Name: ______________________________Date: ______________

Chapter 3: Economic Understandings

Quick Notes

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Section 1: Economic Fundamentals

➢Essential Question:

- How are people both consumers and producers?

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Section 1: Economic Fundamentals

➢ What terms do I need to know?

- needs
- wants
- goods
- services
- consumer
- producer
- factors of production
- natural resources
- renewable
- nonrenewable
- capital goods
- human resources
- specialization
- entrepreneurship
- profit
- income
- expenses

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Needs and Wants

- All humans have the same basic **needs**, like air, food, water, and shelter, but we all desire different things, called **wants**, which are almost unlimited.
- Humans satisfy their needs and wants by buying goods and services.
  - **Goods** are tangible items like food, clothing, and so on, while **services** are the work or activities people perform for a fee, like a haircut or a doctor's appointment.
- The person who buys these things is a **consumer**, and the person or group providing these goods is a **producer**.

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Factors of Production

- **Factors of production** are the resources of a society needed to produce a good or service.
  - Factors of production are natural resources, capital goods, human resources, and entrepreneurship.
- **Natural resources** are products of the Earth and its atmosphere that are useful to humans.
  - These resources can be **renewable**, like plants and animals, and **nonrenewable**, like mineral resources.
- **Capital goods** are the tools used in the production of goods and services, like textile mills and furniture factories, as well as the machinery in them.

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Factors of Production (cont.)

- **Human resources** describe the people who produce goods or services by transforming natural resources through effort and activity.
  - In order for people to get good jobs, they require an education and **specialization**, or being an expert in a field.
- **Entrepreneurship** is when people start their own businesses, risking money and time in hopes for a successful business.
  - To be successful, a business must earn a **profit**, which is determined by subtracting the **expenses** of resources from the **income** of their goods or services.

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Chapter 3: Economic Understandings

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Section 2: Decision Making in Economics

- Essential Question:
  - Why do producers sometimes turn out a low supply of their good?

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Section 2: Decision Making in Economics

- What terms do I need to know?

- scarcity
- choice
- resource allocation
- price
- vote
- sharing
- contest
- force
- authority
- lottery
- first-come/first-served
- personal characteristic
- opportunity cost
- trade-off
- supply
- demand

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Scarcity Requires Choices

- **Scarcity** is when people and societies try to satisfy unlimited wants with limited resources, like when the newest phone is released and everyone tries to get one.
- Scarcity requires both consumers and producers to make **choices** with their limited resources, such as deciding how to use the limited resources to which they have access.

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Resource Allocation Strategies

- Economists identify many ways in which the **resource allocation** decision could be made, including:
  - **price**- trade or barter for the resource
  - **vote**- majority decides who gets the resource
  - **sharing**- dividing the resource
  - **contests**- resource goes to the winner
  - **force**- the strongest gets the resource
  - **authority**- directed/ordered by another person
  - **lottery**- resource goes to the luckiest
  - **first-come/first-served**- first person gets the resource
  - **personal characteristic**- resource goes to the person who is oldest, is the most experienced, etc.
- Some of these strategies may be more used than others based on the economy being examined.

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Cost/Benefit Analysis

- Each choice individuals, families, businesses, and governments make offers an opportunity that has a cost and benefit.
- The **opportunity cost** in any decision is the value of the next best alternative a person does not choose.
- Opportunity costs and benefits can affect how resources are used, like time.

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Trade-Offs

- **Trade-offs** are when an individual or group choose to have less of one thing for more of another.
- This requires comparing the costs and benefits of all alternatives before making your decision.
- If properly done, one could even have both but in reduced amounts.

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Chapter 3: Economic Understandings

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Supply and Demand

- ➢ Supply is the quantity of a good or service available for sale, which can affect both purchasing decisions and prices.
  - Typically, when the supply of something is high, the price is low.
  - Likewise, when the supply is small, producers charge more.
  - Producers want to get the most out of a good or service they can.
- ➢ Demand describes the quantity of a good or service consumers are willing to buy.
  - Demand is based on a buyer (1) wanting something, (2) having the ability to pay for it, and (3) being willing to pay attention to the price.
- ➢ While separate concepts, considering supply and demand together helps us understand when and why people are willing to buy certain items.

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Section 3: Economic Systems

- ➢ Essential Question:
  - What are the three basic economic questions that every country must answer?

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Section 3: Economic Systems

➢What terms do I need to know?

- economist
- traditional economy
- command economy
- market economy
- economic continuum
- Gross Domestic Product (GDP)
- standard of living
- Consumer Price Index (CPI)
- inflation
- unemployment
- trade
- tariff
- quota
- embargo
- subsidy
- standard
- currency
- exchange rate

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Economic Models

- A person who studies an economy is called an economist.
- Economists study the ways people or countries address the issue of limited resources, since no country has everything its people want or need.
- Countries must answer these questions:
  - What goods and services will be produced?
  - How will they be produced?
  - For whom are the goods and services produced?
    - These answers determine the economic system.

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Traditional Economy

- **Traditional economies** are defined by these aspects:
  - It tends to be heavily dependent on agriculture, people tend to trade items of value rather than money, and economic decisions are often based on long-held customs.
- In this system, each member of society knows early on what their role in the larger group will be since jobs are inherited.
- People are dependent upon each other to fulfill their roles, because the alternative is the breaking-down of the system.

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Command Economy

- In **command economies**, government planning groups make the basic economic decisions, determining what to produce, the prices, and wage rates.
  - Businesses and farms are generally owned by the government, who give the workers production goals to reach in order to provide the proper amount of goods for the country.
- One problem with this economy is when the government attempts predictions at what people will need, but ends up overlooking another portion of the economy.
- A benefit of this economy is that prices are controlled and people know how much things will cost, with common needs like food and shelter being low, and luxuries like televisions and computers being high.

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Market Economy

- In **market economies**, economic decisions are made at an individual level, with producers answering the economic questions based on their beliefs of how consumers will respond to their goods.
  - Businesses and farms decide what they want to produce individually in order to make a profit.
- A benefit of this economy is that consumers have an easy time finding the goods they want, and they are free to earn as much money as they are able to buy the goods and services they want.
- A problem is that, if a business doesn't manage its money well, it can go out of business and cause workers to lose their jobs and income.

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All Economies Are Mixed

- No countries today have any pure market system; instead countries blend characteristics of the three.
  - These hybrids are called 'mixed economies'.
  - That being said, most economies tend to lean more towards one system than the others.
- Most societies have rules protecting consumers, workers, and businesses.
- To see where a country falls between command and market economies, we use the economic continuum, where 0 represents a pure command economy and 100 represents a pure market economy.

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Measuring the Economy

- Economists gather information about an economy's strength which businesses, individuals, and the government use to make better economic decisions.
- The **Gross Domestic Product (GDP)** measures the total value of the final goods and services produced within the borders of a country in one year.
- The GDP per capita, or per person, is also used to measure an economy's strength.
  - Using this measurement, an economist can learn that, while a country may have a high GDP, its GDP per capita shows the true distribution of wealth among citizens

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Investing in Human Capital

- The GDP can be used to tell if an economy is getting better or worse.
- A higher GDP means a higher **standard of living** (how well or poorly a person or group lives and have their needs and wants met).
- This includes education, training, skills, and health of citizens and workers in a country.

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Investing in Capital Goods

- Countries must also invest in capital goods to increase their GDP, including factories, technologies, buildings, and properties needed for a business to operate.
- The **Consumer Price Index (CPI)** is an economic indicator that measures prices, updating each month.
- When the CPI shows prices rising steadily, this indicates **inflation** (a continual increase in the price of goods and services).
  - During inflation, a buyer can afford less with the same amount of money.
- Unemployment is when a person does not have a job but has been actively looking for work in the previous four weeks and is available to work.
  - Unemployment rates can affect how high or low wages are, with higher numbers of unemployed willing to work for less.

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Specialization and Trade

- Specialization can help a country be economically successful, focusing on making only a few products very well based on their resources in order to maximize profit from trade.
- **Trade** is the voluntary exchange of goods and services among people and countries.
- When trade is voluntary and nonfraudulent, both parties benefit and are better off after trading than they were before.

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Barriers to Trade

- Some say too much trade with other countries causes domestic workers to lose jobs, so countries will sometimes limit trade by creating trade barriers.
- The most common barriers are tariffs and quotas.
  - A **tariff** is a tax on imports coming into the country.
  - A **quota** is a specific limit placed on the number of imports that may enter a country.
- Another trade barrier is an **embargo**, or a government order stopping trade with another country.
  - This is sometimes used to put pressure on another country.
- A **subsidy** is another trade barrier, where the government of a country gives money to certain businesses so they can continue to compete with foreign imports.
- The final trade barrier is a **standard**, when the government sets limits and rules regarding imports and domestic goods.

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Trade and Exchanging Currencies

- **Currency** is the money people use to make trade easier
  - However, since different countries tend to have different currencies, trade between nations requires exchanging currencies.
- An **exchange rate** is the price of one nation's currency in terms of another nation's currency.
  - The exchange rate helps accurately exchange the value of one currency to another when trading.
  - For example, as of the creation of this PowerPoint, one United States dollar is the equivalent to 18.67 Mexican pesos, meaning the USD has a higher value.

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The History of Money

- Currency is the system of money in a country, with the modern currency being paper.
- People used to barter for goods or services with other goods or services of equal value.
- Ideas for what was currency changed over time.
  - The Inca used clothes as currency, taking their victim's clothes after battles as a prize. Native American tribes traded stringed beads and shells to purchase goods.
- The Chinese were one of the first to use metal pieces as currency, dating back to 1000 BC, eventually producing the first paper money in the AD 900s but ending by the 1400s.
- The 1700s saw a revival of paper money because of convenience and it is made of cheaper materials.
- The reason countries specifically design their currency is to prevent thieves from making counterfeit (fake) currency, while also showing the country's culture.

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