Session 3:

Marginal Analysis

Session Description

Students will analyze the marginal costs and marginal benefits of solutions to economic problems.

Standards and Benchmarks (see page 3.4)

Talking Points

1. People cannot have everything they want. As a result, they must make decisions.

2. Family budgets are limited by the incomes they earn. Incomes are dependent on the quantity and quality of human resources (people working) and any income the family might earn from other types of resources it owns (natural, capital, and entrepreneurial ability).

3. Families must make decisions about how to spend their income. For example, if more money is spent on clothing and electronic gadgets, less money can be spent on food and other items.

4. Governments also have limited budgets based on tax revenue collected and direct ownership of resources. For example, if additional funds are budgeted for police patrols, less money is available to hire more parks and recreation workers.

5. Identifying and systematically comparing alternatives allows people to make more informed decisions and to recognize often overlooked relevant consequences of choices.

6. To make decisions that provide the greatest possible return from the resources available, people and organizations must weigh the benefits and costs of using their resources to do more of some things and less of others. Examples include the following:
   - A student might decide between spending another hour studying or talking with friends.
   - School officials might decide among spending funding on tablets for students, more equipment for sports teams, or more equipment for classrooms.
   - Business owners and managers regularly decide which products to make and whether to increase or decrease the amount they produce.
   - The president, Congress, and other government officials regularly decide which public spending programs to increase or decrease.

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7. In economics, comparing changes in benefits with changes in costs is referred to as marginal analysis.

8. Decision makers maximize utility by pursuing an activity as long as the marginal benefit of the action is greater than or equal to the marginal cost.

9. It impossible to change how resources were used in the past. Past decisions only establish the starting point for current decisions on the allocation of resources.

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Resources

NOTE: See p. v for instructions on how to set up an Econ Lowdown account and assign resources found in the Resource Gallery to your students.

Lessons

Allow time for students to complete the lessons:

- *Saving the Environment with Economic Ideas*
  - Lesson 3: Marginal Analysis: How Clean Is Clean Enough?
    https://www.stlouisfed.org/education/saving-the-environment-with-economic-ideas

- *High School Economics,* 3rd Edition (email acee@economicsarkansas.org to order this book)
  - Lesson 3: Marginalism
    Visuals and activities for this lesson can be found at
    https://highschooleconomics.councilforeconed.org/

- Dumptown, USA (EconEdLink)
  - Go to https://www.econedlink.org
  - Search for and then choose “Dumptown, USA”

- Utility (EconEdLink)
  - Go to https://www.econedlink.org
  - Search for and then choose “Utility”

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Standards and Benchmarks

Arkansas Economic Standards

Content Standard E.1: Students will understand the impact of economic decision-making. This includes the exchange of goods and services; role of producers, consumers, and government in the marketplace; and growth, stability, and interdependence within a global economy.

Content Standard E.2: Students will understand the impact of economic decision-making. This includes considering the marginal costs and benefits of alternatives.

- **E.2.ECON.2:** Evaluate the roles of scarcity, incentives, trade-offs, and opportunity costs in decision making (e.g., PACED decision making model, cost/benefit analysis)
- **E.2.ECON.3:** Justify various economic solutions to problems affecting an individual or society using marginal cost and marginal benefit analysis.

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