MCj02151850000[1] UNDERSTANDING ECONOMICS

* Economics The study of how people seek to satisfy their needs and wants by making choices

1. Scarcity? Scarcity is the idea that quantities of resources are limited to meet the unlimited wants of humans.

2. Need? Something that is necessary for survival.

3. Want? An item that we desire but is not essential to survival.

4. Shortage? This is very similar to scarcity there isn’t enough stuff to go around in the market place

* Trade-Offs? Trade offs are alternatives that we sacrifice when we make a decision.
* Opportunity Costs? The most desirable alternative given up as the result of a decision/trade off is an opportunity cost. If you buy a Big Mac Combo, you cannot go buy a Chicken McNugget Combo.
* Four Factors of Production:

1. Land

**the natural resources that are used to make goods and services**.

Ex: trees, water, air, ore, ‘rocks’ – gemstones

There are both renewable and nonrenewable resources.

MCj03341220000[1]2. Labor

Workers are categorized depending on the kinds of jobs that they perform

* White collar workers: office workers
* Blue collar workers: manual labor
* Skilled workers: special training, ability and knowledge
* Unskilled workers: perform jobs such as picking crops

MCj03971240000[1]3. Capital

* Physical: machinery, trucks, factory, building, tangible items used in production
* Human: person’s skills and abilities

\* Fuels innovation which in turn contributes to economic growth

4. Entrepreneurship

a. Create business (combine capital and enterprise to do business for profit)

* Businesses come in different forms

1. Simplest business organization? Sole proprietorship
2. General partnerships? Agreement between owners of a business.
   1. each partner is responsible (liable) for business debts
   2. partners decide what to do with the profits (rewards)
3. Limited-liability partnership requires filing a certificate with the government
   1. more formal than a general partnership
4. Corporations file a charter-certificate with the government
   1. formal organization prescribed by the law

Productivity?

* Relationship between the four factors of productions and the goods and services that are being produced
* Relationship between inputs and outputs

\* Recipe example

MCj03686280000[1]Relationship between producers and consumers

* **Producers** [may be called firms]make products

\* Business have to look at their costs to determine how much to charge for their goods/services

\*Different types of costs

1. Fixed

2. Variable

3. Total costs

* **Consumers** [may be called households] buy/purchase to satisfy their wants and needs
* They CHOOSE which needs and wants to satisfy

\*Choices are necessary because of scarcity

* Opportunity cost
* Trade offs

\* When making choices individuals follow the decision making process

* 5 steps



* Exchange between the producer and the consumer is regulated by pricing

\* Prices are set depending on production

– how many of a product can be made

\* Prices are set depending on consumption of the product

– how much people want the product

* Incentives: Business try to use this mechanism to influence the economic decisions of consumers

\* Happy Meal toys

\* Coupons- 20% off the second pair of shoes

\* Bogo – buy one get one free

\* Actual design of product may be an incentive

\* Location may be an incentive – do I have to make another left turn to get where I’m going

Four Key Economic Questions

To form an economic system, a society must decide what to produce, how to produce it, and who will consume what is produced and How do we divide the profits?

Factor payments – the income people receive for supplying the factors of production – determine who consumes goods & services.