05 Choices

Economics involves the need and the opportunity to make choices regarding alternative uses of limited resources. Choices have consequences, sometimes unintended ones. The need to make choices means that we must perform cost-benefit analysis of the alternatives before us. Most economic choices involve marginal decisions, which means deciding to a little more or a little less of something. Producers make choices about what and how much they produce. Factors such as incentives, substitute goods, and utility or satisfaction influence consumers' choices. People in government make choices based on their goals or ideals.

Books Used

The Bible
Making Choices
The Rise of Silas Lapham

Project
(choose one)

1) Write 300 to 500 words on one of the following topics:

- Write a short story about a choice that had significant impact.

- Write about your ideas for what you will do after you finish high school. You can discuss one plan or multiple possibilities. Write about the costs and benefits. Write about the motivations behind your goals and dreams.

2) Make a photo essay of at least twenty photos illustrating economic choices that are an everyday part of your family's life, both the ones you make and the ones that are made for you. Write captions for the photos.

3) Create a children's book with the title "Choices." Illustrate it yourself in the medium of your choice (photography, painting, drawing, etc.). The book can have words to accompany the pictures, or only pictures. Create a cover and at least 20 pages.

21 Chocolate or Vanilla?

Did You Ever Have to Make Up Your Mind?
— song by The Lovin' Spoonful (1966)

God has endowed us as human beings with the ability to consider alternatives, to make choices, and to realize that we are making choices. Sometimes having to make a choice is agonizing, but the ability to make choices is a blessing.

We Get to Make Choices

Think about some of the choices you can make. Every morning you have a choice about what you will wear. When you go to a restaurant, you have many choices of what you can eat. You have a choice about the type of work you will go into as an adult. When you are old enough to vote, you will have a choice about which candidate you will support in an election.

Beyond these matters, you have choices about significant issues in your life. You can decide to believe in God. You can decide what your attitude will be, even in hard circumstances. You can decide how you are going to treat other people.

You should always remember this fact: You do not have to live as a victim. Regardless of how much you feel hemmed in or limited by your circumstances, you do not have to live your life as a victim. When you think of yourself as a victim, you are putting a limit on what you can accomplish and how successfully you can live. When you live as a victim, you are making a choice. You are choosing to let circumstances control your life.

Not all possible choices are open to everyone. Previous choices can limit future choices. If you choose not to be trained in medicine, you cannot legally write prescriptions and sign your name with the letters M.D. after it. Despite some limitations on the choices you can make, you can choose to make the most of your situation despite these limitations.

We Have to Make Choices

Not only do we have the ability and opportunity to make choices, but we also have the responsibility to make choices about many things. No one has the time or money to do absolutely everything he or she would like to do, so he or she has to make choices. The richest person in the world can only be in one place at 9:00 on Monday morning.

The person with no work responsibilities only has the same 24-hour day that the busy person has. A person has the responsibility to choose some way to provide food for himself or herself; otherwise he or she is choosing to starve or to depend on someone else. The most important choice that a person has to make is whether or not to confess and obey Jesus Christ as Savior and Lord.

When you decide to live as a Christian and be faithful to that calling, you cannot also choose to live any way you want. Jesus said that following Him involves serious choices every day. You must choose whether or not you will love your enemy (Matthew 5:44). You must choose how you pray (Matthew 6:5-15). You must choose whether to store up treasure on earth or treasure in heaven (Matthew 6:19-20). You must choose not to judge others (Matthew 7:1-5). You must choose whether you will go through the narrow gate of life or the wide and popular gate of destruction (Matthew 7:13-14). You must decide whether you are merely going to listen to Jesus or whether you will act upon His words (Matthew 7:24-27). The point of the parable of the sower (Matthew 13:1-9, 18-23) is to challenge the listener to choose what kind of soil he or she is going to be.

How to Make Good Choices

The choices you make are not a coin toss or a blind shot in the dark. Some decisions will be difficult, and the best alternative might not be absolutely clear to you. Still, you can take steps that will help you make the best decisions possible.

You can seek to determine if at all possible what God's will is in a particular situation. You will need to study Scripture to see what God has said that will inform your decision. If He has directly spoken on a topic in Scripture, the choice that a Christian should make is clear. If God has not directly spoken on a certain topic in Scripture, you have to apply Biblical principles and use the best-informed and most God-oriented discernment you can.

You need to decide what will bless others the most. Decisions that a person makes out of a selfish heart are not good decisions.

You need to decide what will best accomplish the goals that God has for you. To recognize and accept goals but then to make decisions that are contrary to attaining those goals is unwise.

You need to decide what will be best in the long run. Decisions that a person makes with only the immediate or short-term consequences in mind are usually not wise.

You need to get wise counsel. Other people have probably faced the same or similar decisions, and their experience can help you see a little further into the fog.

You need to pray about decisions. James told us to pray for wisdom and to pray in faith that God will answer (James 1:5-6). Jesus said that if we ask, seek, and knock, we will receive (Matthew 7:7-8).

Realities About Choices

Actions have consequences. Ideas have consequences. Choices have consequences. The reason that choices are so important is that they make a difference. They really matter. Here are some ways in which this is true.

Bad choices make good choices harder to make and result in fewer good options before you. When you decide to go down the wrong road, turning around and going back to where you can make a better choice is difficult. You have to admit that you were wrong, which can be hard. Sometimes you have to deal with the consequences of the bad choice even after you decide to start doing what is right.

Having made bad choices might mean that you have to start over by taking the time to get more training before you can get a job, or pay off some debt that you have accumulated by making bad choices,

Ice cream shop in Hatyai, Thailand

or take a lower-paying job for a while, or appear in court to answer for mistakes you have made, or do other things to rectify the mess you have made. Paul said that we reap what we sow (Galatians 6:7). You have a choice about what you sow, but you do not have choices about what you reap as a result of what you have sown.

Choices have more at stake the longer you go through life. A child's choice between chocolate and vanilla ice cream is not an earth-shaking matter (unless he is allergic to chocolate!). By contrast, whom a person decides to marry will have consequences that last a lifetime and even longer. Deciding whether to start a career or go to college is a big decision; deciding whether to go to work or go to graduate school can be an even bigger decision. The longer you live, the more you become responsible for. Bigger responsibilities mean that your choices tend to affect more people. You should get into the pattern of making good choices early in your life.

Choices often have unintended consequences. You should think through the consequences of your decisions as clearly and as carefully as possible, but even then you will likely be surprised. When you decide to eat more than you should, you don't mean to give yourself a stomach ache or to gain weight; but that is what can happen. The framers of the Treaty of Versailles following the Great War in the early twentieth century did not intend for the harsh treatment of Germany to lead to another world war, but most historians believe that World War II was at least partly the result of the terms of that treaty. The people at lending institutions who approved loans that were larger than what customers could afford to pay back did not mean to contribute to a worldwide economic meltdown, but their actions did play a part in the Great Recession.

Making choices is a big part of life. Many of the choices that you, the people around you, people in business, and people in government make have to do with economics. Joshua encouraged Israel to make a good choice in the most important decision they had before them.

. . . choose for yourselves today whom you will serve . . . .
Joshua 24:15

Assignments for Lesson 21

Making Choices Read "Free to Choose: A Conversation with Milton Friedman" (pages 39-47).

Literature Continue reading *The Rise of Silas Lapham*. Plan to finish it by the end of Unit 7.

Project Choose your project for this unit and start working on it.

Student Review Answer the questions for Lesson 21.

22 Economic Choices

You can't have your cake and eat it too.
— American Saying

Choices about Scarce Resources

We said in Lesson 1 that economics involves a study of the choices that people make regarding the production, distribution, and consumption of products and services made from scarce resources for which alternative uses exist. People in a society—including producers, consumers, and people in government—make choices about three basic economic issues:

What goods and services, and in what quantities, will an economy produce? In other words, what goods and services do potential consumers value and desire? Producing goods and services is pointless if no one wants them or is willing to pay for them. Once producers decide what to make, the quantity part of the question involves determining how much of that product the market will bear. It is poor economic planning to produce more than what people want or to produce less than what people want if the producers are capable of producing more.

How will people produce goods and services? This question involves determining the nature and quality of the raw materials that will go into goods. It also involves the standard of training for those who provide services: do we expect nurses, accountants, and electricians, for instance, to receive training and certification? Another production issue involves determining whether domestic businesses will produce the goods and services or if foreign sources will provide them.

How will people distribute the goods and services across the population? Will a producer find it worthwhile to pay for national marketing and distribution, or does the producer want only a local or regional market? Will the goods or services only be available to people who are able to pay for them, or will the government make them available by paying for them through tax revenues (as happens with public education and, for many people, with health care)? Or will the government subsidize production—that is, pay for part of the cost—so that the goods and services will be available at a lower cost to consumers? This is what happens with mass transit and the production of ethanol.

Ethanol plant in West Burlington, Iowa

You might think that at least some of these choices are simply business decisions, a discussion of which might be more appropriate in a course on business. However, remember that in Lesson 4 we said that the knowledge about how the economy works is held in small bits by billions of people who participate in the market. The choices we have described are business decisions, but they reflect economic realities that we discuss in this curriculum, such as:

- The demand and supply for goods and services that people might produce,
- The availability of resources to produce the goods and services, and
- The role of labor and government in the economy.

Scarcity or Abundance: How Do We Act?

We face economic choices because we have limited resources. We do not have an unlimited supply of gasoline, food, clothes, or any other product or service. Nor do we have an unlimited supply of time and money that would allow us to do and to have everything we might want. Producers cannot produce and consumers cannot consume anything and everything. This is why we have to make choices. The way we make those choices has an impact on our economic life.

We admit the reality of scarce resources in general; but in practical terms, people often do not think or act with an assumption of scarcity. In one sense this is good, and in another sense this is not good.

First, the good part. We believe that sufficient resources exist in the world for everyone to have a decent standard of living. We believe that as the population grows, creative people come up with new ideas to help more people meet their basic needs. People have the potential to make good choices, and the economy can expand to provide what people need. The land of the United States once fed, clothed, and housed only a few million people; it now feeds, clothes, and houses over 300 million people. More importantly, as we discussed in Lesson 6, God has promised to supply all the needs of His people.

People generally believe that the market for goods and services is large enough for people to start a new business or expand an existing business. People have found ways to make the economic pie larger. A healthy way to make economic decisions regarding limited resources involves believing that there is enough of the pie for me if I work hard and live responsibly. Thinking that there is only a limited economic pie that people can divide into only so many pieces is thinking on the basis of fear.

Second, the bad part. Some people do make irresponsible decisions about limited resources. Those who do not want to make hard choices about how to use the limited resource of their money buy more than they should and go into debt. They are trying to buy a bigger piece of the pie with borrowed money, hoping that they will earn enough later to pay off the debt. This approach often gets them into financial trouble.

Many families have saddled themselves with thousands of dollars in credit card debt. Many college students, some of whom do not even graduate from college, accumulate tens of thousands of dollars in student loan debts. In 2008 after many people bought houses that were more expensive than they could afford, this mindset contributed to the entire economy going into recession when millions of people could not make their mortgage payments.

Believing that the Lord of abundance will provide does not mean going deeply into debt for material things and then trusting that the Lord will provide the money for the payments. Economic responsibility means making wise choices about your scarce resources.

Cost-Benefit Analysis

One step in making wise economic decisions is doing a *cost-benefit analysis* of the choices you face. This involves making a list of the costs and the benefits of taking a particular step before you take it. You want to determine if the benefits outweigh the costs, making the choice worthwhile.

Many times a day we conduct a cost-benefit analysis unconsciously. Is the benefit of more sleep worth the cost of being late for work? Is the benefit of saving a few moments by turning into the line of traffic now worth the risk of an accident, or would it be better to wait until there is more room in the lane? Is the benefit of talking to my friend now worth the cost of having to do my chores later in the evening?

Sign advertising foreclosure home sale (2009)

Candy shop in Tokyo, Japan

Here are three examples of cost-benefit analysis related to consumer purchases. Remember that a cost can be something other than money.

Buying a candy bar carries a cost. The benefit is being able to enjoy eating the candy bar. However, if you do this too often, you might gain weight or have other health problems that result from eating too much sugar. Does the benefit of enjoying this candy bar outweigh the financial and potential health costs for you?

Buying a coat involves a cost. The benefit is that you can have protection from cold weather, so that you can go places in the cold and so that you will not run the risk of becoming ill. Do those benefits outweigh the financial cost of the coat?

Both saving and spending have a cost and a benefit. If you have a certain amount of money, you need to decide what are the relative benefits of spending it on something now compared to saving it so that you can buy something of greater value later.

Businesses have to do cost-benefit analysis of their plans. Will the benefit of increased sales outweigh the cost of creating a new product (costs such as paying for planning and engineering, creating production facilities in which to make the product, and so forth)? Will the cost of an advertising campaign result in the benefit of more sales? Might the company find that the advertising that it plans to do will not influence most potential customers?

People in government should engage in cost-benefit analysis of programs and proposals. Do they have sufficient evidence that, if a city or a county buys property for an industrial park, owners of industries will want to build there and generate enough tax revenue to recoup the cost of the land? Sometimes the benefit of a decision by people in government is not a financial benefit, but the benefit is real nonetheless. If government leaders are thinking about expanding the public library, they might want to survey library patrons and the general public to see if the community will see a benefit from having more educational resources available.

Failing to do a cost-benefit analysis can result in significant losses. If a person does not do cost-benefit analysis before purchasing items, that person can wind up with a lot of stuff that he or she does not really need and not enough money to achieve more important goals. If people in a business fail to do cost-benefit analysis, they might wind up with a big warehouse with nothing to fill it or with significant losses from buying too much equipment. Elected officials sometimes do not want to conduct a cost-benefit analysis of a proposed or existing program if the program is politically popular. However, when government funds a program without a cost-benefit analysis, the government might spend money for something that is not worth the expense.

Margins

In economics, a *margin* is a small step that makes a big difference in an action being taken. Few decisions that we make are all-or-nothing decisions. Most of the time we make choices about doing a little more or a little less of something. For instance, once you have decided to exercise, you have to decide whether you have the time and energy to jog one more lap around the block. That is a marginal decision. Economists spend a great deal of time studying margins because that is where important economic decisions are made. One way to think of margin is the next one: the next worker hired, the next dollar earned, the next unit of a product consumed. What are the consequences or effects of the next one?

The owners of a widget-making business know that they can make and sell 5,000 widgets with the workers and machinery they have. To make the 5,001st widget, they would have to hire an additional worker or buy more machinery. Would that additional expense be worth it? With another worker, they could make an additional 1,000 widgets, but could they sell enough of the widgets to make hiring the additional worker worth the expense of producing them? Determining the point where a change in behavior occurs (such as hiring an additional worker to make more widgets) is a marginal cost-benefit decision. *Marginal benefit* is the change in total benefit that results from an action. *Marginal cost* is the change in total cost that results from an action. All else being equal, it is better to take the action if the total benefit is greater than the total cost.

Economists refer to the *marginal propensity to consume*, which is the fraction or decimal part of extra income that an individual or household is likely to spend instead of save. For instance, if the marginal propensity to consume is .6, this means that the public, on average, will spend 60 cents of every dollar of extra income and save 40 cents. This statistic is helpful in estimating the effect of additional income, such as that which might come from higher wages or working overtime, on the economy as a whole.

Clothing manufacturer in Oromia, Ethiopia

We are going to look at economic choices that producers, consumers, and people in government make involving scarce resources, cost-benefit analysis, marginal thinking, and other economic realities that influence our choices.

Jesus reminds us that we have an important choice to make regarding Who or what will be our master. This is not a marginal decision involving just the next step, but it is a basic decision about the direction of a person's entire life.

No one can serve two masters;
for either he will hate the one and love the other,
or he will be devoted to one and despise the other.
You cannot serve God and wealth.
Matthew 6:24

Assignments for Lesson 22

Literature Continue reading *The Rise of Silas Lapham*.

Project Continue working on your project for this unit.

Student Review Answer the questions for Lesson 22.

Quebec, Canada, produces about three-fourths of the world's maple syrup.

23 Producers Choose

Would you like fries with that?
— a question of economics

We divide what producers offer in an economy into goods and services. *Goods* are tangible items that companies or individuals produce for consumption, such as cars, computers, clothes, and food. *Services* are intangible duties that people perform for pay, such as house cleaning, child care, legal counsel, and medical care.

People who operate businesses decide what goods and services they want to offer. Decisions about production can take many forms, and they have significant impact. For instance, a farmer has to decide what crops he wants to plant and determine the cost for machinery and seed, as well as what price he can expect to get for his crop. Automakers have to decide what models they think people will want to buy: will the automaker emphasize large, comfortable cars or small, economical cars? Someone who wants to start a home health business has to determine if the community needs such a business, what will be involved in finding and hiring qualified personnel, and how difficult it will be to collect payment for services from individual customers, insurance companies, or government agencies.

People who engage in retail sales have other choices to make regarding the distribution of goods. A retailer has to decide if he wants to offer his product line in a physical store, from a mobile stand, on the Internet, or through a combination of methods. A store owner has to decide if she is going to concentrate on one kind of product, such as clothes or office supplies, or whether she will open a store that carries many product lines.

Production Resources

Production resources are the elements that producers use to create goods and services. Also called factors of production, these include material resources, human resources, and capital.

Material resources are those things found in nature or processed from things found in nature that people use to manufacture goods. Material resources include petroleum and other mineral deposits, trees, rock, maple syrup, and many other things. People who operate a business have to determine the cost of the material resources that are available for the production of goods. They might obtain the resources themselves, or they might pay someone else for preparing and delivering them.

Human resources include labor, creativity, and technology. People provide the labor to produce goods and provide services, and human creativity has generated the technology that makes new products and more efficient production possible.

When we hear the word capital with reference to financial matters, it usually refers to money (as in, "He now has the capital to start his business."). In economics, however, *capital* refers to the materials used to produce goods, such as machinery and factories. Someone might use the word to refer strictly to money, but remember that money only has worth as it can provide other things. Money does not produce goods and services. Money can buy equipment, land, offices, and factories that people can use to produce goods and services.

People who produce goods and services make many choices about production resources. They decide what materials they want to use, how much they are willing to pay, and how to obtain the materials. Producers decide how many workers they want to hire, what skills they want the workers to have, and how much they are going to pay the workers. They decide about the technology in which they want to invest to have the most efficient production process they can.

Business owners are also consumers. They choose the property where they want to build a factory or open an office, what machinery they want to purchase, and what other materials they need to start and run their business.

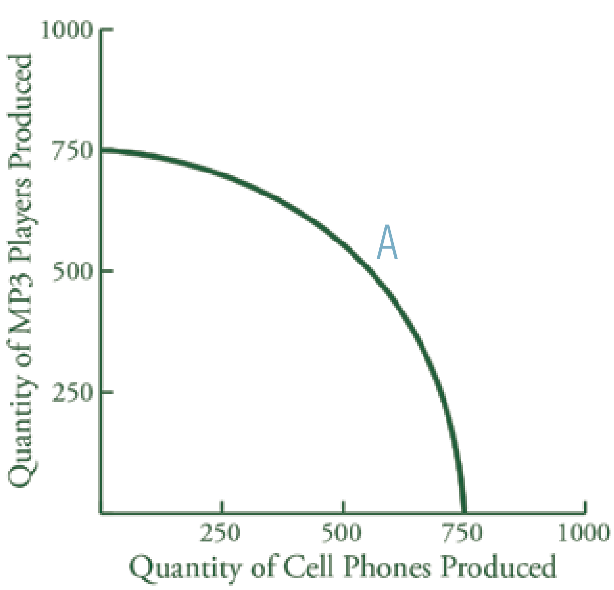
Production Possibilities

One aspect of production that economists examine is the *production possibilities curve (or frontier)*. This is the maximum production that an economy can have, given its production resources.

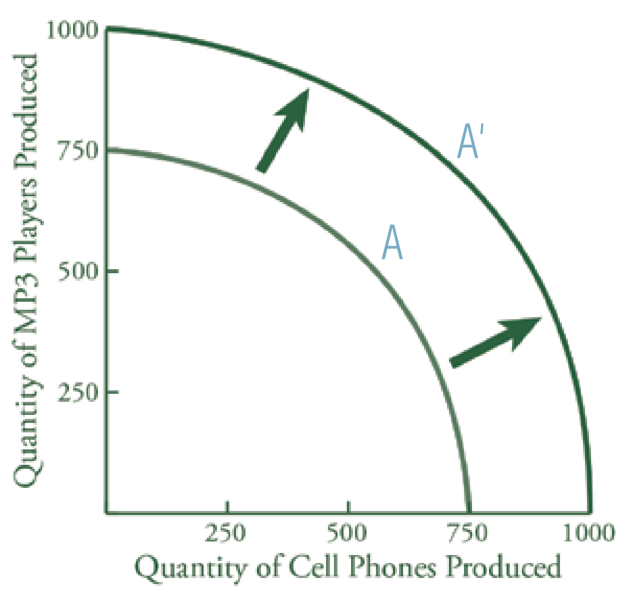
Imagine an economy that can produce only two goods: cell phones and MP3 players. The economy can produce 750 cell phones if it produces no MP3 players, and it can produce 750 MP3 players if it produces no cell phones. If it produces both cell phones and MP3 players, it can produce lesser amounts of both. This is illustrated on Production Possibilities Curve #1.

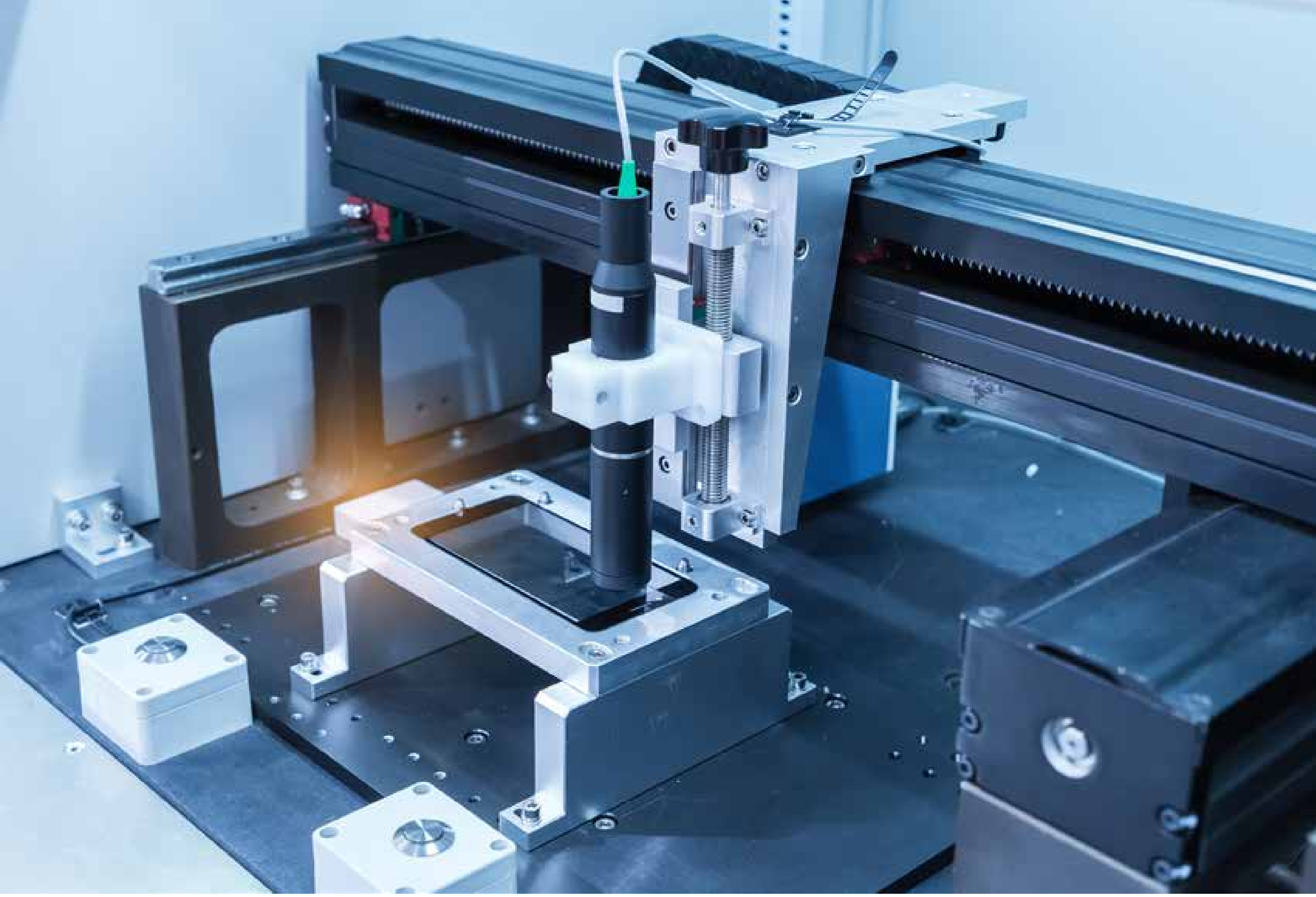
A production possibilities curve illustrates several key economic concepts. One is efficiency.

Production Possibilities Curve #1



Production Possibilities Curve #2




Robotic manufacture of a cell phone

If new technology enables the economy to produce more MP3 players with the same or less labor, the economy becomes more efficient with regard to MP3 players. Another economic concept that the graph shows is that, if the actual production of goods falls somewhere below the curve, the economy is not producing at maximum efficiency.

If new technology enables more of one or both of the products to be produced, the production possibilities curve moves outward or to the right. This is shown by the curve A' on Production Possibilities Curve #2.

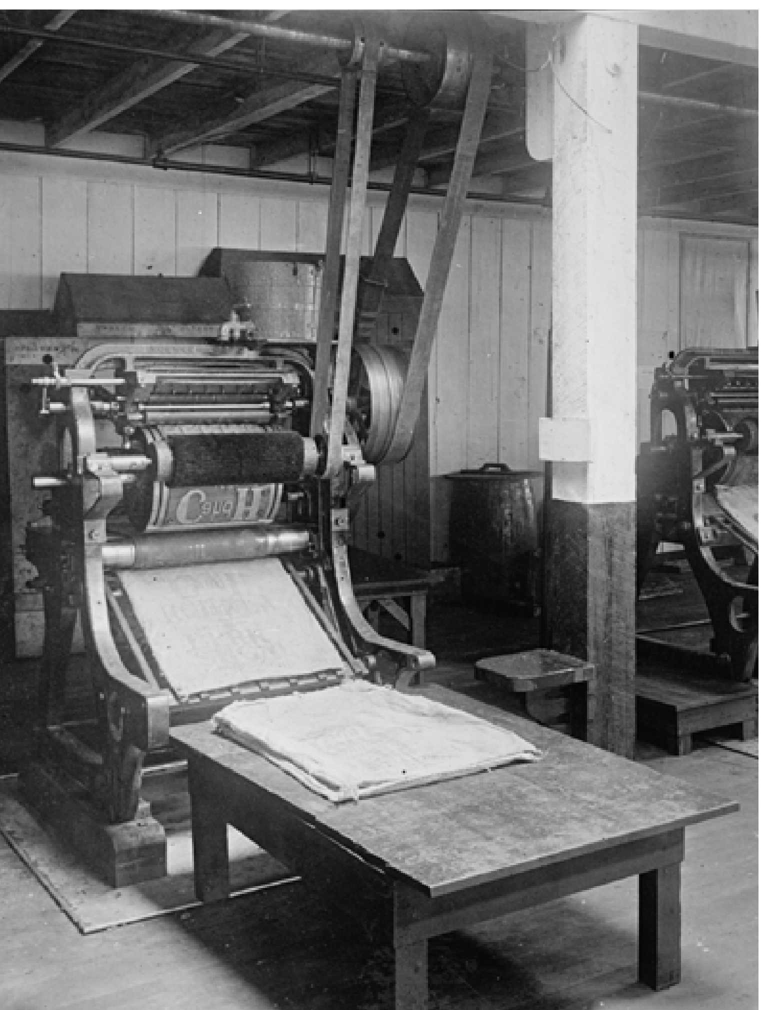
Another principle involved in production decisions is opportunity cost. When a person decides to do one thing, he or she is deciding not to do everything else he or she could do. *Opportunity cost* is defined as the greatest benefit that a producer gives up when he makes a choice. When you decide to visit Aunt Stella from 2:00 to 4:00 on Monday afternoon, you are deciding not to do many other things, such as reading a book or mowing a neighbor's yard during those two hours. When you decide to take an online college class, you are deciding not to do other things during the time it takes to complete the class.

Opportunity cost is the greatest benefit a producer gives up in taking an action. If you decide to sell lemonade and make $50.00, you are giving up the opportunity to mow a lawn and make $35.00, bake cookies for a farmer's market and make $25.00, or babysit and make $20.00. Your opportunity cost would be $35.00, the greatest alternative you are giving up. Your opportunity cost would not be $80.00, the total of the three alternatives, because you could not do all three of the alternatives at the same time.

To take the opportunity to do or make or sell one thing could be the best decision you can make, but in making that decision you are paying the price of not doing or making or selling something else. Wise decision-makers want to make their opportunity cost as small as possible compared to what they gain from the decision.

Still another economic concept illustrated by the production possibilities curve is that of tradeoffs. A *tradeoff* is what you have to accept when you make a decision. If the people in the economy described above decide to focus exclusively on MP3 player production, they face the tradeoff of having to import cell phones or do without them. If producers decide to import oil instead of exploring for domestic sources, they are facing the tradeoff of being dependent on the oil production policies of other countries.

Printing sugar containers (c. 1915)



If people in a society decide to minimize environmental restrictions on producers, they are deciding to have less expensive goods but with the tradeoff of possible environmental damage. If the people of that society's government did not consider potential environmental impact when they decided to place as few regulations as possible on producers, the environmental damage could be seen as an *unintended consequence* of the decision.

Economies of Scale and Scope

Economy of scale occurs when the average total cost per item decreases as the number of units produced increases. A print shop usually operates on the basis of economies of scale. If a customer wants 200 copies of a brochure, the printer might charge 30 cents per copy. The cost for the print job would be $60. However, the printer could produce 1,000 brochures for 20 cents each. The cost for the larger print job (five times as many) would not be five times as much ($300) but only $200.

A single small retail clothing store, Mr. Little's Fine Clothing Emporium, might have to pay 38 cents per pound to have a truck deliver garments to his one store. However, if a trucking company delivers goods to many locations in the Big Box Store chain, the chain might only have to pay 20 cents per pound because of the economy of scale in delivering to Big Box. Therefore a shirt will likely cost more at Mr. Little's.

Some tradeoffs would be that Mr. Little would always be there to give personal service and you would be more likely to find a good selection at his store, while Big Box's employees may be hard to find and the merchandise may be largely picked over.

In another illustration, production is cheaper per item if the goods are made in a single factory than if they are made in several factories, since the cost of building and maintaining several factories is much greater than the cost for one factory.

Amazon.com has used economies of scale to grow its business with a large network of fulfillment centers.

When a business owner has to decide whether to build another factory or expand production at the current facility, he is dealing with issues of economy of scale.

A related but separate issue is *economy of scope*. This is when a company's average total cost of production decreases as it produces more related products. For example, it is cheaper for one factory to produce shampoo and conditioner than it would be for two companies to build and maintain facilities to produce them separately. If a company becomes known for paper goods or computer peripherals, it can probably obtain material resources and utilize advertising more cheaply to develop full lines of products than the total cost incurred by several companies making and advertising individual though related products.

Another way that a company might utilize economy of scope is by expanding the scope of activities related to what it produces. For instance, some companies have found that it is more efficient to own sources for raw materials and trucks for distribution instead of just producing the product and paying other companies to provide the other steps in the supply chain.

These are just some of the choices that producers make. We will consider other decisions they make in Unit 9.

Jesus placed a choice before the rich young ruler. Unfortunately, the young man decided that the tradeoff was too great for him to choose the way Jesus wanted him to choose.

Looking at him, Jesus felt a love for him and said to him,
"One thing you lack: go and sell all you possess and give to the poor,
and you will have treasure in heaven; and come, follow Me."
But at these words he was saddened, and he went away grieving,
for he was one who owned much property.
Mark 10:21-22

Assignments for Lesson 23

Making Choices Read the letter to Eli Whitney Sr. (pages 48-50).
Read the letter to Eli Whitney Jr. (page 51).

Literature Continue reading *The Rise of Silas Lapham*.

Project Continue working on your project for this unit.

Student Review Answer the questions for Lesson 23.

Shoppers wait for a sale in Zurich, Switzerland (2015)

24 We Choose

Paper or plastic?
— another question of economics

You might think that the choices consumers make play only a small role in the economy. The tendency might be to believe that corporate and investment activity make up the lion's share of what goes on in the economy. However, economists estimate that personal consumption makes up seventy percent of economic activity in the United States. So much of what companies produce is geared toward the consumer, and so many consumers live in the country, that understanding the choices that consumers make is a major part of understanding economics.

The fundamental choice that consumers make is what to buy. That simple decision, however, has many factors. One factor is the choice between spending or saving. The consumer might not want to buy. He or she might want to save instead, either while waiting for a better deal on a particular product or while waiting to buy something else entirely.

Incentives

Incentives influence the choices that consumers make. Economists believe that people act out of self-interest, though sometimes a person's self-interest involves serving or sacrificing for others. An *incentive* is a benefit that motivates action. People behave differently because of incentives that producers provide which appeal to a person's self-interest.

The most common example of an incentive is a reduction in price. People generally buy more when prices are lower because people are interested in saving money. Another incentive is a subsidy in one form or another, which means that someone else is paying part of the cost. A common subsidy for consumers is the rebate. With a rebate, the seller does not lower the purchase price, but the company offers to refund part of the purchase price if the customer completes and submits a rebate form. The practice of offering rebates generally increases sales. In addition, companies have found that some of those who buy at full price do not send in the rebate form, and this increases the company's profit.

Some consumers respond to the incentive of conspicuous consumption, which means buying goods in order to display one's wealth or prestige. Producers encourage this by adding a distinctive logo or charging a higher price so that consumers will view their products differently.

Workers making blue jeans in Istanbul, Turkey (2014)

People also respond to disincentives, which discourage purchases. One common disincentive is an additional tax on an item. The federal government, state governments, and some local governments place excise taxes on cigarettes, partly to discourage people from smoking. The health warnings in cigarette advertisements are another disincentive. Since producers want people to buy their goods and services, disincentives usually come from the government to accomplish some goal other than the sale of goods, such as a decrease in smoking.

Incentives can have unintended consequences. For instance, if a computer company cuts its prices to encourage more sales, the demand might exceed the company's ability to supply the goods. This can frustrate consumers, who might not want to wait for weeks until they can get a computer at the lower price, so they buy another brand. Disincentives can also have unintended consequences. For example, if government raises taxes on gasoline to encourage lower consumption, the resulting drop in sales can cause lower gasoline tax collections, which means that the government loses revenue.

Substitute Goods

Another factor in consumer choices is the presence of substitute goods. A *substitute good* is an alternative to the item that the consumer would otherwise buy. A consumer might buy apples instead of bananas (or vice versa), or one brand of soft drink instead of another. A common example of substitute goods are store brands or generic items that compete with name brand goods. Instead of buying a pair of jeans made by a company that has spent big money on an advertising campaign that gives the impression that fashionable people only buy this brand, a consumer might decide to buy a cheaper pair of jeans made by a company that does not have a big marketing budget and that only sells to a particular retailer.

Choosing substitute goods is not just a shopping or a personal budget issue. Producers know that a sizable market exists for non-name brand items. Some producers decide to try to make a profit not by offering the best known or most expensive goods, but by offering items that appeal to consumers who are more interested in saving money.

Substitute goods raise the issue of tradeoffs. Sometimes the cheaper store brand of an item is of lesser quality than the more expensive name brand. The consumer has to decide whether to pay more for higher quality or pay less for what she believes will be good enough quality. Then, of course, there is the tradeoff that other people may not think of you as cool if you do not have a pair of designer jeans!

Substitute goods also have to do with the issue of marginal decisions. The *marginal rate of substitution* involves how much of one product a consumer is willing to give up in exchange for another product to maintain the same level of satisfaction. For me personally, buying four books would bring me a certain level of satisfaction. Buying three books and two CDs would bring me an equivalent level of satisfaction. Thus, my marginal rate of substitution would be two CDs for one book.

Consumer Choice Theory

One specialized area of economic study is *consumer choice theory*, which examines how consumers decide what to buy. In economics, *utility* does not mean usefulness but satisfaction. Economists assume that customers want satisfaction and that they seek the greatest utility or satisfaction in their purchasing. Economists study what brings about the maximum utility for consumers.

One factor in consumer choice is what the consumer wants. The second factor is what the consumer can afford, given his or her budget restraints. The third factor is what the consumer actually chooses. Since economists focus on margin, consumer choice economists study a fourth factor, which is how changes in price and changes in consumer income affect the choices that consumers make. The people who operate businesses have an interest in knowing all of these factors.

A principle that economists have developed is the law of *diminishing marginal utility*. One application of this law says that, as someone consumes more of an item, each unit has less value to the consumer, to the point at which one more unit provides no utility. An example is potato chips. The first few potato chips that a person eats at one sitting are tasty and satisfying. Additional chips are less and less satisfying, until the person reaches the point that another chip would not provide any additional satisfaction beyond what he already feels.

Calbee is a snack food manufacturer based in Japan that operates in many other countries. Popular items include Pizza Potato chips in the Philippines, ketchup-flavored Jaxx potato sticks in Thailand, and Snapea rice sticks in the United Kingdom and Spain. A worldwide favorite is Kappa Ebisen, made with shrimp. This display in Hong Kong features bags of Kappa Ebisen snacks.

This might seem like a trivial issue unless your business is producing and distributing potato chips. Then you will want to know how many chips to put into an individual serving bag to achieve maximum average consumer utility, since putting in more than that amount would increase your cost without increasing positive customer response. The point of diminishing marginal utility for a particular product or service changes from time to time, which we can see in the fact that portion sizes of chips, soft drinks, and other food items have increased in recent years.

Economists refer to *utility-maximizing conditions* as those conditions (usually influenced by government policies) that bring about the most utility (satisfaction) for the greatest number of people. This might include the creation of more public parks or taxing the wealthy at higher rates to provide income or service benefits to the poor. The theory behind this idea is that a dollar of benefits to the poor will increase their utility (satisfaction) more than a dollar more in taxes will decrease the utility of the wealthy.

Looking at the College Choice from an Economic Standpoint

High school students face the choice of whether or not they will attend college. Colleges offer a service—education—that many people want. About fifty to sixty percent of high school graduates go on to attend college for some length of time. The choice that a young person makes will have a major impact on his or her life, so it is wise to consider the decision carefully.

Lewis Hines photographed these students at the West Virginia Collegiate Institute in 1921. Now known as West Virginia State University, the school was established in 1891 as a segregated school for African Americans.

Cost-benefit analysis. The financial costs for attending college include tuition, books, room and board, transportation, and discretionary spending. College students pay an opportunity cost, since they sacrifice the income they could have made at a full-time job in order to attend college. The primary financial benefit of attending college is that, on average, college graduates earn more over their lifetime than high school graduates who do not attend college. During the recession of 2007-2009, the unemployment rate for college graduates was reportedly about half that of the general public. College graduates generally had more stable jobs and had more options open to them when looking for jobs.

Attending college also has intangible costs and benefits. The potential costs include a student compromising his or her spiritual principles under pressure from friends, media, and the campus culture to adopt an ungodly lifestyle. Potential intangible benefits from attending college, besides the college education itself, include gaining a broader view of the world. In addition, many people meet their spouse while at school. And some come to Christ during their college careers.

A primary cost-benefit factor that potential college students will want to consider is whether attending college will help them achieve their life goals. If someone wants to obtain a professional degree or to be trained in a particular area of study and work, a college degree will help him or her with that goal. If a person wants to operate the family business or to be a full-time wife and mother, a college education might or might not be worth the cost.

Payment options. If a person decides to attend college, he has many choices for paying for it. Colleges offer incentives such as scholarships, grants, and work-study arrangements. Many college students take out loans to pay for college expenses, under the expectation that they will earn enough after graduating to repay the loans.

R. L. "Rube" Goldberg published this cartoon in Puck *magazine in 1914. The title asks the question "Can a college man be successful in spite of his 'education'?" It points out that achievement and popularity in college do not always lead to greater success in later life.*

A student might decide to support himself by working and paying cash for college expenses. Several options for substitute services are available, such as trade schools, online degree programs, and attending a less expensive community college for the first two years.

Unintended consequences. A student who borrows money to go to college may face the unintended consequence of not having enough income to make the necessary payments on a large debt (often tens of thousands of dollars). On the other hand, the person who does not go to college might find himself at a disadvantage if he applies for jobs for which a college degree is preferred.

Tradeoffs. By going to college, a person accepts less income now for the prospect of greater income later. The person who does not attend college soon after high school faces the reality that going back to school later is often more difficult than continuing his or her education directly after high school. However, other people have found that, after being out of school for a period of time, they are more highly motivated and have a clearer life purpose when they do attend college later. The person who goes to work instead of college can use the money he would have spent on college to start his own business, buy a home, or invest for the future.

Jesus described the ultimate choice that every person must make, including its costs and benefits.

And He summoned the crowd with His disciples, and said to them,
"If anyone wishes to come after Me, he must deny himself,
and take up his cross and follow Me.
For whoever wishes to save his life will lose it,
but whoever loses his life for My sake and the gospel's will save it.
For what does it profit a man to gain the whole world, and forfeit his soul?
For what will a man give in exchange for his soul?"
Mark 8:34-37

Assignments for Lesson 24

Making Choices Read the Letters to Theodore and Martha Roosevelt (pages 52-54).

Literature Continue reading *The Rise of Silas Lapham*.

Project Continue working on your project for this unit.

Student Review Answer the questions for Lesson 24.

Utah State Senate (2011)

25 Uncle Sam Chooses

Ginger: "We'll either die free chickens or die trying!"
Babs: "Are those the only choices?"

— *dialog from the movie* Chicken Run

Many people talk about "the government deciding" to do this or that, or they say that "society disapproves" of this or that, but these expressions can cause us to forget an important truth. "Government" and "society" as institutions do not do anything; people make choices. People in government, people in business, and people in society make decisions. In this curriculum, when you read something about what government, business, or another group does, remember that this is a shorthand way to express the fact that people make decisions.

Who Decides?

In an earlier lesson, we said that the two models of economies are capitalist and command. Another way to express this is to say that the two poles or ideals of economic systems are market economies and command economies. The difference between them primarily involves the question of who makes economic decisions. In a market economy, the people who participate in the market of buying and selling goods and services make the decisions about who gets what and for what price. In a command economy, government officials make the decisions about who gets what and for what price.

Economists have identified and defined six broad economic goals that people in government pursue. Both command economies and market economies pursue these goals, but they do so in different ways.

Choices of Efficiency and Equity

Efficiency. Economic efficiency is the goal of encouraging the people in an economy to be as productive as possible in making goods and services available for consumers. Leaders of command economies believe that they can best decide how to make an economy efficient.

In a market economy, producers and consumers work in the freedom of the marketplace to make the most goods and services available. In this atmosphere of competition, some will be successful and some will not. Those who are not can regroup and try again. Some people are not productive, so they will not have as much as those who are. Historically, market economies are far superior to command economies in achieving efficiency.

Equity. Economic equity is the goal of having people in a society share goods and services as equally as possible. Those who lead a command economy believe it is better for all to have somewhat less but be more equal in what they have than to have some who are very rich and some who are very poor. (In practice, this applies to everyone except the elite leaders of the command economy and those whom the leaders favor!)

In a market economy, people have a wide range of income and wealth depending on how they participate in the market. People in a market economy are free to work for great wealth. It is also possible that some will be poor, for a number of reasons. Experience has shown that market economies give people the greatest opportunity for acquiring wealth, and even middle and lower class people in market economies have more than the vast majority of people in command economies. The average standard of living in a market economy is much higher than the average standard of living in a command economy.

These first two principles can be in conflict to some degree because an efficient economy (getting the most produced) is not necessarily an equitable economy (making sure that most people have about the same amount of wealth and income).

The government of North Korea is one of the strictest in the world. It censors the news media, regulates movement within the country, and enforces a dress code. It spends large amounts of money to build its military while many North Koreans struggle to get enough food.

Choices of Freedom and Security

Freedom. The goal or principle of economic freedom involves allowing people to do what they want to do in an economy. A market economy highly values this principle, which influences such questions as whether individuals can decide where they live, what work they do, and whether they may start their own businesses.

A command economy, by contrast, does not highly value this principle. In a command economy, what people produce and who works where are decisions that the central planning office makes. In a market economy, supply and demand and personal choice provide the answers to these questions.

Security. A command economy places higher value on economic security than freedom. The government has a stated goal of meeting the basic needs of all citizens. However, because of limited economic resources, the average income for most people will be relatively low.

In a market economy, it is possible that some people might slip through the economic cracks. However, even in market economies people in government have provided significant human and social services to the population.

Market economies give people the chance to achieve higher economic success, but people also have the risk of failing. In command economies, people generally cannot fly as high, so they do not have as far to fall. Again, though, the vast majority of people in market economies have more than the vast majority of people in command economies. The goals of freedom and security can be in conflict. Being free economically means that you give up a degree of economic security, while the promise of economic security means that you give up a degree of economic freedom.

Choices of Growth and Stability

Growth. Economic growth, the expansion of production and consumption, takes place in command economies in the segments of the economy that central planners target for growth, often in such areas as heavy industry and military armaments. Often this growth takes place at the expense of growth in consumer goods and other parts of the economy.

By contrast, growth in a market economy takes place primarily as a function of market demand and productivity. In countries with market economies, people in government can encourage or discourage productivity; but generally real growth takes place in the market, not through government action. These governments can spur growth more directly by providing subsidies to certain industries, such as "green" technology, or by spending government money in a certain industry, such as the manufacture of military equipment.

Stability. Market economies experience "boom and bust" business cycles, which involve periods of significant growth that alternate with periods of recession and shrinkage. Command economies have fewer such dramatic swings, again because the economy has less productivity to begin with. Market economies enable growth by risking stability. Command economies try to ensure stability while sacrificing the possibility of significant growth.

Decisions That People in Government Make

People in government create policies that affect the economy. Here are some of the kinds of decisions that people in government make.

Priorities. As with a family budget, the areas of expenditure in a government's budget and the amounts allotted for each reflect the priorities of the people in government.

President Lyndon Johnson signed the bill creating the Medicare program in 1965. Seated at the table with him is former president Harry Truman, who had pushed for a federal health care plan in the 1940s.

For many years after World War II, during the Cold War between the United States and the Soviet Union, military spending accounted for about half of the federal budget. Spending on social programs became a greater budget priority in the 1960s. When politicians talked about choosing whether to spend money on defense or social programs, they called it a choice between "guns and butter." A top priority of the federal government had always been guns (that is, national defense). The idea of the federal government being responsible for providing butter (that is, social welfare) reflected a new budget priority.

Incentives. People in government can provide incentives that can influence the actions of producers and consumers. For instance, a state or local government can try to attract new industry by offering to forgo collecting property or business taxes from the industry for a period of years or by offering to build new roads to the factory. The federal government offers a significant incentive for owning a home by allowing homeowners to deduct from their taxable income the interest they pay on a home mortgage loan.

Limitations. People in government can put limitations on business activity in order to achieve some social or economic goal. Environmental regulations limit what a business can do, but it also limits pollution in order to help the environment. Governments put tariffs and embargoes on imported goods to help domestic producers. These policies serve to limit the choices that producers and consumers have in order to meet other goals that the people in government value.

Allocation. People in government can determine who gets what goods and services. Will they be available only to those who can afford them, or will they be available to all, regardless of their ability to pay, by means of government funding for them? This policy involves the government redistributing money from one part of the population to another to pay for some goods and services.

In the 1930s, for instance, people in the federal government decided to allocate more of the nation's wealth to the elderly through the Social Security program by taxing workers to pay for retirement pensions. In the 1960s, the federal government expanded this policy of redistribution to include medical services for the elderly through Medicare, paid for through Medicare premiums and payments that participants paid, taxation to pay what premiums and payments did not cover, and borrowing money to pay what payments and taxes did not pay. This borrowed money added to the federal debt.

Public Choice Theory

Public choice theory is a field of study that applies principles of economics to political science. Just as people act on the basis of their self-interest in economic matters, public choice theory holds that voters act politically on the basis of their self-interest and that—lo and behold!—elected and appointed government officials act on the basis of their self-interest as well. Government officials do not always act benevolently on the basis of some so-called "higher public good." This helps to explain why many elected officials promote spending and other policies that further their own interests (namely, re-election) and why government bureaucracies become entrenched and seem almost impossible to reduce in size.

When the party out of power convinces enough voters to "throw the rascals out," the "new rascals" that come into power tend to do the same things for which they criticized the previous majority when they exhibit the same basic motivation of self-interest. This premise of basic self-interest also helps explain why special interest groups pressure elected officials to support their programs: their basic self-interest motivates them as they seek to influence government policy.

2016 presidential campaign memorabilia

The economic impact on the public of policies determined by self-interest is significant because the government collects tax revenue from the public at large but funds many programs that are of particular interest to relatively few, namely those who are in positions of power and those who support these elected representatives. Public choice scholars also study other factors, such as possible ways of changing the constitutional rules by which government representatives make decisions. One proposal involves placing constitutional limits on annual spending increases. The spending increases would be tied to growth in the economy.

In this unit we have discussed the process of making choices, particularly the economic choices that consumers, producers, and people in government make. We hope you can see why making choices is a central aspect of economics.

The Bible says that even God makes choices and that one of His choices reflected the different economic conditions that people have.

Listen, my beloved brethren: did not God choose the poor of this world to be rich in faith and heirs of the kingdom which He promised to those who love Him?
James 2:5

Assignments for Lesson 25

Literature Continue reading *The Rise of Silas Lapham*.

Project Finish your project for this unit.

Student Review Answer the questions for Lesson 25, take the quiz for Unit 5, and take the first exam.