Basic Economic Concepts (Powerpoint Notes)
Glencoe Economics – Today and Tomorrow Textbook Readings
• Chapter 1 – pp. 5-11, 14-19
• Chapter 2 – pp. 33-55
• additional reading on Circular Flow on pages 448-449

Scarcity
• A condition in which resources are limited and the desire for goods and services is unlimited.
• The lack of something that can be used to satisfy wants or needs.
  o Unlimited Wants > Limited Resources
  o Barbie and G.I. Joe

FIVE ECONOMIC ACTIVITIES
1. **Produce** – transforming resources into goods and services.
2. **Exchange** – trading goods and services for money OR for other goods and services.
3. **Consume** – satisfying individual and collective wants.
4. **Save** – postponing consumption.
5. **Invest** – improving productive resources; for example, if a business buys a new piece of equipment or trains its employees, that’s investing.

Resources
• resources are used to produce goods and services.
• also known as Factors of Production

Categories of Resources
• Natural Resources
  o comes from the air, water, or the earth
  o land, minerals, water
  o two categories – 1) RENEWABLE – water, air growing things 2) NON-RENEWABLE – coal and oil.
• Human Resources
  o people’s efforts, labor
  o effort can be either physical or mental
• Capital Resources
  o goods made by people and used to produce other goods and services.
  o money is not a capital resource directly.
• Entrepreneurship
  o the initiative to combine natural, human, and capital resources to provide goods or services.
  story of Nolan Bushnell creator of Pong and then Atari.

Wants & Needs
Wants
• desire for things that we wish we could have.
• private wants & public wants
  o private wants are needed by individuals or shared by individuals.
  o public wants are shared by large amounts of people – ex. highways, national defense, education.
• wants are broken into necessary (necessary for survival) – NEEDS – and optional (not essential for survival).
Utility
- “measure of pleasure”
- a measure of relative satisfaction

Goods and Services
Goods
- products or items; can be physically measured or weighed; tangible.

Services
- tasks that people or machines perform; non-tangible, non-material things.

Opportunity Costs vs. Tradeoffs
Decision making skills are very important because. YOU decide which wants and needs will be met. What is important to you?

Opportunity Costs
- what is given up when you make one choice over another.

Tradeoffs
- involves accepting or choosing less of one thing to get more of something else.

Opportunity Costs don’t always involve money.
Additional Example of Opportunity Costs
- Piece of Land
  - A natural resource
  - What could it be used for?
    - Office Building, Sports Stadium, Department store, or parking garage.
    - Department store is chosen . . . The opportunity cost is the loss of the next most desirable alternative.
- College Graduate
  - Human resource
  - Chooses between an accountant or a lawyer.

Government Money & Homeless People
1. Why do we have homeless people in the United States?
2. Is there money to help them?
3. What have we chosen to do with the money?
4. Who makes these decisions?

Trade-offs
Compares costs and benefits
The difference between opportunity costs and trades-offs is:
- Opportunity costs are given up completely
- With a trade-off, a given quantity is given up.

Production Possibility Curves (Frontiers)
- Economic Model that shows opportunity costs and tradeoffs.
- PPC (PPF) - graph used by economists to show the impact of scarcity on an economy.
- Assumptions of a PPC (PPF)
  1. Resources are fixed
  2. All resources are fully employed
  3. Only two things can be produced
  4. Technology is fixed
The Study of Economics

- **ECONOMICS**
  - The study of how people make choices about ways to use limited resources to fulfill their wants.

- **MACROECONOMICS**
  - The study of the economy as a whole
  - “The Big Picture”
  - Economy-wide issues

- **MICROECONOMICS**
  - The study of individual consumers and businesses
  - Individuals, families, businesses

**Adam Smith**

- Father of Modern Economics
- Wrote the “The Wealth of Nations”
- Reasoned that people behave in ways that satisfy their economic self-interest.

**Basic Economic Questions & Economic Systems**

**Three Basic Economic Questions**

Because of scarcity, every society or economic system must ask themselves three basic economic questions:

1. **What to produce?**
2. **How to produce?**
3. **For whom to produce?**

**Economic Systems**

The way a country answers questions about the use and distribution of its resources may be influenced by its:

- History
- Culture
- Geography
- Political Situation
- Numerous other factors
Economic Systems and a System of Government are different.

**Economic System**
- Describes a way of producing goods and services and providing a means for people to receive those goods and services.

**Government System**
- System of political institutions, laws, and customs that a society uses to determine its code of conduct.

**CHARACTERISTICS OF ECONOMIC SYSTEMS**

**Traditional Economy**
- An economy in which people do things the way they have always been done.
  - “If your father is a farmer, you are a farmer.”
  - The same methods of production are used.
  - Little or no change from year to year.
  - Methods based on habit, custom, and religious belief.
  - Roles are narrowly defined.
- **Advantage**
  - Everyone has a role in it.
- **Disadvantage**
  - It discourages new ideas and ways of doing things.

**Places you can find traditional economic systems:**
- Societies in the rain forests of Latin America
- Parts of Africa
- Middle East

**Command Economy**
- An economic system influenced by the commands, or directives, of a central authority consisting of one person, or a small group who controls others in the society.
  - The members of the society carry out the demands.
  - Two types of command economy in the world today:
    - **Strong & Moderate**
  - Strong Command Economy
    - Countries: North Korea and Cuba
    - Common ownership, the government owns and controls factories, equipment, and land.
    - The leaders of the country answer the three basic economic questions.
    - Political Structure is called Communism.
      - **Advantages** - in theory, the economy can make a dramatic change in a short time.
      - **Disadvantages** - consumer goods and services are low on the list of priorities; very few of the citizens’ wants are met.
  - Moderate Command Economy
    - Government ownership of major industries like the railroads, steel industry and iron industry.
    - Provision of opportunities for private ownership.
    - Political structure is called Socialism.
    - Countries include: Sweden and France

**Market Economy**
- A system in which the basic economic decisions are based on the actions of buyers and sellers; the market produces goods and services people are willing to buy and that will bring a profit to the sellers and producers.
  - Countries: United States & Japan
  - Commonly referred to as capitalism.
  - Economic questions are answered by buyers & sellers.
  - Price plays an important role.
  - Regulation by government is minimal.
Advantages
- It can adjust to change over time as consumer wants and needs change.
- Freedom for everyone to be involved.

Disadvantages
- It rewards only citizens who are productive in the economy.
- Wealth of economy is not evenly distributed.
- “You need money to make money.”

Market economies may vary with a difference in the amount of government control.

Mixed Economy
- An economic system that is made up of parts of several other economic systems.
- No country has an economy based totally as any of the aforementioned.

Circular Flow Model