Economics

Resources,
Production,
Distribution, and
Consumption

Wants

- Everyone has **wants**. Our most basic wants are for food, clothing, and shelter.
- People have an almost **endless** number of wants once basic needs are met.
- Peoples' wants often **vary** by culture and society and **change** over time.
- Many wants can only be satisfied over a **short** period of time.

Factors of Production

- The resources people have for producing goods and services to satisfy their wants are called **factors of production**.
- The **three** basic factors of production are labor, land, and capital.
  - **Labor** includes time and energy.
  - **Land** is made up of the natural resources needed to help produce goods (i.e. soil, water, timber)
  - **Capital** is anything used in an economy that is saved to be used to produce other goods and services.

Production

- To produce the **goods** and services that people want - the resources of labor, land, and capital must be **combined** in a process called **production**.
  - Ex. Farmers produce food by combining soil, water, and sunlight (**land**) with seeds and machinery (**capital**). They also use their knowledge, skills, time, and energy (**labor**).

Distribution

- Production is followed by **distribution**, the process by which goods and services are made **available** to the people who want them.
  - Ex. The truck that **delivers** bread to the grocery store is part of the distribution process.

Consumption

- Finally, when goods and services have been produced and distributed, they are ready for **consumption**.
- Consumption is the act of **buying** or **using** goods and **services**.

Making Choices

- A basic truth about all societies is that there are never enough **resources** to produce all the goods and services people want.
- As a result, people must make **choices** about which of their wants will be satisfied and which will not.
- These choices are economic choices, and the process of making them is what an **economy** is all about.

Benefits and Cost

- One part of making an economic decision is looking at the **benefits** you will receive from each of your possible choices.
- A second part involves looking at the **cost** of your decisions. The major cost of any decision is giving up the benefits you would have received from the **next** best **alternative**.
- The next best alternative is your **opportunity cost**.

Scarcity

- **Scarcity** means that resources are always **limited** compared with the number and variety of **wants** people have.
- Scarcity is a problem in both **rich** societies and poor ones.
- The idea of scarcity is based not on the total amount of resources in a society, but on the **relationship** between wants and the resources available to satisfy them.

The Principles of Our Market Economy

Supply and Demand - Overview

- As goods, services, and money flow through the economy, producers and individuals act as both **buyers** and **sellers**.
- When buyers and sellers come together to exchange goods and services, they do so through what is called a **market**.
- Markets determine **prices** and how much will be produced in a **free market** economy.

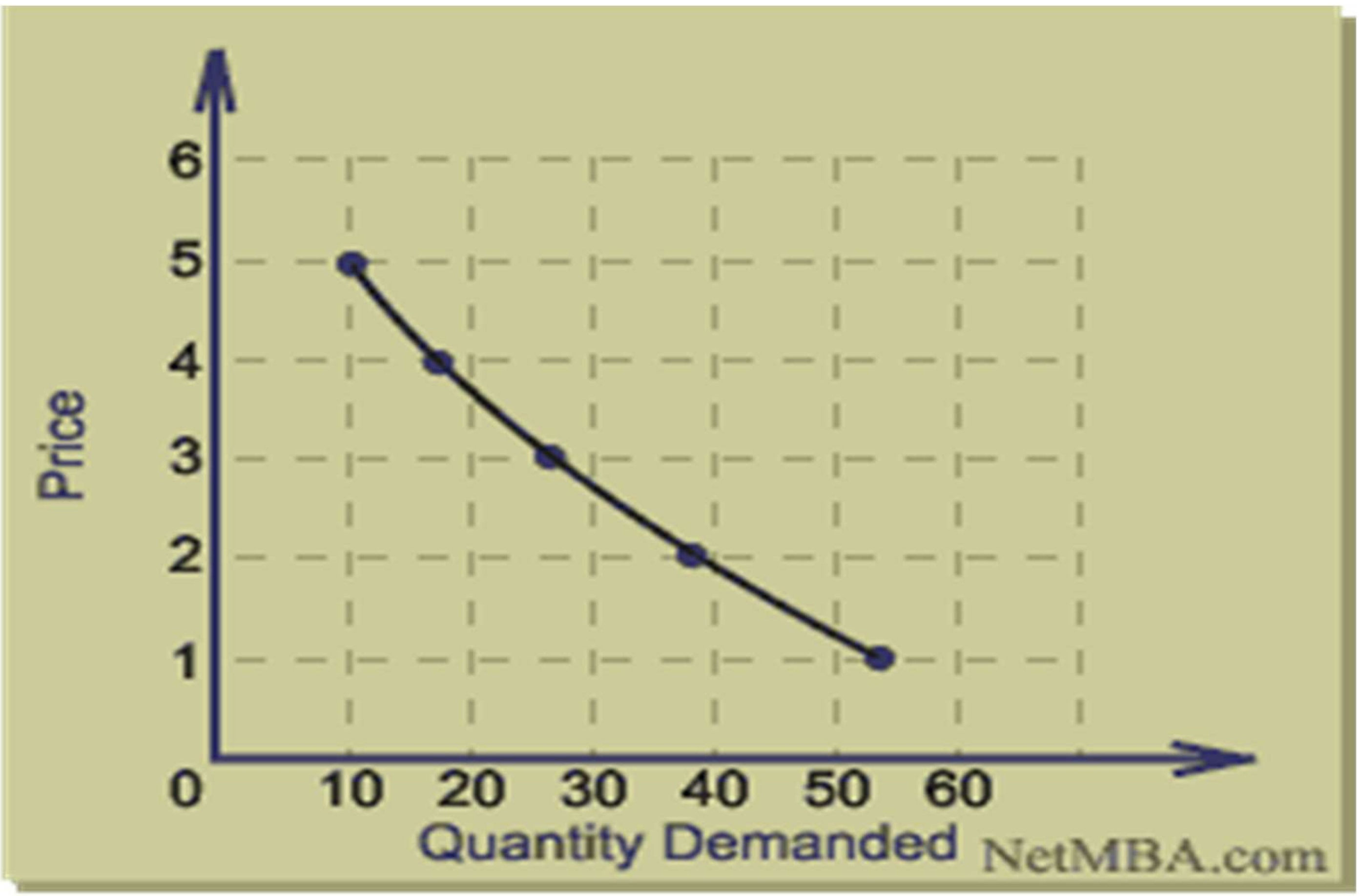
Supply and Demand – How does it work?

- In our **free market** economy, individuals are free to make **choices** about how to use resources to satisfy their needs.
- Producers **compete** to sell goods and services to consumers.
- When there is free **competition** among sellers and buyers, a market works according to the laws of supply and demand.

The Law of Demand

- **Demand** is defined as the **amount** of a product or service buyers are willing and able to **buy** at different prices.
- The **lower** the price of an item, and thus its cost to you, the more likely you are to **buy** it.
- If cost is low, demand for a product will be higher. If **cost** is high, demand for a product will be lower.

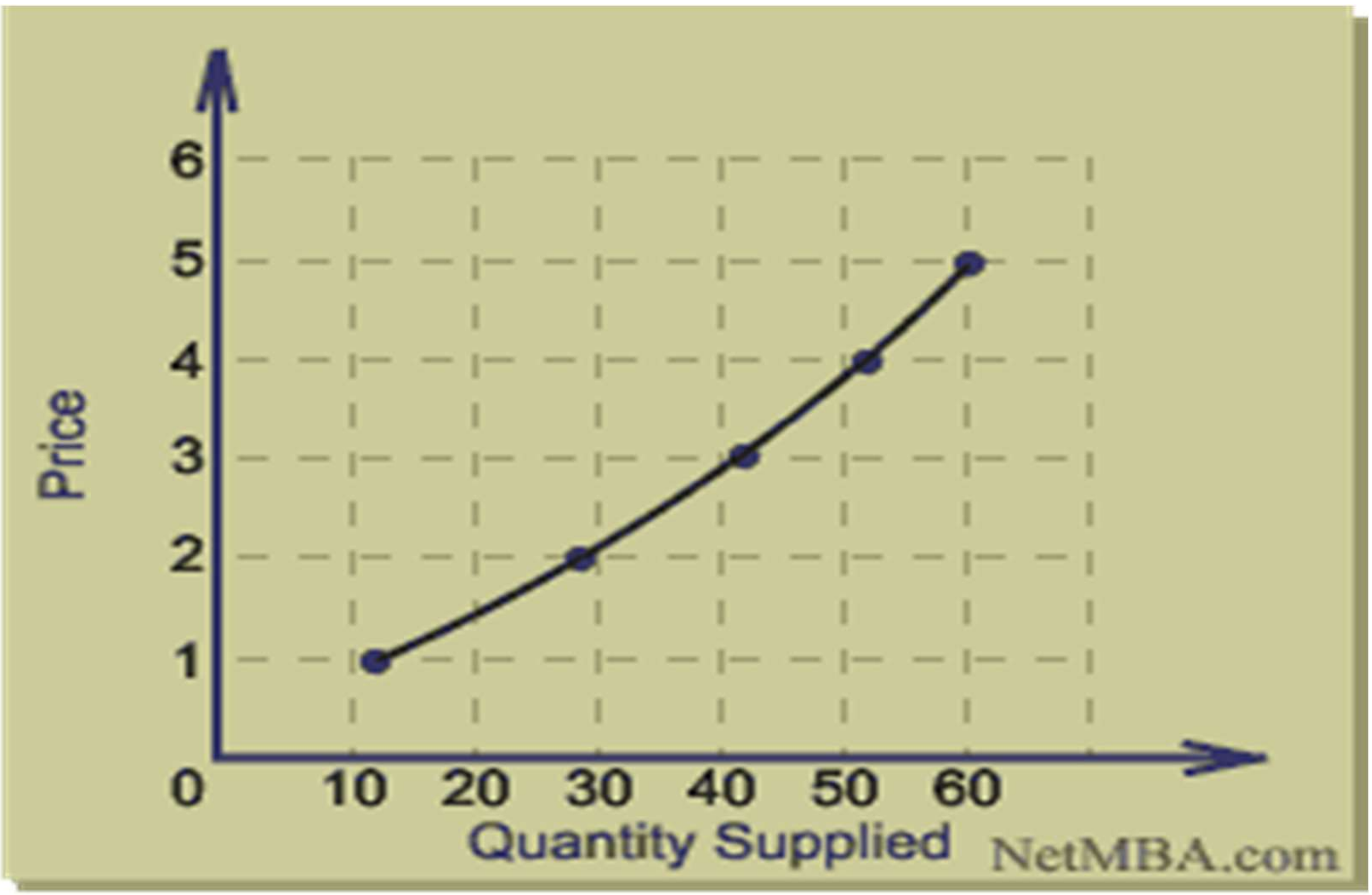
The Demand Curve



The Law of Supply

- **Supply** is defined as the amount of a product that **producers** are willing and able to offer at different prices.
- The higher the price, the higher the **benefit** to the producer. When the price is **high**, more producers are willing to supply the product and to supply **more** of it.
- When the price is low, fewer producers are willing to supply the product, and the **quantity** supplied will be low.

The Supply Curve



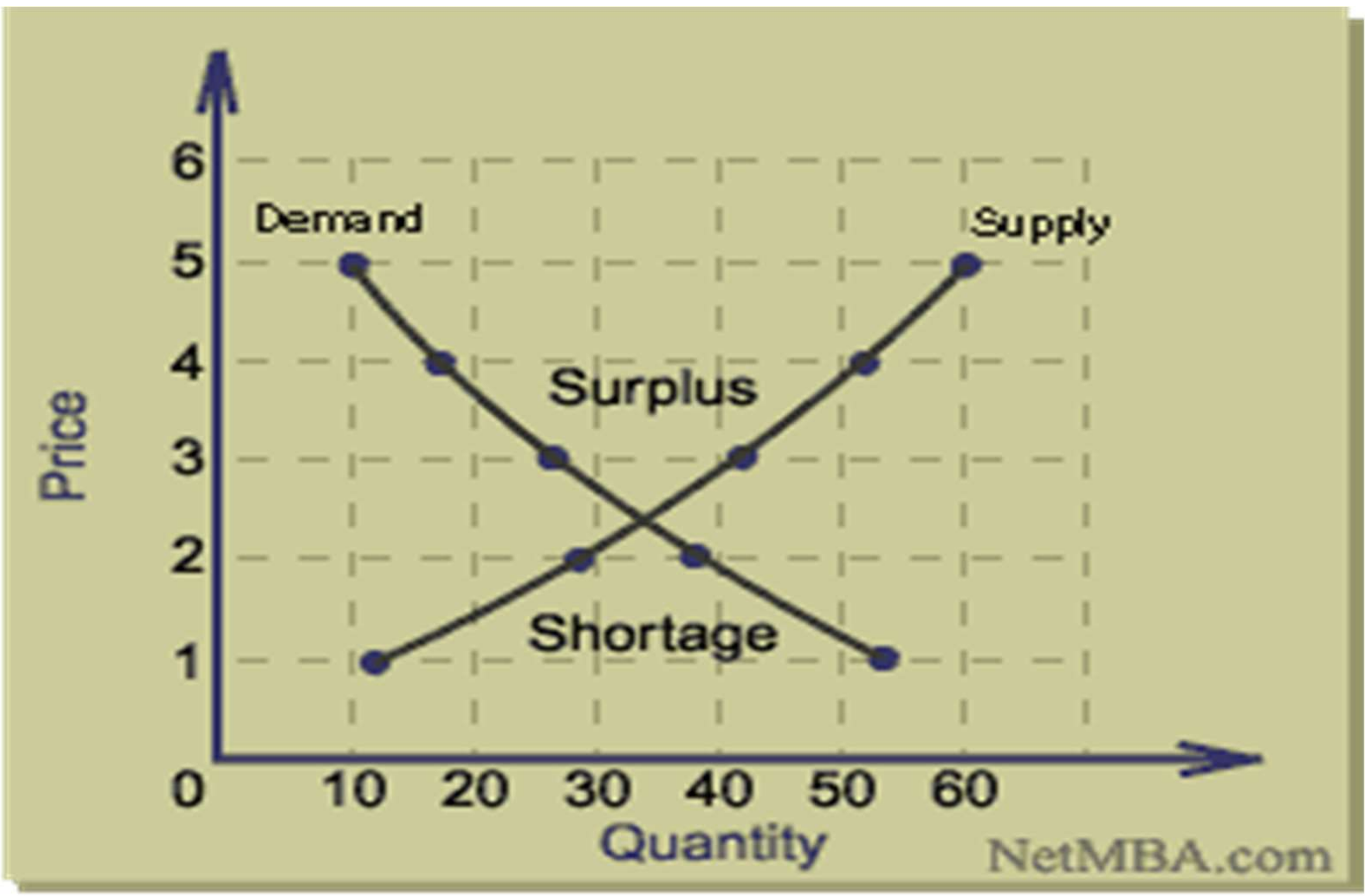
Supply and Demand

- Think about a farmer's market. **Farmers** want to sell at a **high** price. **Buyers** want to buy at a **low** price.
- The law of supply and the law of demand work together in **determining** both the price of a product and the quantity that will be offered.
- At higher prices, more of a product will be supplied but less will be demanded. At lower prices, less will be supplied but more demanded.

Market Price

- In an ideal **market**, the quantity supplied and the quantity demanded will tend to be **equal** to each other.
- The market price is the **price** at which buyers and sellers **agree** to **trade**.
- If the demand and supply curves are placed on the same graph, the market price will be where the lines **intersect**, or cross.

The Market Price



Other Influences

- Demand can be **influenced** by factors other than price. For example, the demand of **basic** products, such as **milk**, will not change very much when the price changes because people **believe** that they need the product.
- Advertising, styles of fashion, and the way consumers perceive a certain product can also have a very important **effect** on demand. For example, you might choose to buy a higher-priced pair of jeans because that brand is more **popular** than a lower-priced brand.

The Value of Money

- **Inflation** A persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money, caused by an increase in availability of currency and credit beyond the amount of available goods and services.
- **Recession** An extended decline in general business activity, typically two consecutive quarters of falling real gross national product

National Spending

- **Gross domestic product** - The monetary (money) value of **all** the goods and services **produced** by an **economy** over a specified period. It includes consumption, government purchases, investments, and exports minus imports
- **Surplus** - An unsold quantity of a good resulting from a lack of balance in a market. For example, if a price is unnaturally **high**, sellers will bring **more** goods to the market than buyers will be willing to buy.
- **Deficit** - the amount of money government spending is greater than government income.

Labor/Workers

- **Labor unions** - An association of **workers** for the purpose of improving their economic status and working **conditions** through collective bargaining with employers
- **Collective bargaining** - Negotiation between organized **workers** (labor unions) and their employer or **employers** to determine wages, hours, rules, and working conditions.

Business

- **Corporation** - A business organization owned by a group of stockholders, each of whom enjoys **limited liability** (that is, each can be held responsible for losses only up to the limit of his or her investment). **Stock -** signifies ownership in a corporation and all stocks added together equal the **total value** of the company.

Corporate limitations

- **Trust:** a combination of firms or corporations for the purpose of reducing **competition** and controlling **prices** throughout a business or industry.
- **Monopoly:** a situation in which a single company owns all or nearly all of the market for a given type of product or service.
- Trusts and Monopoly's are illegal in the U.S.