



# **Beginning Economics**

## **What Is an Economy?**

# ECONOMY

- The word *economy* comes from a Greek word for “one who manages a household.”



## What Is an Economy?

The way a nation makes choices about how it will use its **resources** to produce and distribute goods and services.



## Resources

- also called **factors of production**, are all the things used in producing goods and services.

They fall into four categories:

- land
- labor
- capital
- entrepreneurship

# SCARCE RESOURCES

## FOUR FACTORS OF PRODUCTION

★ **LAND** - Natural Resources

# SCARCE RESOURCES

## FOUR FACTORS OF PRODUCTION

★ **LAND** - Natural Resources

★ land, water, fish, animals,  
minerals, forests (gifts of nature)



# SCARCE RESOURCES

## FOUR FACTORS OF PRODUCTION

★ **LABOR** - Work people do to produce goods and services



# SCARCE RESOURCES

## FOUR FACTORS OF PRODUCTION

★ **LABOR** - Work people do to produce goods and services

★ goods - things you can touch

★ shampoo, computers, corn



# SCARCE RESOURCES

## FOUR FACTORS OF PRODUCTION

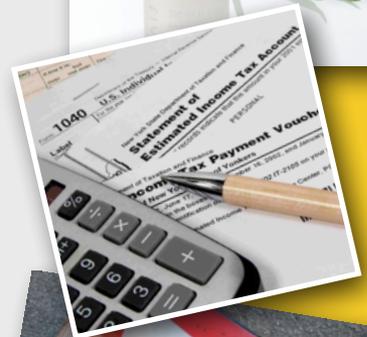
★ **LABOR** - Work people do to produce goods and services

★ goods - things you can touch

★ shampoo, computers, corn

★ services - activities done for a fee

★ doctors, hair stylist,  
accountant



# SCARCE RESOURCES

## FOUR FACTORS OF PRODUCTION

★ **CAPITAL** - Manufactured goods used to make other goods and services

# SCARCE RESOURCES

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★ machines, buildings, tools



# SCARCE RESOURCES

## FOUR FACTORS OF PRODUCTION

★ **CAPITAL** - Manufactured goods used to make other goods and services

★ machines, buildings, tools

★ *newly manufactured goods are NOT capital unless used to produce other goods & services.  
(eg. taxicab)*



# SCARCE RESOURCES

## FOUR FACTORS OF PRODUCTION

★ **ENTREPRENEURSHIP** - combining  
CAPITAL, LAND & LABOR to create a  
product or service

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★ uncut diamond (land)



# SCARCE RESOURCES

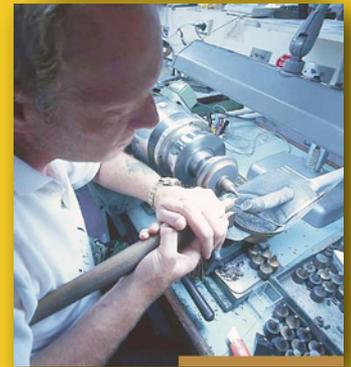
## FOUR FACTORS OF PRODUCTION

★ **ENTREPRENEURSHIP** - combining  
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★ uncut diamond (land)

★ diamond cutter (labor)

★ diamond cutting machine (capital)



# SCARCE RESOURCES

## FOUR FACTORS OF PRODUCTION

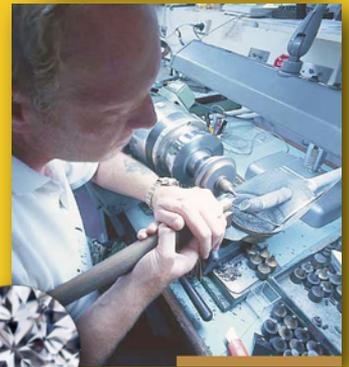
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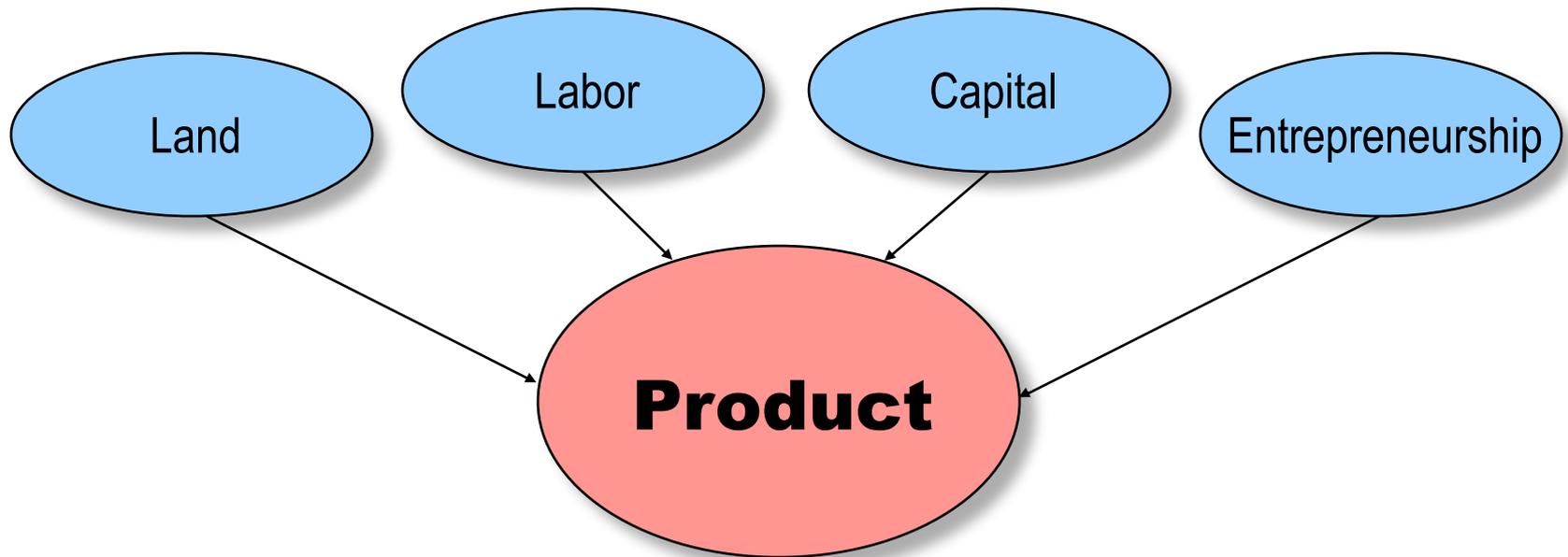
★ = highly valued gem



# 4.1

## Graphic Organizer

### The Factors of Production



# BIG IDEA 1

**WANTS** and **NEEDS** are not the same.

# BIG IDEA 1

WANTS and NEEDS are not the same.

★ a “NEED” keeps you alive

# BIG IDEA 1

**WANTS** and **NEEDS** are not the same.

- ★ a “NEED” keeps you alive
- ★ food, shelter, clothes, warmth
- ★ army, clean water, police



# BIG IDEA 1

**WANTS** and **NEEDS** are not the same.

# BIG IDEA 1

WANTS and NEEDS are not the same.

★ a “WANT” is everything else



# BIG IDEA 1

**WANTS and NEEDS are not the same.**

- ★ a “WANT” is everything else
- ★ some things start as a “want” then become a “need”
- ★ *education, healthcare*
- ★ *stealth bomber, trash pickup*



# BIG IDEA 2

There are not enough resources to produce everything people want.



# BIG IDEA 2

There are not enough resources to produce everything people want.

## SCARCITY



# BIG IDEA 2

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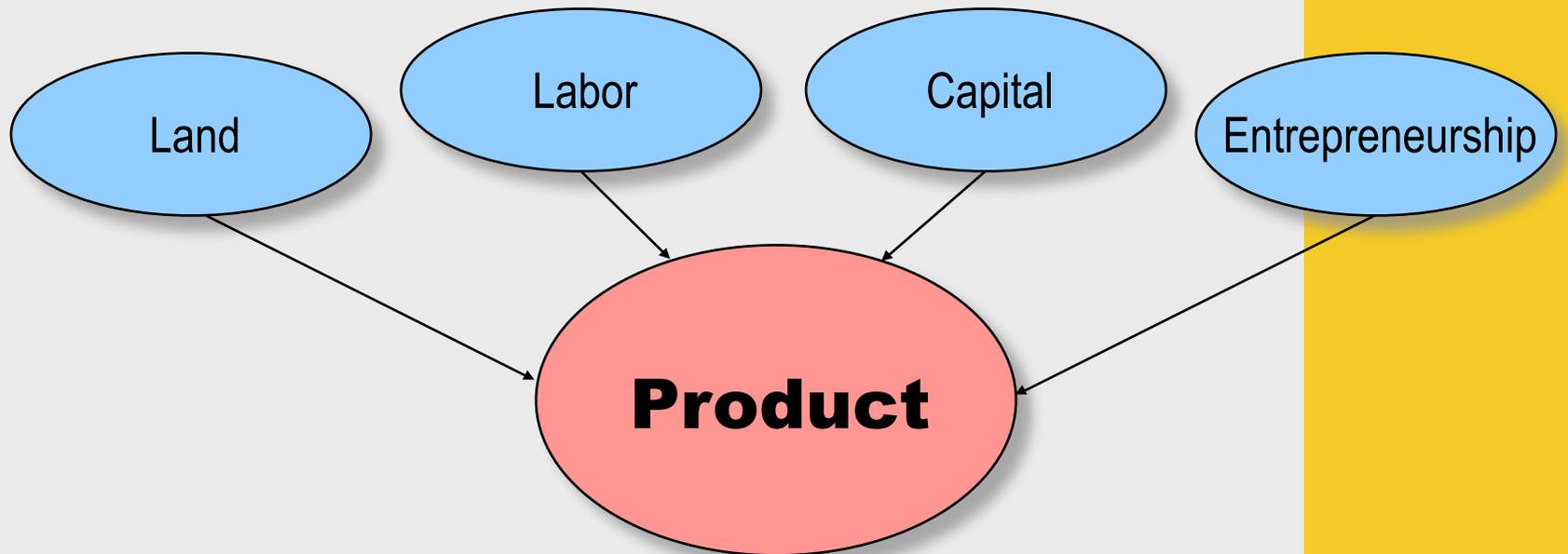
## SCARCITY

*Economics* = the study of how society manages its scarce resources.



# BIG IDEA 2

## SCARCITY



# BIG IDEA 3

## People face TRADE-OFFS

- ★ Not all needs & wants can be satisfied
- ★ People on a low income may spend a higher percentage of their income on their basic needs and have little left over to purchase items to fulfill their wants



# BIG IDEA 3

## People face TRADE-OFFS

★ to get one thing, people usually have to give up another thing

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# BIG IDEA 3

## People face TRADE-OFFS

- ★ to get one thing, people usually have to give up another thing
  - ★ Guns v. butter
  - ★ Food v. clothing
  - ★ Leisure time v. work



# BIG IDEA 3



## Demand

- ★ When individuals make choices, this leads to Demand.
- ★ Businesses need to produce products or services that satisfy needs / wants at a price people are prepared to pay.

# BIG IDEA 3

## Demand



- ★ Demand is always at a price.
- ★ If a business sets the price too high, people will go without or find a suitable alternative. The business may then have produced (supplied) too many.
- ★ Set the price too low and the business will lose out on potential profit. The business may also struggle to supply enough.

# BIG IDEA 4

Decisions require comparing costs & benefits of alternatives.



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# BIG IDEA 4

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The *OPPORTUNITY COST* of an item is what you give up to obtain that item.

# BIG IDEA 5

Scarcity requires people & businesses to make choices about what goods & services to make and use.



# TYPES OF ECONOMIES

## How Does an Economy Work?

The way nations answer three basic questions defines their economic systems.

- 1.** What goods and services should be produced?
- 2.** How should the goods and services be produced?
- 3.** For whom should the goods and services be produced?

## Market Economies

In a pure **market economy** there is no government involvement in economic decisions. The government lets the market answer the following three basic economic questions:

- 1. What?** Consumers decide what should be produced in a market economy through the purchases they make.

## Market Economies

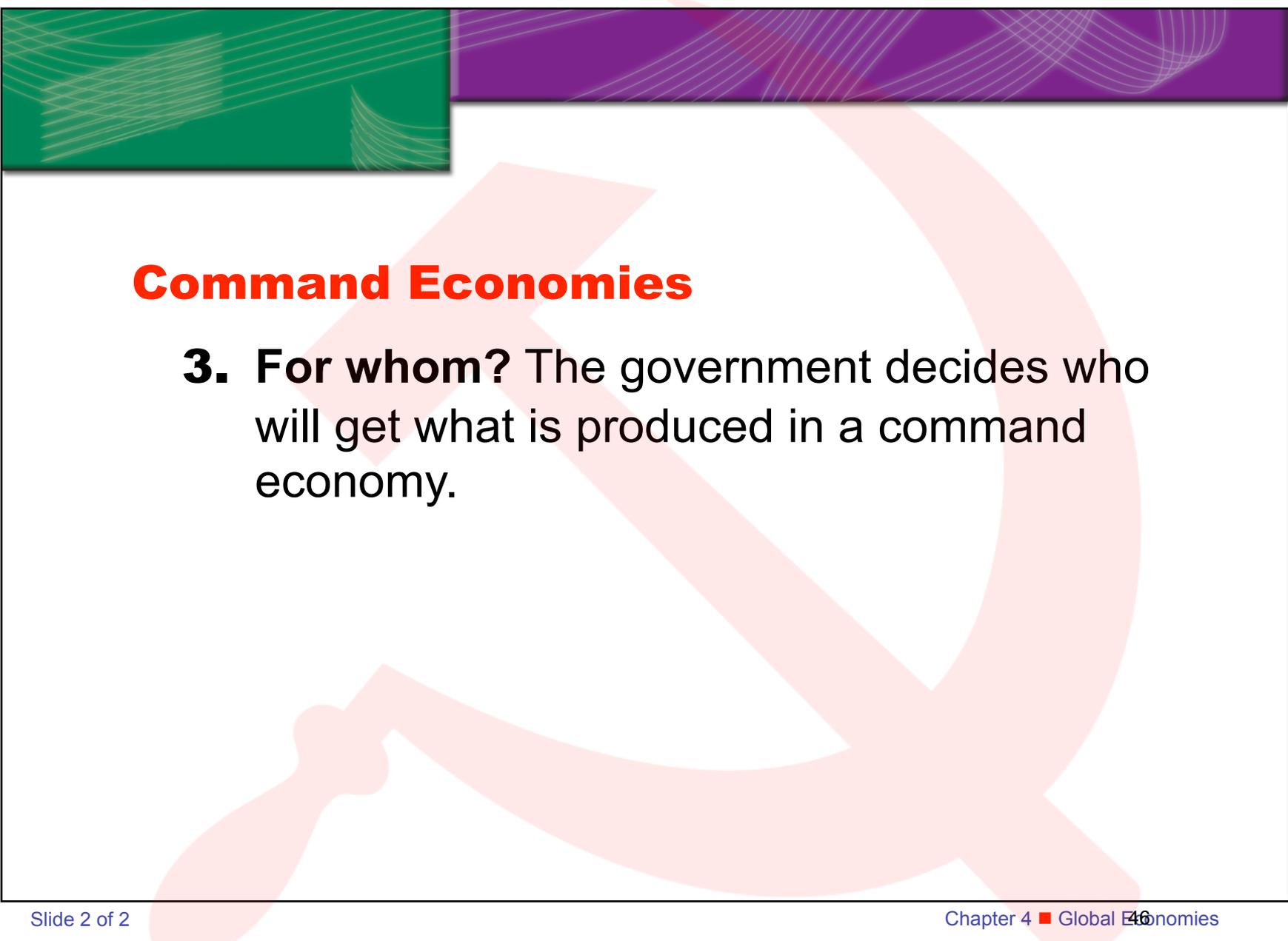
- 2. How?** Production is left entirely up to businesses. Businesses must be competitive in such an economy and produce quality products at lower prices than their competitors.
- 3. For whom?** In a market economy, the people who have more money are able to buy more goods and services.



## Command Economies

In a **command economy** the government answers the three basic economic questions.

- 1. What?** A dictator or a central planning committee decides what products are needed.
- 2. How?** Since the government owns all means of production in a command economy, it decides how goods and services will be produced.



## Command Economies

- 3. For whom?** The government decides who will get what is produced in a command economy.

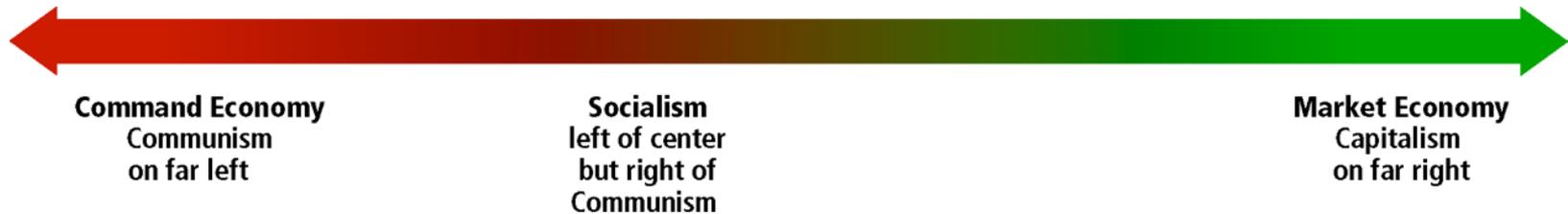


## Mixed Economies

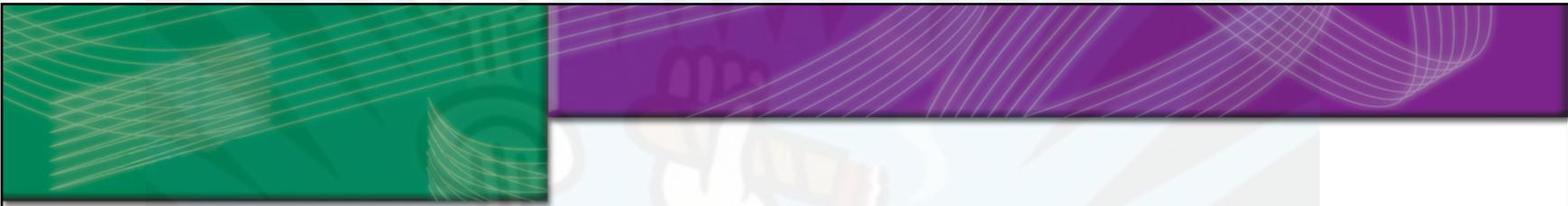
All economies in the world today are mixed. There is some government involvement in the economy.

- **Example:** The United States government is involved in the economy through laws and regulations governing businesses, and provides socialistic programs, such as welfare, Medicaid, and Medicare.

## Continuum of Economic Systems



When studying different economic systems, it is best to view them on a continuum, as depicted here. Where on the continuum would you place the United States? Canada? North Korea? What do you think is the most effective economic system?



## Capitalism

**Capitalism** features private ownership of businesses and marketplace competition. It is the same as a free enterprise system.

The political system most frequently associated with capitalism is democracy.



## Socialism



The main goal of **socialism** is to keep prices low for all people and to provide employment for many. The government runs key industries, generally in telecommunications, mining, transportation, and banking. Socialist countries tend to have more social services.



## Communism

**Communist** countries have a totalitarian form of government; this means that the government runs everything and makes all decisions.

Theoretically, there is no unemployment in communist countries.

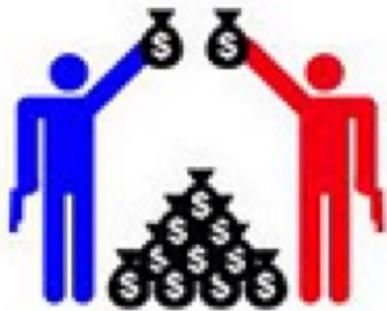
The government decides the type of schooling people will receive and also tells them where to live.



## Economies in Transition

Many countries are in transition from either communism or socialism to capitalism.

**Privatization** is a common aspect of transition from a command economy to free enterprise system. Privatization means state-owned industries are sold to private individuals and companies.



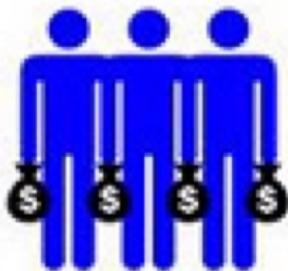
**capitalism**  
(described by capitalists)



**capitalism**  
(described by socialists)



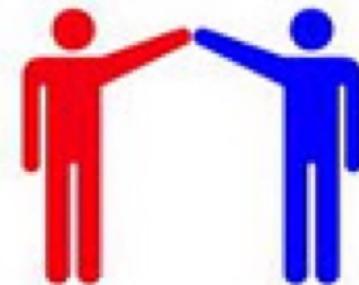
**fascism**



**socialism**  
(described by socialists)



**socialism**  
(described by capitalists)



**anarchy**  
(described by anarchists)



## SECTION 4.1

# What Is an Economy?

## Resources

- **Land** refers to everything on Earth that is in its natural state, or Earth's natural resources.
- **Labor** refers to all the people who work in the economy.

## SECTION 4.1

# What Is an Economy?

### Resources

- **Capital** includes money needed to start and operate a business. At a national level, capital includes **infrastructure**, such as roads, ports, sanitation facilities, and utilities.
- **Entrepreneurship** refers to the skills of people who are willing to risk their time and money to run a business.

## SECTION 4.1

# What Is an Economy?

## Scarcity

**Scarcity** is the difference between wants and needs, and available resources.

- **Example:** Most underdeveloped nations have natural resources, but do not have capital or skilled labor to develop them.

## **4.1 ASSESSMENT**

### **Reviewing Key Terms and Concepts**

- 1.** What is an economy?
- 2.** Name the factors of production necessary to create goods and services in an economy.
- 3.** Explain how command and market economies answer the three basic economic questions.

## **4.1 ASSESSMENT**

### **Reviewing Key Terms and Concepts**

- 4.** Why are all economies mixed?
- 5.** How do capitalist, socialist, and communist economies differ from each other?

## 4.1 ASSESSMENT

### Thinking Critically

What can developing countries do to improve their economies with regard to the factors of production?

# **Marketing** Essentials

**End of Section 4.1**

## SECTION 4.1

# What Is an Economy?

### What You'll Learn

- What is meant by the term economy
- The factors of production
- The three basic economic questions
- The difference between a market economy, command economy, and a mixed economy
- Different types of economic philosophies

## SECTION 4.1

# What Is an Economy?

### Why It's Important

Before you can study international trade in Chapter 6, you need to understand how a country's economy is related to its resources and political system. This will help you understand how a country is viewed in regard to its ability to function in our global marketplace.

## SECTION 4.1

# What Is an Economy?

### Key Terms

- economy
- resources
- factors of production
- land
- labor
- capital
- entrepreneurship
- infrastructure
- scarcity
- market economy
- command economy
- capitalism
- socialism
- communism
- privatization