparations**

- Get ready in advance with the suggested teaching aids and other reference materials.
- Prepare notes, activities and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

Production gives rise to income, income gives rise to expenditure, and expenditure gives rise to income again. This process is circular in nature because it moves in a circle, coming back to the starting point. With this introduction, you can tell the students that national income is a flow concept and then demonstrate diagrammatically how this flow can be represented through different models of circular flow.

**b) Body of the lesson**

You can present the lesson by giving the following explanation:

Anybody can judge the viability of each economy by closely examining the activities of the different economic agents in the economy, which are sometimes referred to as decision making units of the economy or economic agents.

The decision making units of an economy are: households, business firms, and the government. Each economic unit evaluates the development of each sector along with the economic activities that include production, exchange, and consumption. In order to carry out these economic activities, people need to be involved in making transactions between different sectors of the economy.

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the main contents of the lesson by asking the questions in **Activity 1.4.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

**b) Follow-up**

- Guide the students to come up with answers for the given questions in this activity.
- Check and record their achievements.

## Answers to Activities

The following are possible answers to the activities for unit 1.

### Activity 1.1

1. Economics is a branch of social science that deals with efficient allocation of scarce resources in order to attain the maximum fulfillment of unlimited human wants.
2. Since facts in economics are systematically collected, classified, analysed and interpreted to make predictions, this makes economics a science. But, economics tends to present principles and methods to solve problems and sets guidelines for its solution that makes economics an art. So, economics is both an art and a science.

### Activity 1.2

1. Microeconomics is the study of individual decision-making units of an economy like individual households, individual firms, or industries. In contrast, macroeconomics is the study of an economy as a whole, and its focus is the study of broad economy-wide aggregates.
2. The fundamental problem of microeconomics is associated with resource allocation or the problem of price-determination. The fundamental problem of macroeconomics is associated with full employment of resources in the economy.

### Activity 1.3

1. In economics, there are two methods of logical reasoning: Deductive and inductive methods. Deductive method proceeds from the general to particular. It involves reasoning from certain principles to the analysis of specific facts. It helps us to arrive at a particular conclusion beginning from a general statement. On the contrary, inductive method is a process of reasoning from a part to the whole. It involves reasoning from the particular to the general. It develops economic theories on the basis of observations and experiments.
2. Positive economics is concerned with analysis of facts and attempts to describe the world as it is. It tries to answer the questions what is; what was; or what will be? It does not involve value judgment. In contrast, normative economics deals with the questions like, what the economy ought to be? Or what the economy should be? It evaluates the desirability of alternative outcomes based on one's value judgments about what is good or what is bad.

### ✎ Activity 1.4

1. The basic decision making units of an economy are households, business firms and the government.
2. Households are the chief owners of factors of production. They sell the services of these factors to producers and receive their income in the form of rent, wages, interest, and profit. Their main objective is to maximise income. Firms are the main buyers of factors of production and they are the leading producers of commodities. The main objective of firms is to maximise profit. Government gets its income mainly from taxes levied on households and on the business firms in the form of direct and indirect taxes. Government buys goods and services from the producers and factor services from the households. The main objective of the government is to provide free services, like police, education, medical facilities, sanitation facilities, judicial services, etc., to the people in order to satisfy their combined wants for those services.

## Answers to Review Questions for Unit 1

The following are possible answers to the review questions for unit 1.

**Part I**

1.True 2. False 3. False 4. True 5. True 6. True 7. False 8. True

**Part II**

1. D 2. A 3. B 4. B 5. D 6. A 7. D 8. A

**Part III**

1. Economics can be defined from:

   **Wealth perspective**

   - Economics is accumulation of valuable economic resource by producing goods and services to generate income.

   **Welfare Perspective**

   - Economics studies about efficient allocation of scarce resources to satisfy unlimited human wants and studies about income distribution and how this affects social welfare.

   **Scarcity Perspective**

   - Economics studies about how people use scarce resources to satisfy unlimited human wants.
     - ➢ The scarcity definition more suits for economics. Because economics studies about efficient allocation of scarce resource to attain the maximum satisfaction of unlimited human wants.

2. Economics is a useful subject because:
   - It helps us to understand certain problems and questions.
   - It explains problems and questions that affect society and the state as a whole.
   - It examines actions and behaviour of different people so that it helps to understand about people.
3. We study economics to know how to manage and efficiently allocate our scarce resources to get the maximum satisfaction of our unlimited want.
4. The distinction between microeconomics and macroeconomics is that:
   - Microeconomics studies individuals and business decisions, while macroeconomics analyzes the decisions made by countries and governments.
   - Microeconomics focuses on supply and demand, and other forces that determine price levels, making it a bottom-up approach.

- Macroeconomics takes a top-down approach and looks at the economy as a whole, trying to determine its progress and nature.

5. We understand positive economics and normative economics in the sense that:
   - **Positive economics** deals with analysis of facts and attempts to describe the world as it is without any value judgment or gives scientific explanation without value judgment.
   - **Normative economics** is a matter of opinion or it is subjective in nature which cannot be proved with reference to facts. It is loaded with value judgments about what is good or bad.
6. Economics deals with allocation and efficient utilization of scarce resources because it tries to satisfy the unlimited human want using limited resource.
7. Air is a free resource because we are not paying any price to breathe it. According to the given scenario there is air population, which is the negative externality of a business organization. So, there may be a health problem. Hence, we are not paying for the air but we may pay for the treatment.
8. The main features of the various decision-making units of an economy are:

**❤ Households**

- Owners of factors of production; land, labour, capital and entrepreneurship.
- Sell the services of these factors.
- Spend a large part of their income by purchasing goods and services from the producers.
- Save part of their income.
- Pay taxes to the government.

**❤ Business Firms**

- Hire services of factors of production from households.
- Produce commodities and sell to households and the government.
- Consist of both private and government enterprises.

**❤ Government**

- Gets its income largely from taxes
- Buys goods and services from the producers
- Buys factor services from the households
- Uses the commodities and factor services to provide free services.

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# Unit 2
# The Basic Economic Problems and Economic Systems

*Periods Allotted: 10*

**Introduction**

Economics focuses on the actions of human beings and is based on the assumption that humans act with rational behavior, seeking the most optimal level of benefit. You may have questions like: "What is an economic problem?" What does "efficient allocation" mean? What are human needs? This unit will explain the fundamental economic problems, how they affect economic agents, and introduce the major economic systems.

**Unit Objectives:**

At the end of this unit, the teacher will enable students to:

- Describe the basic economic problem.
- Recognize how the basic economic problem affects the individual, firms and society.
- Compare and contrast the main economic systems.

## 2.1 The Basic Economic Problems: Scarcity, Choice, and Opportunity Cost

*Periods Allotted: 5*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define concepts like scarcity, opportunity cost, choice, and production possibility frontier;
- Explain the difference between scarcity and shortage of resources.
- Calculate the opportunity cost of a good.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References
- Articles on resources

**2. Suggested Teaching Methods**

- Brainstorming
- Explanation
- Questioning
- Individual and group practical work

**3. Pre lesson Preparation**

- Get ready in advance with the suggested teaching aids and other reference materials.
- Prepare notes, activities and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

In this section, our focus is on economic problems. We may thus initiate the topic by encouraging an open discussion in the class room on the question, what basic concepts in economics can you mention? Students may come up with their own expressions, including references to their individual or personal economic problems. In that case, we can attract their attention by pointing out certain economic problems faced by our own country, namely the absence of the necessary goods and services for everyone in Ethiopia. This highlights the importance of the fact that resources are scarce in relation to human wants, which is the basic cause of the economic problem. We can carry forward the topic with details concerning the central problems of an economy and their representation through the tool of production possibility frontier.

**b) Body of the lesson**

We may define the term "scarcity" as the imbalance between unlimited human wants and the means to satisfy those wants. Economics is concerned with the use of scarce resources among alternative human wants and uses these resources towards the end of satisfying those wants as fully as possible. Scarcity implies the limitation of supply of a resource in relation to its demand.

The opportunity cost of any good is the amount of the next best alternative that must be given up to produce that good. Making the best use of available resources is important to cope with the problem of scarcity

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the lesson by organizing the students into groups and asking them to do **Activity 2.1**.

Facilitate conditions for students to discuss each question in this activity. Let students argue on their answers among themselves and can contribute more to the discussion.

**b) Follow-up**

- Guide the students to come up with answers for the given questions in this activity.
- Check and record their achievements.

## 2.2 Central Problems of Economies

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Describe the basic economic problems.
- Explain how the basic economic problems affect the individual, firms and society.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References and
- Other resources

**2. Suggested Teaching Methods**

- Brainstorming
- Questioning
- Pair and group Discussion
- Presentation

**3. Pre Lesson Preparation**

- Get ready in advance with the suggested teaching aids and other reference materials such as books on economic issues.
- Design the most appropriate teaching methods that you think are relevant to the lesson.
- Prepare notes, activities and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

In this section, our focus is on economic problems. We may initiate the topic by encouraging an open discussion in the classroom on the question, "What is the basic economic problem?" Students may come up with their own expressions, including references to their individual or personal economic problems. In that case, we can attract their attention by pointing out certain economic problems faced by our own

country, e.g., a lack of the necessary goods and services to everyone in Ethiopia. This highlights the importance of the fact that resources are scarce in relation to human wants, the basic cause of the economic problem.

**b) Body of the lesson**

We may define an economy as, "a system which provides people with the means to work, and earn a living." "Economic problems are concerned with the use of scarce resources among alternative human wants and in using these resources towards the end of satisfying those wants as fully as possible."

Basic economic problems are those problems that an economic system faces due to the scarcity of resources. These problems are common to all economic systems. They are also referred to as the central problems of the economy.

There are three basic economic questions. These are:

1. What goods and services are to be produced?
2. How to produce goods and services?
3. For whom are goods and services to be produced?

All these, and other fundamental economic problems, focus on human needs and wants. Many human efforts in a society are directed towards the production of goods and services to satisfy unlimited human wants.

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the lesson by organizing the students in group and asking them to discuss on the questions in **Activity 2.2.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves in which case they can contribute more to the discussion.

**b) Follow-up**

- Encourage the students to come up with answers for the given questions in this activity.
- Check and record their achievements.

## 2.3 Economic Systems

*Periods Allotted: 3*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define an economic system.
- Compare and contrast the main types of economic systems.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References and
- Other resources

**2. Suggested Teaching Methods**

- Brainstorming
- Questioning
- Pair and group Discussion
- Presentation

**3. Pre Lesson Preparation**

- Get ready in advance with the suggested teaching aids and other reference materials such as books on economic issues.
- Design the most appropriate teaching methods that you think are relevant to the lesson.
- Prepare notes, activities and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

Give references to the types of economic systems adopted by different countries in the world and related experiences at home, i.e., the economic systems that different governments in Ethiopia have exercised in the past. Introduce this topic and discuss with students the main features of the traditional economy, capitalist economy, command economy, and mixed economy. Also point out the fact that almost all economies in the world today are mixed economies with some elements of both capitalist and command economies.

**b) Body of the lesson**

The different economic systems classified on the basis of ownership of resources are:

I . Traditional economy

II . Capitalist Economy

III . Command Economy

IV . Mixed Economy

A traditional economy is a system that relies on customs, history, and time-honored beliefs in which tradition guides economic decisions such as production and distribution.

**Main features of traditional economy**

i) Traditional economies center on a family or tribe.

ii) A traditional economy exists in a hunter-gatherer and nomadic society.

iii) Most traditional economies produce only what they need.

iv) When traditional economies do trade, they rely on barter

v) Start to evolve once they start farming and settle down.

According to Prof. Loucks, capitalism is defined as "A system of economic organisation featured by the private ownership and the use for private profit of man-made and nature-made capital".

**Main features of capitalist economy**

I . The Right to Private Property

II . Freedom of Enterprise

III . Freedom of Choice by Consumers

IV . Profit Motive

V . Competition

VI . Price Mechanism

VII . Government Minor Role

VIII . Self-Interest

IX . Inequalities of Income

A command economy also known as a socialist economy, is an economy where economic institutions engaged in production and distribution are owned and controlled by the state and are put to use under a centralised plan.

**Main features of command cconomy**

i) Shared Ownership

ii) Specific Social and Economic Goals

iii) Central Economic Planning

iv) Government's Prominent Role

v) Maximum Social Welfare

vi) Relative Equality of Incomes

A mixed economy is an economy containing the characteristics of both capitalism and socialism, that is, a combination of private and public ownership of the means of production, with some measures of control by the government.

**Main features of mixed economy**

i) The existence of both the public and private sectors
ii) Economic Welfare
iii) Economic Well-Being
iv) The pricing Mechanism
v) Economic Equality

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the main contents of the lesson by asking the questions in **Activity 2.3.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves, and they can contribute more to the discussion.

**b) Follow-up**

- Guide the students to come up with answers for the given questions in this activity.
- Check and record their achievements.

## Answers to Activities

The following are possible answers to the activities for unit 2.

### Activity 2.1

**1.**

**a.** Since resources are scarce, output will be limited. If output is limited, we cannot satisfy all of our wants. So, choice must be made. Due to the problem of scarcity, economic units are forced to choose what output to produce, in what quantity, and what output not to produce.

**b.** The opportunity cost of an action is what you must give up when you make that choice. i.e., it is the value of the next best alternative foregone to take the action chosen.

**c.** Scarcity refers to the fact that all economic resources that a society needs to produce goods and services are finite or limited in supply. There are not enough resources available to satisfy everyone's wants. This is clearly true for individuals. Your income is limited. You cannot buy everything you want, so you must choose between different alternatives.

2. Scarcity reflects the imbalance between our wants and the means to satisfy those wants. Scarcity of resources generates economic problems. In contrast, shortage of goods and services arises when people are unable to get the amount they want at the prevailing price. Shortage is a specific and short term problem while scarcity is a universal and endless problem.

### Activity 2.2

1. Basic economic problems are problems an economic system faces due to the scarcity of resources. These problems are common to all economic systems.
2. The fundamental economic problems focus on human needs and wants. Many human efforts in modern society are directed towards the production of goods and services in order to satisfy unlimited human wants. Every economy must decide on the type and quantity of goods to be produced. The economy must make choices between the production of consumption and capital goods, civil and military goods, and necessity and luxury goods. In this way, the basic economic problem influences the individual, firms, and society as a whole.

## ✎ Activity 2.3

1. An economic system means a set of organizational and institutional arrangements that are established to answer the basic economic questions of any society.
2. In capitalism, all means of production are privately owned, and production takes place at the initiative of individual private entrepreneurs who work for their own profit. Furthermore, government intervention in the economy is minimal; productive factors are privately owned; consumers have freedom of choice; self-interest guides and motivates individuals in the economy to strive for economic benefit; and there is a significant income disparity between the rich and the poor. In socialism, the economic institutions engaged in the production and distributions of goods are owned by the state and operate under a centralised plan. In addition, there is no right to private property; planning for resource allocation is performed by the planning authority based on socio-economic goals; the government has complete control over all economic activities; the profit motive is absent, and there are no opportunities for the accumulation of wealth. In comparison to capitalism, all these factors lead to greater equality in income distribution in income terms.

   There is no similarity between capitalism and socialism.
3. A mixed economy is more relevant to the Ethiopian economy today. Because it incorporates some features of both capitalist and command economies and allows private and public sectors to co-exist. Currently, the private and public sectors are growing together in Ethiopia. As a result, a mixed economy is more relevant to the Ethiopian economy today.

## Answers to Review Questions for Unit 2

The following are possible answers to Review Questions for unit 2.

**Part I**

1. True 2. False 3. True 4. False 5. False

6. True 7. False 8. False 9. True 10. False

**Part II**

1. C 2. D 3. C 4. A 5. C 6. D 7. C 8. D 9. B 10. B

**Part III**

1. We calculate the opportunity cost of good X at different production possibilities, as follows:

a. At point B, Opportunity cost of Good X $= \frac{90-100}{2-0} = \left|\frac{-10}{2}\right| = |-5| = 5$

At point C, Opportunity cost of Good X $= \frac{60-90}{4-2} = \left|\frac{-30}{2}\right| = |-15| = 15$

At point D, Opportunity cost of Good X $= \frac{20-60}{6-4} = \left|\frac{-40}{2}\right| = |-20| = 20$

These results can be summarized in the following table.

| Production Possibility | Good X | Good Y | Opportunity cost of good X |
|---|---|---|---|
| A | 0 | 100 | – |
| B | 2 | 90 | 5 |
| C | 4 | 60 | 15 |
| D | 6 | 20 | 20 |

The trend in these values exhibits the law of increasing opportunity cost.

b. One or both of the following changes are required to shift the PPF outward.

i. Increase in the quantity and/or quality of economic resources.

ii. Advances in technology

2. We calculate the opportunity cost, per unit of sugar in terms of cloth, at different production possibilities for the given data, as follows:

| Production Possibilities | Cloth (in million metres) | Sugar (in million kg) | Opportunity cost per kg of sugar (in million metres of cloth) |
|---|---|---|---|
| A | 0 | 50 | – |
| B | 1 | 45 | 45 – 50 = \|–5\| = 5 |
| C | 2 | 38 | 38 – 45 = \|–7\| = 7 |
| D | 3 | 30 | 30 – 38 = \|–8\| = 8 |
| E | 4 | 20 | 20 – 30 = \|–10\| = 10 |
| F | 5 | 6 | 6 – 20 = \|–4\| = 4 |

**Part IV**

1. The central problems of an economy are:
   - What goods and services should be produced and in what quantity? This implies that every economy must decide. Which type of goods and in what quantities are to be produced?
   - How and where should production be organised in order to produce the required goods and services most efficiently? This implies the economy must decide how to produce the goods and services. It has to do with choosing between alternative methods of production.
   - How should the resulting output be distributed? This is related to how a material product should be distributed among the members of a society.
2. Scarcity, choice, and opportunity cost can be defined as
   - **Scarcity** is the limitation of resources to satisfy unlimited human wants.
   - **Choice** is an alternative (option) we choose because of scarcity or limitation of resource.
   - **Opportunity** cost is the next best alternative that must be scarified or forgone to obtain one more unit of a product.
3. An economic system is a set of organisational and institutional arrangements that are established to answer the basic economic questions. Economic systems are classified on the basis of ownership of economic resources into: capitalist economies, command economies, mixed economies, and subsistence or traditional economies.
4. FDRE: Mixed economic system prevails in Ethiopia since private and public sectors co-exist.
   - Military: Command economic system prevails in Ethiopia since the society owns all means of production and there is no right to private property.
   - Imperial regime: A capitalist economic system prevails in Ethiopia since all

means of production are privately owned, and production takes place at the initiative of private entrepreneurs who work mainly for their own profit.

5. Capitalism is an economic system in which all means of production are privately owned, production takes place at the initiative of individual private entrepreneurs who work mainly for their own profit, and the role of the government in the economy is negligible. Its main features are:
   - The Right to Private Property: All economic or productive factors including land, factories, machinery, mines etc. are privately owned.
   - Freedom of Choice by Consumers: Consumers can buy the goods and services that suit their tastes and preferences.
   - Competition: Competition exists among sellers or producers of similar goods to attract customers. Among buyers, there is competition to obtain goods. Among workers, the competition is to get jobs. Among employers, it is to get workers and investment funds.
   - Minor Role of the Government: The government does not interfere in day-to-day economic activities but confines itself to defence and maintenance of law and order.
   - Self-Interest: Self-interest guides and motivates individuals in the economy to strive for economic gain.
   - Inequalities of Income: There is a big income inequality between the rich and the poor.
6. The basic characteristics of a command economy are:
   - Collective Ownership: The society as a whole owns all means of production and there is no right to private property.
   - Central Economic Planning: The controlling authority performs planning for resource allocation based on the socio-economic goals d of the society.
   - Strong Role of Government: Government has control over all economic activities.
   - Relative Equality of Incomes: Private property does not exist in a command economy, the profit motive is absent, and there are no opportunities for accumulation of wealth.

   Compared to capitalism, all these factors lead to greater equality in income distribution under socialism.

7. A mixed economy is an economy that contains the characteristics of both capitalism and socialism. There is a combination of private and public ownership of the means of production with some measures of the government control.
8. It is the capitalist system. The right to private property is the central feature of a capitalist economy. According to the principle of the right to private property, all

economic or productive factors including land, factories, machinery, mines, etc. are privately owned.

9. The two main types of production techniques are labour-intensive and capital-intensive. A labour-intensive technique involves the use of more labour, relative to capital, per unit of output. A capital-intensive technique involves the use of more capital, relative to labour, per unit of output.

**References and Further Readings**


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# Unit 3
# Economic Resources and Markets

*Periods Allotted: 10*

**Introduction**

Economic resources are the factors used in producing goods or providing services. The precise proportion of each factor of production will vary from product to product and from service to service, and the goal is to make the most effective use of the resources that maximize output at the lowest possible cost. Misallocation or improper use of resources may cause businesses, and even entire economies, to fail. This unit deals with types of resources and factor payments, renewable and non-renewable resources, types of markets, the circular flow of economic activities, and land as an economic resource in Ethiopia.

**Unit Objectives**

At the end of this unit, the teacher will enable students to:

- Define resources.
- Describe the types of resources and factor payments.
- Distinguish between renewable and non-renewable resources.
- Recognize the important role of land in Ethiopia as a resource.

## 3.1 Types of Resources and Factor Payments

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define resources.
- Explain the types of resources and factor payments of each category of resources.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References
- Other resources on types of markets

**2. Suggested Teaching Methods**

- Brainstorming
- Explanation
- Questioning
- Individual and group activities

**3. Pre Lesson Preparations**

- Get ready in advance with the suggested teaching aids and other reference materials.
- Prepare notes, activities and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

Resources are inputs used in the process of production in order to make goods and services available to the society. There are two types of resources; namely, free resources and economic resources.

**b) Body of the lesson**

You can present the lesson with the following explanation.

A resource is said to be free if the amount available to a society is greater than the amount people desire to have at zero price. In other words, free resources are the free gifts of nature, which are unlimited in supply and have no prices. On the other hand, a resource is said to be economical or scarce when the amount available to a society is less than what people want to have at zero price. Since economic resources are scarce, they have non-zero prices. Price is the test of whether a resource is an economic or a free good.

We can divide economic resources into four broad categories. These are land, labour, capital, and entrepreneurship.

I . Labour: refers to the physical as well as mental efforts of human beings in the production and distribution of goods and services. The reward for labour is wage.

II . Land: refers to the natural resources or all the free gifts of nature, used in the production of goods and services. The reward for the services of land is rent.

III . Capital: refers to all the manufactured inputs that can be used to produce other goods and services. Example: equipment, machinery, transport and communication facilities, etc. The reward for the services of capital is interest.

IV . Entrepreneurship: refers to a special type of human talent that helps to organize and manage other factors of production to produce goods and services and takes risk of making loses. The reward for entrepreneurship is profit.

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the main contents of the lesson by asking the questions in **Activity 3.1.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

**b) Follow-up**

- Guide the students to come with answers for the given questions in this activity.
- Check and record their achievements.

## 3.2 Renewable and Non-renewable Resources

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define renewable and non-renewable resources
- Explain the difference between renewable and non-renewable resources.
- Describe the concept of conservation of natural resources

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References
- Other resources on types of markets

**2. Suggested Teaching Methods**

- Brainstorming
- Explanation
- Questioning
- Individual and group activities

**3. Pre Lesson Preparations**

- Get ready in advance with the suggested teaching aids and other reference materials.
- Prepare notes, activities, and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

Resources have been broadly categorised into two groups. These are renewable resources and non-renewable resources. Renewable resources are resources that have

the potential to be replaced over time through the natural processes. Non-renewable resources are resources whose stock or reserve is fixed, which are found in the ground. The available supply of non-renewable resources may be replenished through recycling, but the overall supply remains relatively constant.

**b) Body of the lesson**

You can present the lesson with the following explanation.

All natural resources should be used wisely. We must conserve natural resources. "Conserve" means not misusing, spoiling, or wasting things. This is especially true for the nonrenewable resources. However, even some renewable natural resources can be depleted if they are all killed or overused. We must also protect our natural resources from pollution. Pollution occurs when people put harmful chemicals and other things into nature.

To conserve natural resources, you can reduce, reuse, and recycle them. In general, natural resources, both renewable and nonrenewable, are important to all of us. Our future is in their hands.

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the main contents of the lesson by asking the questions in **Activity 3.2.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves, and they can contribute more to the discussion.

**b) Follow-up**

- Guide the students to come up with answers for the given questions in this activity.
- Check and record their achievements.

## 3.3 Types of Markets

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define a market.
- Distinguish among the financial market, goods and services market, and labour market.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References
- Other resources on the types of markets

**2. Suggested Teaching Methods**

- Brainstorming
- Explanation
- Questioning
- Individual and group activities

**3. Pre Lesson Preparations**

- Get ready in advance with the suggested teaching aids and other reference materials.
- Prepare notes, activities, and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

A market is a place where two parties can meet to facilitate the exchange of goods and services. The parties involved are usually buyers and sellers. The market may be physical, like a retail outlet, where people meet face-to-face, or digital, like an online market, where there is no direct physical contact between buyers and sellers.

**b) Body of the lesson**

You can present the lesson with the following explanation.

There are many types of markets. But in this section, we focus on three types of markets. These are the goods and services market, the labour market, and the financial market.

The goods and services market is where households purchase consumable goods and services and businesses sell their goods and services. The labor market is a market

in which employees provide labor services and employers provide employment opportunities for labor. The labor market should be viewed at both the macroeconomic and microeconomic levels. A financial market is any place where securities, currencies, bonds, and other financial assets are traded between two parties. This market is the basis of capitalist societies, and it provides both capital formation and liquidity for businesses. The financial market can be physical or digital.

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the main contents of the lesson by asking the questions in **Activity 3.3.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

**b) Follow-up**

- Guide the students to come up with answers for the given questions in this activity.
- Check and record their achievements.

## 3.4 Circular Flow of Economic Activities

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define circular flow of income.
- Explain the models of circular flow
- Construct circular flow of economic activities and interpret them.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References on Decision making
- Models of circular flows

**2. Suggested Teaching Methods**

- Brainstorming
- Explanation
- Questioning
- Individual and group practical work

**3. Pre Lesson Preparations**

- Get ready in advance with the suggested teaching aids and other reference materials.
- Prepare notes, activities, and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

Production gives rise to income, income gives rise to expenditure, and expenditure gives rise to income again. This process is circular in nature because it moves in a circle, coming back to the starting point. With this introduction, we may tell the students that national income is a flow concept and then demonstrate diagrammatically how this flow can be represented through different models of circular flow.

**b) Body of the lesson**

You can present the lesson by giving the following explanation.

Anybody can judge the viability of each economy by closely examining the activities of the different actors in the economy, which are sometimes referred to as decision making units of the economy or economic agents.

Each economic unit evaluates the development of each part of the economy along with the economic activities that include production, exchange, and consumption. To carry out these economic activities, people need to involve in making transactions between different parts of the economy. As a result of these transactions, income and expenditure move in a circular form in an economy, which is known as "circular flow of income" or "circular flow diagram."

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the main contents of the lesson by asking the questions in **Activity 3.4.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves, and they can contribute more to the discussion.

**b) Follow-up**

- Guide the students to come up with answers for the given questions in this activity.
- Check and record their achievements.

## 3.5 Land as an Economic Resource in Ethiopia

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Explain the important role of land as an economic resource in Ethiopia.
- Identify the two main soil types found in most of the Ethiopian highlands.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References and other resources on land use right

**2. Suggested Teaching Methods**

- Brainstorming
- Explanation
- Questioning
- Individual and group activities

**3. Pre Lesson Preparations**

- Get ready in advance with the suggested teaching aids and other reference materials.
- Prepare notes, activities, and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

Since agriculture is the backbone of the Ethiopian economy, land is a very important economic resource. In the context of agriculture, land means the area as well as the productivity of food and other crops. In Ethiopia, most of the land is considered to be suitable for agriculture.

**b) Body of the lesson**

You can present the lesson with the following explanation.

The availability of sufficient land for agricultural purposes in Ethiopia is directly or indirectly the result of good soil and suitable climate for the performance of agriculture. With regard to the types of soil, most of the highlands have two main soil types that are found to be suitable for agriculture.

Concerning the climatic aspect, the foundation of different agro-ecological zones because of altitude has increased the resource potential of land in Ethiopia. The existence of different agro-climate zones creates favourable condition for the growth

of different types of crops. This, in turn, increases the country's potential for the production of exportable agricultural products to earn more foreign currency.

As far as land ownership in Ethiopia is concerned, it was owned privately by landlords prior to 1975. But after the removal of the feudal system in 1975, the socialist system emerged and land became the property of the state. Although the socialist system was removed in 1991, the state ownership of land has continued to the present. Currently, the state owns and controls all urban and rural land together with natural resources in Ethiopia. However, rural peasants and pastoralists are guaranteed lifetime "holding" rights that give all rights except sale and mortgage. Urban residents are also provided with the right to get land for residence on a 99-year lease basis, though it is not mentioned in the constitution. The state ownership of land in present-day Ethiopia is far from ideal since it restricts the different land rights of use, rent, lease, endowment, and inheritance for different reasons.

**5. Assessment and Follow-up**

**a) Assessment**

Summarize the main contents of the lesson by asking the questions in **Activity 3.5.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

**b) Follow-up**

- Guide the students to come up with answers for the given questions in this activity.
- Check and record their achievements.

## Answers to Activities

The following are possible answers to the activities for unit 3.

### ✎ Activity 3.1

1. Resources are inputs used in the process of production to produce goods and services for society. There are two types of resources: free resources and economic resources.
2. – **Labour:** refers to the physical as well as mental efforts of human beings in the production and distribution of goods and services. The reward for labour is **wage.**

   – **Land:** refers to the natural resources or all the free gifts of nature used in the production of goods and services. The reward for the services of land is **rent.**

   – **Capital**: refers to all the manufactured inputs that can be used to produce other goods and services. example: equipment, machinery, transport and communication facilities, etc. The reward for the services of capital is **interest.**

   – **Entrepreneurship**: refers to a special type of human talent that helps to organize and manage other factors of production to produce goods and services and takes risk of making loses. The reward for entrepreneurship is **profit.**

### ✎ Activity 3.2

1. – Renewable resources are those resources which have the potential to be replaced over time through the natural processes.

   – Non-renewable resources are those resources whose stock or reserve is fixed.
2. – Renewable resources can be replaced over time through natural processes. The renewal process may be relatively quick or very slow.

   – Non-renewable resources cannot be replaced. The available supply of non-renewable resources may be replenished through recycling, but the overall supply remains relatively constant.
3. Raising awareness among the general public about the importance of nature and the threats it faces is important. Further, natural resources can be conserved through reducing, reusing, and recycling them.

## Activity 3.3

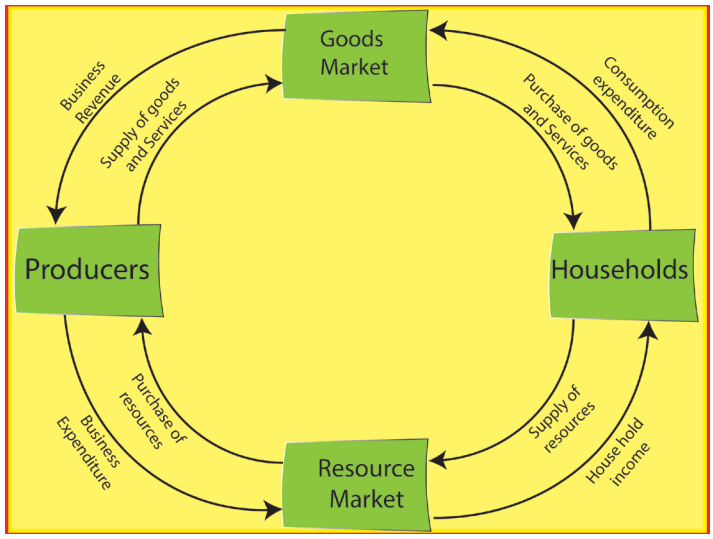
1. This question is open ended and should be attempted by students by collecting data on the different kinds of markets found in their surroundings, which they can classify into goods and services markets, labour markets, and financial markets.
2. – Goods and services mark is a market where households purchase consumable goods and services and businesses sell their goods and services.

– A labour market is a market in which employees provide labour services and employers provide employment opportunities for labour.

## Activity 3.4

1. The main models of circular flow are:
   i. Two-sector model, consisting of the flows between households and business firms.
   ii. three-sector model, consisting of the flows among the households, business firms, and the government sector.
2. The following figure depicts a two-sector economic circular flow diagram. The market system is the coordinating mechanism that aligns the decision of producers and households.

   There are two types of flows:
   a. Physical flow or real flow: clockwise flow. This is the flow of goods and services and economic resources from one market to another.
   b. Financial or monetary flow: counter clockwise flow. This is the flow of money from one market to another. A two-sector economy circular flow diagram is depicted below.



3. The circular flow diagram is a picture that represents the organization of an economy in a simple economic model. This diagram contains households, firms, markets for factors of production, and markets for goods and services.

## Activity 3.5

1. Land is both a means of production and a status symbol, determining largely an individual's standard of living in rural communities in Ethiopia. However, land and land resources are not evenly distributed for each individual or household. The only "formal" way of obtaining access to land was through membership in a peasant association, and land was subjected to periodic redistribution among households based on family size and land quality. It is also stated that land redistribution has eliminated rural unemployment by safeguarding the rights of the former tenants to a source of income. This reveals that land plays an important role as an economic resource in Ethiopia.
2. The two main soil types found in most of the Ethiopian highlands are:
   – Red-to-reddish brown soils that are well endowed with the required minerals for crops and found in areas of relatively good drainage.
   – Brownish-to-grey and black soils with high clay content and have excellent agricultural potentials with proper drainage and conditioning.

## Answers to Review Questions for Unit 3

The following are possible answers to Review Questions for unit 3.

**Part I**

1. False 2. True 3. False 4. True 5. True

6. False 7. True 8. False 9. False 10. True

**Part II**

1. C 2. C 3. B 4. D 5. D 6. A 7. D 8. C 9. A 10. A

**Part III**

1. Free resources are the free gifts of nature, which are unlimited in supply and have zero price. Air, sunshine, mountain streams are examples of free resources. In contrast, economic (scarce) resources are not available in plenty and have non-zero prices. Land, minerals, tables, cars, etc., are examples of economic resources.

2. Economic resources can be divided into four categories:

   **Land** – includes all natural resources existing on or under the surface of the earth.

   **Labour** – all mental and physical labour that aids in the production of goods and services.

   **Capital** is all man-made goods that are used for further production of goods.

   **Entrepreneurship** is to a special type of human talent that helps to organize and manage other factors of production to produce goods and services.

3. The types of resources that go into producing goods and services have been broadly categorised into renewable resources and non-renewable resources.

   Renewable resources have the potential to be replaced over time through the natural processes. For example, solar energy, wind energy, soil, trees, grass, geothermal pressure, and ground water.

   Non-renewable resources have fixed stock or reserve, which are found in the ground. For example, natural gas, coal, steel, aluminum, etc.

4. Pollution occurs when people put harmful chemicals and other things into nature. Examples of this problem are: oil spilled in water, toxic chemicals in the air, or garbage dumped on the side of the road.

5. A financial market is any place where currencies, bonds, and other securities are traded between buyers and sellers. This market is the basis of capitalist societies,

and it provides capital formation and liquidity for businesses. The labor market is a market in which employees provide the labour services and employers provide the employment opportunities for labour. This market should be viewed at both the macro and micro levels.

6. A circular flow of income: is a visual model of an economy that shows how a currency such as Birr flows through markets among the decision making units.

   a. Real flows consist of the flows of: facto services from the owners of factor services to the producers and goods and services from the producers to the buyers.

   b. Money (Financial) flow consists of the flows of:

      - Money earned through factor services such as rent, wages, interest, etc.
      - Expenditures incurred for the purchase of goods and services.

7. In the three – sector model of circular flow, the economy has these three sectors: households, firms and government. The activities of the three sectors influence the flow of income.

   Firms make payments to households against factor services received from them. Households, in turn, make payments to firms for goods and services purchased from them. Household savings are deposited in the capital market and given to firms for investment.

   The government gets its revenue by imposing taxes on households and firms. The government pays back this revenue to the firms and households by purchasing goods and services from them. Also, the government gives subsidies to firms and transfers payments to households.

8. The feudal system prevailed in Ethiopia before 1975 and land was the property of landlords. However, from 1975 to 1991, land was the property of the state. And land continued to be the property of the state from 1991 to the present.

## References and Further Readings


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# Unit 4
# Introduction to Demand and Supply

*Periods Allotted: 10*

**Introduction**

Supply and demand are the most fundamental concepts of economics. Although most explanations typically focus on explaining the concept of supply first, understanding demand is more intuitive for many, and thus helps with subsequent descriptions. In this unit, the concept of demand, the concept of supply, and market equilibrium will be thoroughly discussed.

**Unit Objectives**

At the end of this unit, the teacher will enable students to:

- Define the concepts of demand and supply.
- Explain the laws governing demand and supply.
- Describe the equilibrium price and quantity

## 4.1 Concept of Demand

*Periods Allotted: 3*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define the concept of demand
- Analyse the law of demand

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References
- Tables and figures

**2. Suggested Teaching Methods**

- Open ended questioning
- Peer assessment
- Pyramiding
- Individual and group activities

**3. Pre Lesson Preparations**

- Identify the necessary materials and organize them.
- Design the most appropriate teaching methods that you think are relevant.
- Decide the most appropriate means of assessment and schedule the breakdowns of various activities.
- Prepare notes, activities and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

You can start the unit by posing certain questions for an open classroom discussion, such as, why does a consumer buy a commodity? Does he/she buy the same quantity of the commodity, irrespective of its price? Do we always buy what we want? Who supplies the various commodities to us and why? Depending on the responses and reactions of your students, you can carry forward the debate in a lively manner and finally conclude that the study of this unit will be highly useful to us in getting logical and reasonable answers to these and many other related questions. Adopting an approach of general to particular, you may introduce students to the concept of 'demand' and 'supply' and point out that in this unit we begin with the study of concepts, laws, and other aspects of demand and supply; and finally learn about the relationships between change in quantity demanded/supplied and change in price of a commodity

**b) Body of the lesson**

The economy of a country is mainly judged by its capacity to stabilize the market equilibrium by keeping a balance between demand and supply. Thus, you are required to concentrate on the following sensitive issues.

- Demand refers to the amount of a commodity that an individual buyer is willing and able to buy at a given price during a given period of time.
- A demand schedules is a tubular statement that shows the different quantities of a commodity that would be purchased at different prices.

**5. Assessment and Follow-up**

**a) Assessment**

Explore and broaden students' knowledge by asking them questions like:

- When does a desire become demand?
- What are the two types of demand curves?
- Why do individuals respond differently to an increase in price?
- Do you think that there are commodities that we continue to consume the same amount even if their price is increasing?

**b) Follow-up**

- Collect feed-back and examine them carefully.
- Grade all the activities performed by the students.
- Classify the grades to comprehend how many of the students have understood the lesson properly.

Encourage students to reflect on what they have discussed about the individuals' response to an increase in price. Let them tell you whether they think that there are commodities that we continue to consume the same amount even if their prices are increasing.

## 4.2 Concept of Supply

*Periods Allotted: 3*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define the concept of supply
- Analyze the law of supply

**Note to the teacher:**

Sometimes, students may be confused about the concepts of supply and stock. Thus, you are required to compare and contrast the distinction between supply and stock. Remember that stock is defined as potential supply while supply means the quantity actually sold in the market.

Furthermore, explain that supply is dictated by law, and the law of supply expresses the functional relationship between the prices of a commodity and its quantity supplied.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References
- Tables and figures

**2. Suggested Teaching Methods**

- Discussion
- Group feedback
- Presentation

**3. Pre Lesson Preparation**

- Identify the necessary materials and organize them.
- Design the most appropriate teaching methods that you think are relevant.
- Decide the most appropriate means of assessment and schedule the breakdown of various activities.

**4. Lesson Presentation**

**a) Introduction of the lesson**

In this section, we proceed with topics such as concepts, law, and types of supply; supply schedule, curve, and function; indicating wherever appropriate, the similarities between the terms and concepts from the present and the previous sections.

**b) Body of the lesson**

Make sure that you are stabilizing the lesson by giving emphasis to important points like:

"Supply" means the quantity which is actually brought in the market.

A supply schedule is a tabular description that shows the different quantities of a commodity offered for sale at different prices.

A supply curve is the supply schedule expressed graphically.

The law of supply expresses the functional relationship between the price of a commodity and the quantity supplied.

**5. Assessment and Follow-up**

**a) Assessment**

To confirm the understanding of the students, ask the following questions.

- How do you define the term 'supply' in economics?
- How do you define the law of supply?

**b) Follow-up**

- Check students' understanding of the lesson by giving them an exercise to be done independently.
- Rate and grade the various activities performed to get an indirect feedback whether the lesson was well understood or not and to identify those students who may need extra support.

## 4.3 Market Equilibrium

*Periods Allotted: 4*

**Specific Objective**

At the end of this section, the teacher will enable students to:

- Define market equilibrium

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References
- Tables and graphs

**2. Suggested Teaching Methods**

- Discussion
- Presentation
- Open ended questioning

**3. Pre lesson Preparation**

- Get ready in advance with the suggested teaching aids and other reference materials.
- Design the most appropriate teaching method that you think is relevant.
- Prepare notes, activities, and exercises.

**4. Lesson Presentation**

**a) Introduction to the lesson**

Having discussed consumers' demand for goods and producers' supply of goods in a market in the previous two sections, we now focus on how these two forces of demand and supply determine the prices of commodities in a market economy. For this purpose, we introduce this section through a discussion on the term equilibrium, in general, and explain how demand and supply help in attaining equilibrium in the market. We also demonstrate how equilibrium price and equilibrium quantity are determined through a graphical and mathematical analysis of market equilibrium and discuss the effects of changes in demand and supply on market equilibrium.

**b) Body of the lesson**

Facilitate the teaching learning process and insist on the following significant points.

- Demand and supply curves tell us how much consumers demand and how much producers supply at different prices, respectively.
- Equilibrium refers to a situation in which the quantities demanded of commodity equals the quantity supplied of commodity.

**5. Assessment and Follow-up**

**a) Assessment**

Assess the students' understanding by asking them the following questions.

- What does equilibrium mean?
- Define equilibrium price?

**b) Follow-up**

- Check students' understanding of the lesson through giving them an exercise to be done independently. The exercise may contain questions such as:
- What do demand and supply curves imply?
- What does "equilibrium price" mean?

Rate and grade the various activities performed to get an indirect feedback whether the lesson was well understood or not and to identify those students who may need extra support.

## Answers to Activities

The following are possible answers to the activities for unit 4.

### Activity 4.1

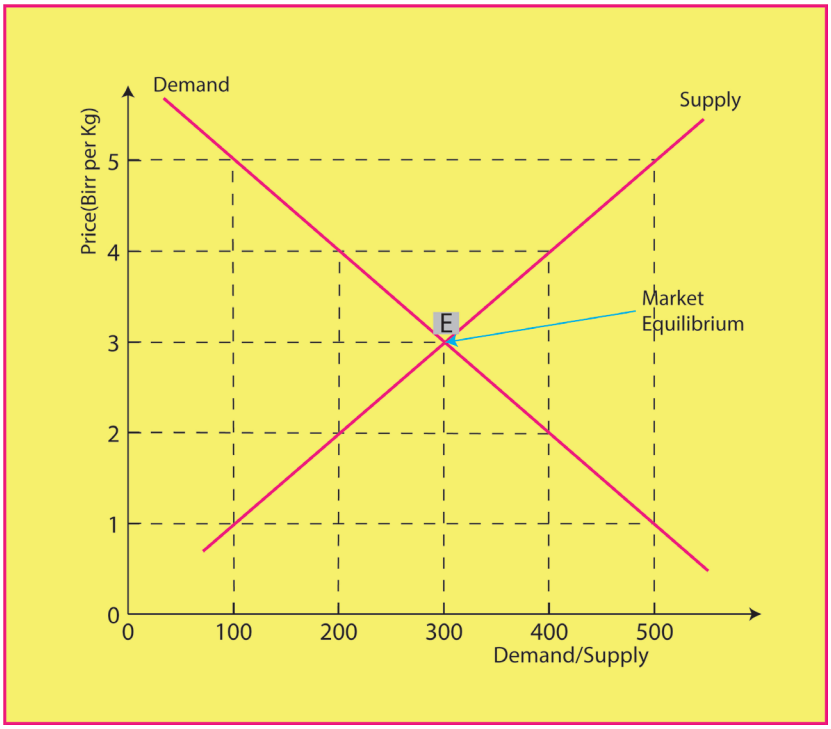
1. Demand refers to the amount of a commodity which an individual buyer is willing and able to buy at a given price during a given period of time.The law of demand states that, other things being equal, at a higher price consumers will purchase less of a commodity, and at a lower price, consumers will purchase more of it.
2. Demand curve always slopes downwards from left to right because:
   – With the fall in price more units of a commodity will be demanded and with the rise in price, less units of a commodity will be demanded.
   – When price of a commodity falls a consumer can buy more of the commodity with the same amount of money indicating an increase in his real income.
   – When the price of a commodity falls, it becomes relatively cheaper than its substitutes.

### Activity 4.2

1. Supply of a commodity refers to the various quantities of the commodity that producers are willing and able to offer for sale at a particular time at various prices. The law of supply states that, ceteris paribus, there is a direct or positive relationship between price and the quantity supplied of a commodity.
2. The supply curve is upward sloping because, over time, suppliers can choose how much of their goods to produce and later bring to market. Supply in a market can be depicted as an upward sloping supply curve that shows how the quantity supplied will respond to various prices over a period of time.

### Activity 4.3

1. Market equilibrium refers to a situation in which the quantity demanded of a commodity equals the quantity supplied of the commodity.
2. The graph of market equilibrium for the given data is depicted below and it is labeled with the letter ‘E’ as shown in the figure below.




3. As shown in the above graph, the equilibrium price is Birr 3. The equilibrium quantity is 300 kg. The market trends are shown in the table below.

| Price (Birr per kg) | Demand (kg) | Supply (kg) | Trend |
|---|---|---|---|
| 1 | 500 | 100 | Excess demand |
| 2 | 400 | 200 | Excess demand |
| 3 | 300 | 300 | Equilibrium |
| 4 | 200 | 400 | Excess supply |
| 5 | 100 | 500 | Excess supply |

4. Excess demand for a commodity means that the consumers want to buy more than what the producers are willing to supply.

   Excess supply of a commodity means that the consumers want to buy less than what the producers are willing to supply.

## Answers to Review Questions for Unit 4

The following are possible answers to Review Questions for unit 4.

**Part I**

1. True 2. True 3. False 4. True 5. True

6. True 7. True 8. True 9. False 10. True

**Part II**

1. C 2. A 3. D 4. A 5. B 6. D 7. A 8. D 9. A 10. A

**Part III**

1. a. Individual demand refers to the quantity of the commodity that an individual household is willing and able to buy at different prices in a given period of time, while market demand refers to the total quantity of the commodity that all households in the market are willing and able to buy at different prices in a given period of time.

   b. Individual supply refers to the quantity of a commodity offered for sale by an individual firm at a given price during a given period of time, while market supply refers to the total of quantity a commodity offered for sale by all individual firms in the market at a given price during a given period of time.

   c. Excess demand means consumers demand more of a commodity than the producers are able and willing to supply at a given price, while excess supply means the supply of a commodity by the producers is greater than the demand for it by the consumers at a given price.

2. Demand is the amount of a commodity that a consumer is willing and able to buy at a given price and a given period of time, whereas quantity demanded is the amount of a commodity a consumer is willing and able to buy at a given price during a given period of time.

3. The quantity of salt demanded tends to be unresponsive to changes in its price because people are willing to buy some amount of salt irrespective of its price since it is necessary.

4. To get the market demand curve for a commodity, we add individual demand curves horizontally because the quantity demanded is measured along the horizontal axis.

5. The market is said to be in a state of equilibrium when the quantity demanded of a commodity equals the quantity supplied of the commodity.

## References and Further Readings


1. Ayele Kuris. (2003). Ethiopian Economy, A.A, Ethiopia
2. Ayele Kuris. (2006). The Ethiopian Economy: Principles of Practices, A.A Ethiopia.
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# Unit 5
# Introduction to Production and Cost

*Periods Allotted: 8*

**Introduction**

The cost of production refers to the total cost incurred by a business to produce a specific quantity of a product or offer a service. Production costs may include things such as labor, raw materials, or consumable supplies. We know that, then, the supply price of a given level of output depends upon the cost of production of the corresponding level of output. In the present unit, we discuss various aspects and elements of these two theories in order to better understand the behaviour of firms (producers) in the production of goods and services.

**Unit Objectives**

At the end of this unit, the teacher will enable students to:

- Describe productivity
- Explain the types of inputs and outputs.
- Analyze types of cost of production

## 5.1 Definition of Production, Inputs and Outputs

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Describe production
- Explain inputs and outputs.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Charts and tables
- Structure of an organization
- Pictures of raw materials

**2. Suggested Teaching Methods**

- Visits
- Group discussion
- Presentation and seminar

**3. Pre Lesson Preparation**

- Collect a list of raw materials used as inputs for production.
- Refer to the appropriate references that are valid to address the lesson.
- Produce pictures of factories

**4. Lesson Presentation**

**a) Introduction to the lesson**

The present sub-unit, being an introductory section of the unit, attracts the attention of students to the process of production, which revolves around factors, such as labour, land, capital, and managerial abilities, etc. However, in the classroom, you can reinforce the concept of production by having a formal discussion about what it means and the factors that influence it.

**b) Body of the lesson**

Address the following essential points:

Production is the transformation of resources or inputs into commodities or outputs.

The factors that affect production are: Level of technology and inputs

**5. Evaluation and Follow-up**

**a) Evaluation**

- What are the factors that affect production?
- What is the technical relationship between inputs and outputs?

**b) Follow-up**

- Arrange a group discussion so that students express and realize the concepts of production function.
- Arrange the class into different groups and assign different topics for each group.Then they should present the content of each topic for the class.

## 5.2 Periods of Production

*Periods Allotted: 3*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Describe the short run and long run production
- Differentiate among Total Product, Average Product and Marginal Product.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Tables and graphs
- References

**2. Suggested Teaching Methods**

- Brainstorming
- Pair discussion
- Reflection

**3. Pre Lesson Preparation**

- Refer to the appropriate references
- Produce pictures of raw materials

**4. Lesson Presentation**

**a) Introduction to the lesson**

In this sub-unit, the class needs to focus on the period of production function, which may be reinforced through a pair or group discussion. The classification of productivity in to the total product, average product and marginal product may be further elaborated in the form of question and answers.

**b) Body of the lesson**

Address the following necessary points:

The variability of an input depends on the length of the time period under consideration.

The classification of productivity is to:

- Total Product
- Average Product and
- Marginal Productivity

**5. Evaluation and Follow-up**

**a) Evaluation**

- What does it mean to have a short-run and long-run production function?
- What are the classifications of factors that affect productivity?

**b) Follow-up**

- Arrange a pair discussion so that students understand the concepts of period of production function.
- Arrange the class into different groups and assign different topics for each group. Then they should present the content of each topic for the class.

## 5.3 Cost of Production

*Periods Allotted: 3*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define the cost of production
- Differentiate among the different types of costs.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Tables and graphs
- References

**2. Suggested Teaching Methods**

- Brainstorming
- Group discussion
- Project
- Visits

**3. Pre Lesson Preparation**

- Refer to the appropriate references that are valid to address the lesson.
- Produce pictures of factories.

**4. Lesson Presentation**

**a) Introduction to the lesson**

The expenditure made by a firm on various inputs required in the production process is known as the "cost of production." In this section, you just introduce the students to various concepts of cost, as used in economics. Specifically (as required by the syllabus), we discuss economic and accounting costs, explicit and implicit costs, and the short run cost of production. Note that, the students must be encouraged to identify the points of distinction between the various related concepts.

**b) Body of the lesson**

Consider the following important points.

- External cost is the cost that is not born by the firm, but is incurred by other member of the society.
- Actual payments made by a firm for purchasing or hiring resources (or factoring services) from the factory owner or other firms are called "explicit costs."

- Implicit costs refer to the imputed costs of the factors of production owned by the producer himself.
- They are called implicit costs because producers do not make payment to others.

**5. Evaluation and Follow-up**

**a) Evaluation**

You may ask questions such as the following to check students' understanding of the lesson:

- the difference between explicit and implicit cost
- Explain total cost in the short run.

**b) Follow-up**

- Arrange the class into different groups and assign different topics for each group. They should present the content of each topic for the class.

## Answers to Activities

The following are possible answers to the activities for unit 5.

### Activity 5.1

1. The possible answers are black/white board, chalk, and marker.
2. The production function indicates the maximum amount of output that can be produced with the help of each possible combination of inputs.
3. Inputs can be divided into two main groups: fixed and variable inputs. A fixed input is one whose quantity cannot be varied during the period under consideration. Building and machinery are examples of fixed inputs. A variable input is an input whose quantity can be changed during the period under consideration.

### Activity 5.2

1. Total product (TP): it is the overall amount of output produced by the factors of production employed over a given period.
   Average product (AP): A firm's average product is obtained by dividing the total output by the number of workers employed.
   Marginal Product (MP): it is, holding the quantities of other factors constant, the increase in output which results from using one additional or extra unit of a single factor.
2. A fixed input is one whose quantity cannot be varied during the period under consideration. A variable input is an input whose quantity can be changed during the period under consideration.
   A short-run period of production refers to a period of production in which at least one of the inputs is fixed while the remaining is variable. Whereas the long run period of production is a period of production in which all inputs are variable or there are no fixed resources in general. In the short run, labor is a variable input, but a school building is affixed input.

### Activity 5.3

1. The cost of production generally refers to the monetary outlays associated with production activity, or it is the total expenditures and sacrifices made in the entire process of production and distribution of goods and services.
2. Cost of machineries, labor and other raw materials, utilities and so on

## Answers to Review Questions for Unit 5

The following are possible answers to review questions for unit 5.

**Part I**

1. False 2. False 3.True 4.True

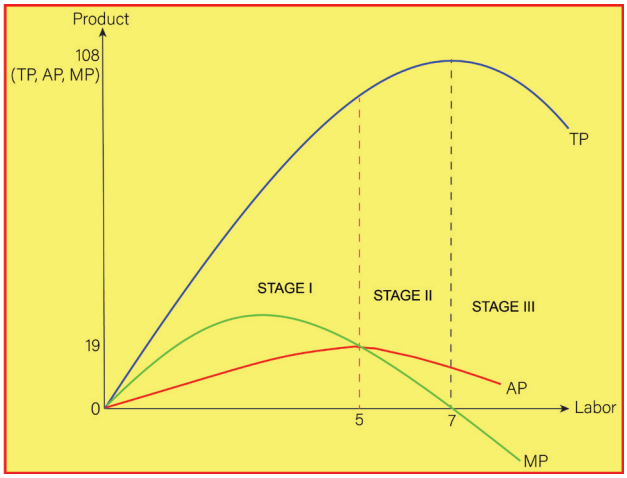
**Part II**

1. B 2. A 3. D 4. C

**Part III**

1. The production function is purely a technological relationship that expresses the relationship between the output of a good and the different combinations of inputs used in its production.
2. A "Short run" refers to a period of time in which the quantity of at least one of the inputs or resources is fixed.

   On the other hand, the term "long run" refers to a period of time in which all inputs are variable or there are no fixed resources in general.
3. The relationships between the MP curve and AP curve are as follows:
   So long as the MP curve lies above the AP curve, the AP curve is a positively sloping curve, AP rises
   - When the MP curve intersects the AP curve, AP is at its maximum
   - When the MP curve lies below the AP curve, the AP curve slopes downward
4. The relationship between TP and MP:
   - When TP increases at an increasing rate, marginal product increases
   - While TP increases at a diminishing rate, MP declines
   - When the total product reaches its maximum, the marginal product becomes zero
   - When TP begins to decline, MP becomes negative.




5. *Explicit costs* are the actual monetary payments or cash outlays that business firms make to outsiders who are suppliers of inputs or resources to them.

   *Implicit costs* are those costs stand for the values of non-purchased resources owned and used by firms in their own production activities. They are said to be implicit costs.

6. *Average Total Cost (ATC):* This is the total cost per unit output and is calculated by dividing the total cost by the quantity produced.

   *Marginal Cost (MC): It is* the extra or additional total cost that results from producing one more unit of output; or it is the change in total cost resulting from a percentage change in output

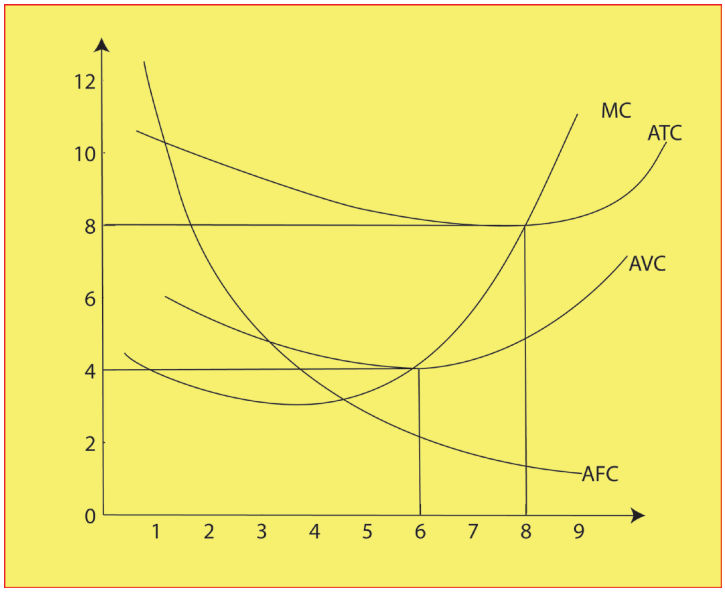
   *Average Variable Cost (AVC*): This is the variable cost per unit output and is calculated by dividing the total cost by the quantity produced.

7. In the output range where the MC curve lies below the ATC curve, the ATC curve is falling and the MC curve is rising. The ATC curve is rising for the output range where the MC curve is above the ATC curve.

   In the output range where the MC curve lies below the AVC curve, the AVC curve is falling and the MC curve is rising. The AVC curve is rising for the output range where the MC curve is above the AVC curve.

   The MC curve cuts both the ATC and AVC at their minimum points, while it is rising.

   The ATC is above the AVC for all output levels because the ATC is the sum of the AVC and AFC.




**References and Further Readings**

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# Unit 6
# Introduction to Money

Periods Allotted: 10

**Introduction**

Money is really anything that people use to pay for goods and services and to pay people for their work. Historically, money has taken different forms in different cultures-everything from salt, stones, and beads to gold, silver, and copper coins, and, more recently, virtual currency has been used. Regardless of the form it takes, money needs to be widely accepted by both buyers and sellers in order to be useful. In this unit, we will discuss the efficient-resources-allocating role that money and its different forms play in the economy and its basic functions.

**Unit Objectives**

At the end of this unit, the teacher will enable students to:

- Describe the functions of money.
- Indicate the evolution of money in Ethiopian and global context.
- Enumerate the factors affecting demand and supply of money.
- Explain the role of money and electronic banking in an economy.

## 6.1 Definition of Money

Periods Allotted: 2

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Explain the meaning of money.
- Identify the criteria for a commodity to be accepted as money.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Images of different nations' currency
- Pictures

**2. Suggested Teaching Methods**

- Group discussion
- Presentation

**3. Pre Lesson Preparation**

- Collect a list of images of different nations' currency
- Refer to the appropriate references that are valid to address the lesson.

**4. Lesson Presentation**

**a) Introduction to the lesson**

In this section of the unit, a simple and realistic definition of money will be introduced.

**b) Body of the lesson**

The various definitions of money and its characteristics need to be introduced.

**5. Evaluation and Follow-up**

**a) Evaluation**

What is money?

**b) Follow-up**

Arrange the class into different groups to list different definitions of money.

## 6.2 Evolution of Money

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Describe how money evolved overtime.
- Define the meaning of bartering.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Pictures

**2. Suggested Teaching Methods**

- Brainstorming
- Pair discussion
- Reflection

**3. Pre Lesson Preparation**

- Refer to the appropriate references
- Produce pictures of commodity money

**4. Lesson Presentation**

**a) Introduction to the lesson**

In earlier periods, individuals were self-sufficient in the sense that everybody engaged

in hunting and gathering for food, made their own clothing, and had their own dwelling. Individual needs increased through time, then the process of exchange started in the form of bartering, followed by commodity money as a medium of exchange.

**b) Body of the lesson**

Address the following necessary points:

Bartering

Commodity money

**5. Evaluation and Follow-up**

**a) Evaluation**

- What does commodity money mean?
- Define what bartering mean?

**b) Follow-up**

- Arrange a pair of students' discussion to understand the limitations of bartering system.

## 6.3 Functions of money

*Periods Allotted: 2*

**Specific Objective**

At the end of this section, the teacher will enable students to:

- Explain the basic functions of money

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Table
- Pictures

**2. Suggested Teaching Methods**

- Brainstorming
- Group discussion
- Project

**3. Pre Lesson Preparation**

- Refer to the appropriate references that are valid to address the lesson.
- Produce pictures of money

**4. Lesson Presentation**

**a) Introduction to the lesson**

Generally there are four functions of money. The most basic function of money is to serve as the medium of exchange. The second role of money is to provide a unit of account. It is used to measure value in the economy. Money also functions as a store of value (wealth holding). It further facilitates transfer of resources easily out of their less desired uses (who are not in need) and in to their more desired uses.

**b) Body of the lesson**

Consider the following important points.

- Medium of exchange
- Unit of account
- Store of value & standard of deferred payment

**5. Evaluation and Follow-up**

**a) Evaluation**

You may ask questions, such as the following, to check students' understanding of the lesson

List the functions of money.

**b) Follow-up**

- Arrange the class into different groups and assign different topics to each group. Then they should present the content of each topic to the class.

## 6.4 Demand and supply of money

Periods Allotted: 2

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Explain the motives of holding money.
- Describe what constitutes the supply of money.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Pictures
- Charts

**2. Suggested Teaching Methods**

- Brainstorming
- Pair discussion
- Reflection

**3. Pre Lesson Preparation**

- Refer to the appropriate references
- Produce pictures

**4. Lesson Presentation**

**a) Introduction to the lesson**

Recall the theory of demand and supply in a previous discussion. The same analogy applies to the demand for and supply of money. People need money for various reasons, in charge of transactions, precautionary and speculative purposes. The supply (quantity) of money is composed of two main elements, viz., (a) currency with the public; and (b) deposit money with the public.

**b) Body of the lesson**

Address the following necessary points

- Demand for and supply of money
- Motives for holding money instead of other assets

**5. Evaluation and Follow-up**

**a) Evaluation**

What is the demand for and supply of money?

**b) Follow-up**

Form a group of students to discuss and then present why people hold money

## 6.5 Money and electronic banking

*Periods Allotted: 2*

**Specific Objective**

At the end of this section, the teacher will enable students to:

- Explain the meaning of electronic banking.
- Understand the use of electronic banking

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Pictures
- Charts
- Images

**2. Suggested Teaching Methods**

- Brainstorming
- Pair discussion
- Reflection

**3. Pre Lesson Preparation**

- Refer to the appropriate references
- Produce pictures

**4. Lesson Presentation**

**a) Introduction to the lesson**

For many people, electronic banking means 24-hour access to cash using technology like automated teller machines (ATM).

**b) Body of the lesson**

Address the following necessary points:

Electronic Fund Transfers

**5. Evaluation and Follow-up**

**a) Evaluation**

What is ATM?

**b) Follow-up**

Form a group of students to discuss the advantages of ATM

## Answers to Activities

The following are possible answers to the activities for unit 6.

### Activity 6.1

1. Money is an economic unit that functions as a generally recognized medium of exchange for transactional purposes in an economy.
2. For a commodity to be accepted as money, it must meet the following criteria.
   - **Standardization** – it must be easily standardized, making it simple to ascertain its value.
   - **Acceptability -** It must be widely accepted as a medium of exchange
   - **Divisibility** – It must be divisible so that it is easy to make a change
   - **Portability** – it must be easy to carry
   - **Durability** – it should not degrade quickly.

### Activity 6.2

1. Initially, the exchange was direct. That is, it was an exchange of goods for goods. Such an exchange is known as "barter." When the barter system was replaced by the monetary system, primitive money was first used in the form of commodity money. The next development in the payments system was paper currency, though having the drawbacks that they are easily stolen and can be expensive to transport because of their bulk, if there are large amounts, leading to the invention of checks. With the development of the computer and advanced telecommunications technology, there would seem to be a better way in the form of electronic means of payment (EMOP).
2. That is, it was an exchange of goods for goods. Such an exchange is known as "barter." Under the barter system, an individual produces goods in greater quantities than it could be consumed, so as to exchange the surplus with another person for something the producer needs in return.

### Activity 6.3

1. The purchasing power of money is subjected to change, so money is not a perfect means of holding wealth

### ✎ Activity 6.4

1. Transactions motive, Precautionary motive and Speculative motive
2. Money supply means total volume of monetary media of exchange available to the community for use in connection with the economic activity of the country. Broadly speaking, money supply in a country is composed of two main elements, viz., (a) currency with the public; and (b) deposit money with the public.

### ✎ Activity 6.5

1. Electronic banking involves many different types of transactions, rights, responsibilities, and fees.
2. One reason to use ATMs is that they let you bank at almost virtually any time.

## Answers to review questions for Unit 6

The following are possible answers to review questions for unit 6.

**Part I**

1. True 2.True 3.False 4.False

**Part II**

1. D 2. B 3. A 4. D 5. B

**Part III**

1. The barter system was an exchange of goods for goods to ease transactions. Under the barter system, an individual produces some goods in greater quantity than he could consume, so as to exchange the surplus with another person for something he needs in return.
2. Money is anything that is generally acceptable as a means of exchange (i.e. as a means to settle debt) and that at the same time acts as a measure and as a store of value.
3. Paper currency and coins have the major drawbacks of being easily stolen and being expensive to transport because of their bulk if there are large amounts.
4. "Anything that is habitually and widely used as a means of payment and generally accepted in the settlement of debt" and " anything that is commonly used and generally accepted as a medium of exchange or as a standard of value" respectively.
5. Transaction, precautionary, and speculative motives
6. The stock of money, which constitutes the supply of it, consists of (a) metallic money or coins, (b) currency notes issued by the currency authority of the country, whether it be the central bank or the government, and chequable bank deposits.

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# Unit 7
# Introduction to Macroeconomics

*Periods Allotted: 10*

**Introduction**

Macroeconomics involves adding up the economic activity of all households and all businesses in all markets to get the overall demand and supply in the economy. Macroeconomics is the study of the behavior of the whole economy. It is concerned with the determination of the broad aggregates in the economy, in particular the national output, unemployment, inflation, and the balance-of-payments position. In the present unit, we discuss the concept of macroeconomics and identify the basic macroeconomic variables.

**Unit Objectives**

At the end of this unit, the teacher will enable students to:

- Explain the meanings of macroeconomics and indicate its problems.
- Identify the basic macroeconomics variables.
- Describe the relationship among unemployment, inflation and growth.

## 7.1 Definition of Macroeconomics Variables

*Periods Allotted: 3*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define the concept of macroeconomics.
- Explain the basic macroeconomic variables.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Tables and data on macroeconomic issues

**2. Suggested Teaching Methods**

- Brainstorming
- Open-ended questioning
- Group discussion
- Presentation and seminar

**3. Pre Lesson Preparation**

- Refer to the appropriate references of macroeconomics that are valid to address the lesson.
- Collect statistical data about macroeconomic issues

**4. Lesson Presentation**

**a) Introduction to the lesson**

You can begin the lesson by defining macroeconomics and its difference from microeconomics. Macroeconomics is a branch of economics concerned in aggregate aspects such as national income, employment and inflation. It is more concerned with economic growth, full employment, price stability, and equity in the distribution of income.

Now, in this unit, our aim is to guide the students through these tasks regarding macroeconomics

- identify and analyze the areas which are broadly covered under the scope of macroeconomics
- gain the fundamental goals in macroeconomics

**b) Body of the lesson**

- The scope of aggregative economic analysis, or the fundamental issues of macroeconomics, covers the following factors:
- National Income
- Employment
- General Price Level
- Economic Growth

**5. Evaluation and Follow-up**

**a) Evaluation**

- To determine whether or not your students have understood the basic points of the lesson, ask the following question.
- What is the scope of macroeconomics?

**b) Follow-up**

- Arrange the class into different groups and assign different topics to each group. Then they should present the content of each topic to the class.

## 7.2 Macroeconomics Goals

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Identify macroeconomic goals of a country.

**Teaching-Learning Process**

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide
   - Data on GDP of leading developed and developing countries
   - Data on income inequalities among nations
2. **Suggested Teaching Methods**
   - Brainstorming
   - Pair discussion
   - Reflection
   - Open-ended questioning
3. **Pre Lesson Preparation**
   - Refer to the appropriate references
   - Organize the class on the basis of student capacity (e.g., slow, medium, and fast learners).
4. **Lesson Presentation**

**a) Introduction to the lesson**

This sub-unit highlighted the need for adopting different macroeconomic policies with a view of bringing desirable changes in the economy. We also discuss the goal of macroeconomics. Be sure to include references to the Ethiopian context in order to develop additional student interest.

**a) Body of the lesson**

Address the following necessary points:

- Economic growth
- Full employment
- Price stability
- Distribution of national income

**5. Evaluation and Follow-up**

**a) Evaluation**

- What is economic growth?
- What is price stability and income inequality?

**b) Follow-up**

Give assignments on the basis of the issues discussed above

## 7.3 Macroeconomic problems

*Periods Allotted: 4*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Identify problems of macroeconomics.
- Explain the meaning of inflation and unemployment.
- Mention the types of unemployment.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Charts and figures
- Tables and data
- Graphs

**2. Suggested Teaching Methods**

- Brainstorming
- Group discussion

**3. Pre Lesson Preparation**

Get the following teaching materials ready in advance.

- Charts, tables and figures that provide basic information about an organization
- Documents about Ethiopia's economic policy
- Charts and figures of overall basic economic information for Ethiopia

**4. Lesson Presentation**

**a) Introduction to the lesson**

In this subunit, our aim is to make the students understand the phases, characteristic features, and causes of macroeconomic problems, such as inflation and unemployment.

**b) Body of the lesson**

You should concentrate on the central themes of the main problems in macroeconomics.

These are categorized and identified as; unemployment and inflation. The subject will be authentic if it is studied in contrast to the negative impact of these factors on the development of macroeconomics.

It should be clear that unemployment defines the situation in which people who are able to work and willing to work on an activity that gives them income or a means of securing a livelihood. The other problem is the staggering effect of inflation on the economy of a country. Elaborate the result of the discussion with a clear identification of the causes of the problem.

**5. Evaluation and Follow-up**

**a) Evaluation**

Organize the students into groups based on their capacities and give them the following instructions and ask the following questions.

- Discuss the types of unemployment.
- How do you measure unemployment?
- What is inflation?
- What are the adverse effects of inflation?

**b) Follow-up**

Record and grade the students' achievements and make them informed.

## Answers to Activities

The following are possible answers to the activities for unit 7.

### ✎ Activity 7.1

1. Macroeconomics focuses on the economic behavior and policies that affect consumption and investment, trade balance, and other determinants of various macroeconomic variables.
2. Ethiopia is the least developed country, having the lowest figure of GDP as compared with that of the developing country of Botswana, which is the fifth developed in Africa with a fair distribution of income among citizens.

### ✎ Activity 7.2

1. Economic growth, full employment, price stability, equality in the distribution of income and wealth

### ✎ Activity 7.3

1. Inflation is described as a situation characterized by a sustained increase in the general price level.

   There are two types of inflation, namely, demand-pull inflation and cost-push inflation.

   The causes of inflation are increasing the money supply, increase in input costs, imported inflation, weaker exchange rate, and decline in productivity.
2. Unemployment is a term referring to individuals who are employable and actively seeking a job but are unable to find a job.

   Disguised unemployment is unemployment that does not affect aggregate economic output. It occurs when productivity is low and too many workers are filling too few jobs. It can refer to any part of the population that is not employed at full capacity.

## Answers to review questions for unit 7

The following are possible answers to Review Questions for unit 7.

**Part I**

1. True 2. True 3. False

**Part II**

1. D 2. A 3. C 4. D 5. C

**Part III**

1. Macroeconomics is a branch of economics dealing with the performance, structure, behavior, and decision-making of an economy as a whole. For example, using interest rates, taxes, and government spending to regulate an economy's growth and stability is one example. This includes regional, national, and global economies.
2. The general objectives of a macroeconomic policy are to achieve:
    - the maximum feasible output
    - high rate of economic growth
    - full employment
    - price stability
    - equality in the distribution of income and wealth
3. **Gross Domestic Product (GDP):** -It is the total value of currently produced final goods and services that are produced within a country's boundary during a given period of time, usually one year.

    **Gross National Product (GNP):** the total value of goods and services produced by domestically owned factors of production in a given time period (usually one year), regardless of their geographical location.
4. Yes, GNP = GDP. Because if the economy is closed, i.e., a country has no interaction with the rest of the world, GDP = GNP.
5. **Frictional unemployment:-** refers to a brief period of unemployment experienced people due to
    - Seasonality of work, e.g., construction workers
    - Voluntary switching of jobs in search of better jobs
    - Entrance to the labor force, e.g., a student immediately after graduation
        - Re-entering the labor force

    **Structural unemployment** results from a mismatch between the skills or locations of job seekers and the requirements or locations of the vacancies.

**Cyclical unemployment** is generated due to the absence of vacancies. This usually happens due to a deficiency in demand for commodities.

6. Inflation, in general terms, is described as a situation characterised by a sustained increase in the general price level

**Demand-pull Inflation**

This represents a situation where demand for the product at the current price exceeds the available supply.

**Cost-Push Inflation**

Cost-push inflation is determined by supply-side factors, such as higher wages and higher oil prices.

Cost-push inflation is different to demand-pull inflation which occurs when aggregate demand grows faster than aggregate supply.

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# Unit 8
# Basic Entrepreneurship

*Periods Allotted: 10*

**Introduction**

In economics, entrepreneurship connected with land, labour, natural resources and capital can generate a profit. The entrepreneurial vision is defined by discovery and risk-taking and is an indispensable part of a nation's capacity to succeed in an ever-changing and more competitive global marketplace. This unit will discuss the basic concepts of entrepreneurship.

**Unit Objectives**

At the end of this unit, the teacher will enable students to:

- Elaborate the concept of enterprise, entrepreneur and entrepreneurship.
- Discuss the role of entrepreneurs in economic development.
- Analyze entrepreneurial attitudes and behaviour.
- Explain the relationship between entrepreneurial success and alertness to opportunities, teamwork and diversity.

## 8.1 Definition of Enterprise, Entrepreneur and Entrepreneurship

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Define the concepts of entrepreneurship, enterprise and entrepreneur.
- Explain Social Entrepreneurship.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References

**2. Suggested Teaching Methods**

- Brainstorming
- Pair discussion
- Reflection

**3. Pre Lesson Preparation**

- Refer to the appropriate references that are valid to address the lesson.
- Produce pictures about entrepreneurship

**4. Lesson Presentation**

**a) Introduction to the lesson**

In this introductory section of the unit, a teacher should better draw the attention of students in a bid to introduce them to the concept of entrepreneurship and define who is called an entrepreneur. The history of entrepreneurship and social entrepreneurship needs to be discussed.

**b) Body of the lesson**

You can begin the lesson by elaborating on the concepts of entrepreneurship with a reference to the process of entrepreneurship:

1) The ability to perceive an opportunity.
2) The ability to commercialize the perceived opportunity i.e. innovation
3) The ability to pursue it on a sustainable basis.
4) The ability to pursue it through systematic means.
5) The acceptance of risk or failure.

Furthermore, the history of entrepreneurship evolved from managing commercial projects to the application of innovation (creativity) in business ideas. The contemporary issues of social entrepreneurship will also be discussed.

At the end of this unit, students will be able to address the following essential points:

- Entrepreneurship and Entrepreneur
- Social entrepreneurship

**5. Evaluation and Follow-up**

**a) Evaluation**

- What does “entrepreneurship” and “entrepreneur” mean?
- What is social entrepreneurship?

**b) Follow-up**

Arrange a group discussion so that students express and realize the concepts of entrepreneurship, social entrepreneurship, and philanthropy.

## 8.2 Creativity and Innovation in Solving Local Problems

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Indicate the possibility of creativity and innovation towards entrepreneurship.
- Describe the relationship among creativity, innovation and entrepreneurship.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- Charts
- Tables
- Pictures

**2. Suggested Teaching Methods**

- Brainstorming
- Pair discussion
- Reflection

**3. Pre Lesson Preparation**

- Refer to the appropriate references
- Produce pictures

**4. Lesson Presentation**

**a) Introduction to the lesson**

In this sub-unit, the class needs to focus on the concepts of creativity, innovation with an eye towards entrepreneurship.

**b) Body of the lesson**

Creativity, innovation and entrepreneurship, have been recognized as important contributors to a nation's economic growth. These three terminologies are chronologically interrelated and it is very important to look in to them to get their full picture.

Address the following necessary themes:

- Creativity
- Innovation
- Creativity and innovation towards entrepreneurship

**5. Evaluation and Follow-up**

**a) Evaluation**

What is the importance of creativity, innovation in entrepreneurship?

**b) Follow-up**

Arrange a pair discussion so that students understand the concepts of creativity and innovation with regard to entrepreneurship.

## 8.3 Entrepreneurial Attitudes, Behavior and Mind-Set

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Describe key attitudes every entrepreneur must have.
- Identify skills and attributes to be more innovative.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References

**2. Suggested Teaching Methods**

- Brainstorming
- Group discussion
- Project
- Field visits

**3. Pre Lesson Preparation**

- Refer to the appropriate references that are valid to address the lesson.
- Produce pictures relevant to the lesson.

**4. Lesson Presentation**

**a) Introduction to the lesson**

This subunit will discuss the key attitudes every entrepreneur must conquer and the skills and attitudes necessary to be more enterprising.

**b) Body of the lesson**

The entrepreneurial process involves finding, evaluating, and developing an opportunity by overcoming the strong forces that resist the creation of something new. Most good business opportunities result from an entrepreneur's being alert to possibilities. Some

sources are often fruitful, including consumers and business associates. In this subunit, the discussion will focus on the key attitudes every entrepreneur must conquer, along with the skills and attributes necessary to be more enterprising.

Consider the following important points.

- Key attitudes that every entrepreneur must conquer
- To be more enterprising, you need to have the following skills and characteristics.

**5. Evaluation and Follow-up**

**a) Evaluation**

You may ask questions such as the following to check students' understanding of the lesson:

- Key attitudes that every entrepreneur must conquer
- Skills and attributes to be more enterprising

**b) Follow-up**

Arrange the class into different groups and assign different topics to each group. Then they should present the content of each topic for the class.

## 8.4 Windows of Entrepreneurial Opportunities

*Periods Allotted: 1*

**Specific Objectives**
At the end of this section, the teacher will enable students to:

- Identify methods for finding new business opportunities

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References

**2. Suggested Teaching Methods**

- Brainstorming
- Pair discussion
- Reflection

**3. Pre Lesson Preparation**

- Refer to the appropriate references
- Produce pictures

**4. Lesson Presentation**

**a) Introduction to the lesson**

For an idea to be worth pursuing, we must first determine whether the idea translates into an entrepreneurial opportunity. An entrepreneurial opportunity is the point at which identifiable consumer demand meets the feasibility of satisfying the requested product or service.

**b) Body of the lesson**

It is important to understand the cause of the opportunity, as the resulting opportunity may have a different market size and time dimension than the one anticipated. The market size and the length of the window of opportunity are the primary factors for determining risks and rewards.

The amount of capital forms the basis for the return and rewards. The return and reward of the present opportunity needs to be viewed in light of any possible subsequent opportunities as well. The opportunity must fit the personal skills and goals of the entrepreneur. The entrepreneur must be able to put forth the necessary time and effort required for the venture to succeed.

**5. Evaluation and Follow-up**

**a) Evaluation**

Identify methods for finding new business opportunities

**b) Follow-up**

Arrange a pair discussion so that students understand/identify methods for finding new business opportunities

## 8.5 Entrepreneurial Success, Teamwork and Diversity

*Periods Allotted: 2*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Explain the importance of teamwork to the success of a business.

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References

**2. Suggested Teaching Methods**

- Brainstorming
- Pair discussion
- Reflection

**3. Pre Lesson Preparation**

- Refer to the appropriate references
- Produce pictures

**4. Lesson Presentation**

**a) Introduction to the lesson**

In this section the emphasis on entrepreneurial success, teamwork and diversity.

**B) Body of the lesson**

Many companies nowadays emphasize the importance of talent. They are driven by the idea that a few top employees are responsible for most of the overall success. However, most recent productivity studies have shown that even those shining superstars need the help of a strong team in order to succeed. Therefore, the importance of teamwork is being emphasized more and more, with companies spending millions on team building strategies. Why is teamwork important to business success?

**5. Evaluation and Follow-up**

**a) Evaluation**

What role does teamwork play in business success?

**b) Follow-up**

Arrange a pair discussion so that students understand the importance of teamwork to business success.

## 8.6 Finance and Promotion of Entrepreneurship

*Periods Allotted: 1*

**Specific Objectives**

At the end of this section, the teacher will enable students to:

- Identify the financial requirements in Entrepreneurship
- Explain the various sources of finance

**Teaching-Learning Process**

**1. Suggested Teaching Aids**

- Student text book
- Teacher's guide
- References

**2. Suggested Teaching Methods**

- Brainstorming
- Pair discussion
- Reflection

**3. Pre Lesson Preparation**

- Refer to the appropriate references
- Produce pictures

**4. Lesson Presentation**

**a) Introduction to the lesson**

In this sub-unit, the discussion will be on the financial requirements and sources of finance for entrepreneurship.

**b) Body of the lesson**

Address the following necessary themes:

- Financial requirement
- Sources of finance

**5. Evaluation and Follow-up**

**a) Evaluation**

What are the sources of finance for entrepreneurship development?

**b) Follow-up**

Arrange a pair discussion so that students understand the financial requirements and sources of finance for entrepreneurship.

## Answers to Activities

The following are possible answers to the activities for unit 8.

### Activity 8.1

1. Entrepreneurship is the process through which individuals become aware of business ownership, then develop ideas for, and initiate a business.
   Entrepreneurship is the art of identifying and mobilizing resources to convert those opportunities into successful enterprises through creativity, innovation, risk-taking, and progressive imagination.
   An entrepreneur is any person who creates and develops a business idea and takes the risk of setting up an enterprise to produce a product or service that satisfies customer needs.
   An entrepreneur is an individual who has the ability to identify and pursue a business opportunity.
2. Social entrepreneurship is attracting growing amounts of talent, money, and attention, but along with its increasing popularity has come a less certain understanding of what exactly a social entrepreneur is and does.

### Activity 8.2

1. Creativity leads to the generation of novel and innovative ways of doing business. Exploring new niches and generating new ideas leads to efficiency and eventually gives an entrepreneur the required edge over the competition.
2. Creativity is the ability to come up with new ideas and to identify new and different ways of looking at problems and opportunities. Innovation is a process of intentional change made to rate value by meeting opportunity and seeking advantage. Entrepreneurship is the combination of both creativity and innovation.

### Activity 8.3

1. Passion, Bravery, Flexibility, Strong Work Ethic and Integrity
2. General Management Skills and People Management Skills

### Activity 8.4

1. The possible entrepreneurial opportunities in your surroundings:
   Develop a new market for an existing product.
   Find a new supply of resources that would enable the entrepreneur to produce the product for less money.

Use existing technology to produce an old product in a new way.
Use an existing technology to produce a new product.
Finally, use new technology to produce a new product.

### ✎ Activity 8.5

1. Teamwork makes things easier in class course assignments through the division of labor.

### ✎ Activity 8.6

1. Permanent Capital, Working Capital and Asset Finance
2. Personal saving, Friends and relatives, Partners, Angels and Venture capital companies

## Answers to review questions for unit 8

The following are possible answers to the Review Questions for unit 8.

**Part I**

1. True 2. False 3. True 4. False

**Part II**

1. A 2. D 3. B 4. C

**Part III**

1. Entrepreneurship is the process of identifying opportunities in the marketplace, arranging the resources required to pursue these opportunities, and investing the resources to exploit them for long term gains. It involves creating incremental wealth by bringing together resources in new ways to start and operate an enterprise.

   Entrepreneurship is the process through which individuals become aware of business ownership, then develop ideas for, and initiate a business.

   An entrepreneur is any person who creates and develops a business idea and takes the risk of setting up an enterprise to produce a product or service that satisfies customer needs.

   An entrepreneur can also be defined as a professional who discovers a business opportunity to produce improved or new goods and services and identifies a way in which the resources required can be mobilized.

2. An entrepreneur is an individual who has the ability to identify and pursue a business opportunity, raises the capital to finance it; gathers the necessary physical, financial, and human resources needed to operate the business venture; sets goals for him/herself and others; initiates appropriate action to ensure success; and assumes all or a major portion of the risk.
3. Passion, Bravery, Flexibility, Strong Work Ethic, Integrity.
4. Steps in the creativity process:

Step1: Opportunity or problem Recognition: A person discovers that a new opportunity exists or that a problem needs resolution.

Step2: Immersion: the individual concentrates on the problem and becomes immersed in it. He or she will recall and collect information that seems relevant, dreaming up alternatives without refining or evaluating them.

Step 3: Incubation: The person keeps the assembled information in mind for a while. He or she does not appear to be working on the problem actively; however, the subconscious mind is still engaged. While the information is simmering it is being arranged into meaningful new patterns.

Step 4: Insight: The problem-conquering solution flashes into the person's mind at an unexpected time, such as on the verge of sleep, during a shower, or while running.

Step 5: Verification and Application: The individual sets out to prove that the creative solution has merit. Verification procedures include gathering supporting evidence, using logical persuasion, and experimenting with new ideas.

5. Types of innovation:
   - An invention is described as the creation of a new product, service or process
   - Extension - the expansion of a product, service or process
   - Duplication is defined as replication of an already existing product, service, or process
   - Synthesis is the combination of existing concepts and factors into a new formulation.
6. Methods for finding new business opportunities:
   - Develop a new market for an existing product.
   - Find a new supply of resources that would enable the entrepreneur to produce the product for less money.
   - Use existing technology to produce an old product in a new way.
   - Use an existing technology to produce a new product.
   - Finally, use new technology to produce a new product.

## References and Further Readings


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