

Economics for Everyone

Introduction to the basic
concepts/definitions of economics and
economic systems

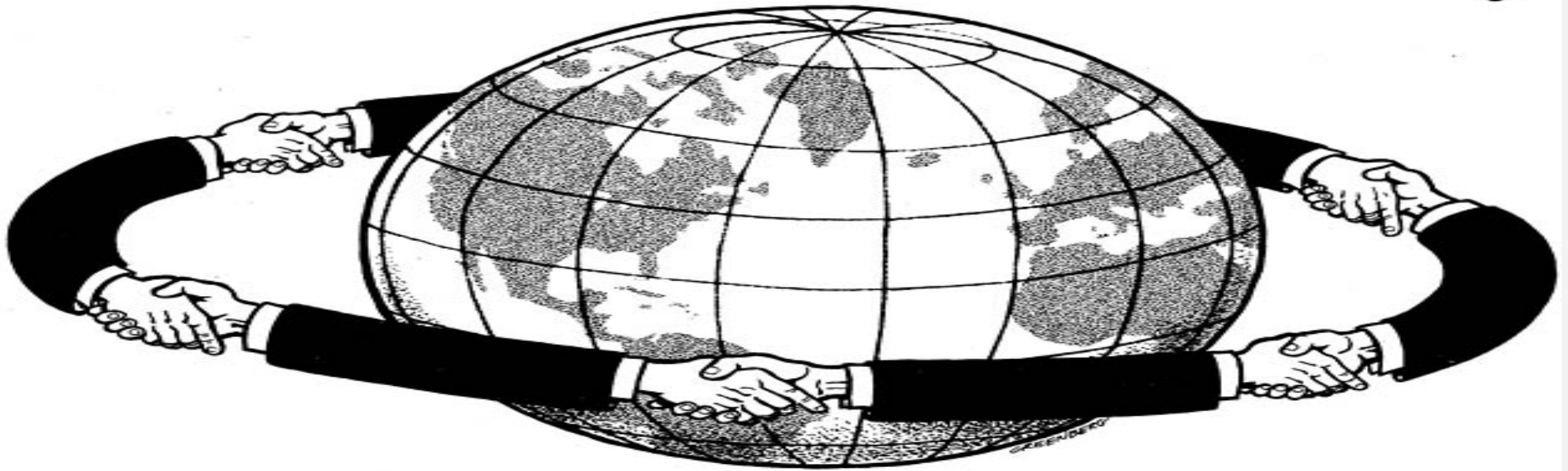


The Commercial Revolution

Red = The cause..... Blue = The event/issue.....Purple = The effect

As Trade increased following the Age of Discovery...A transition from local economies to global economies occurred...that created an ever increasing desire for individual opportunity.

The New Global Economy



A strong U.S. economy requires a commitment to global competition

Capitalism

Red = The cause..... Blue = The event/issue.....Purple = The effect

As more individuals engaged in economic opportunities for profit...an economic system emerged that emphasized private ownership, profit motive and free enterprise...which resulted in an explosion of Middle Class values and traditions.



--Have you ever wondered why we don't just print more money to solve financial problems?



--Ever wonder what gives a "dollar" or "euro" its value?



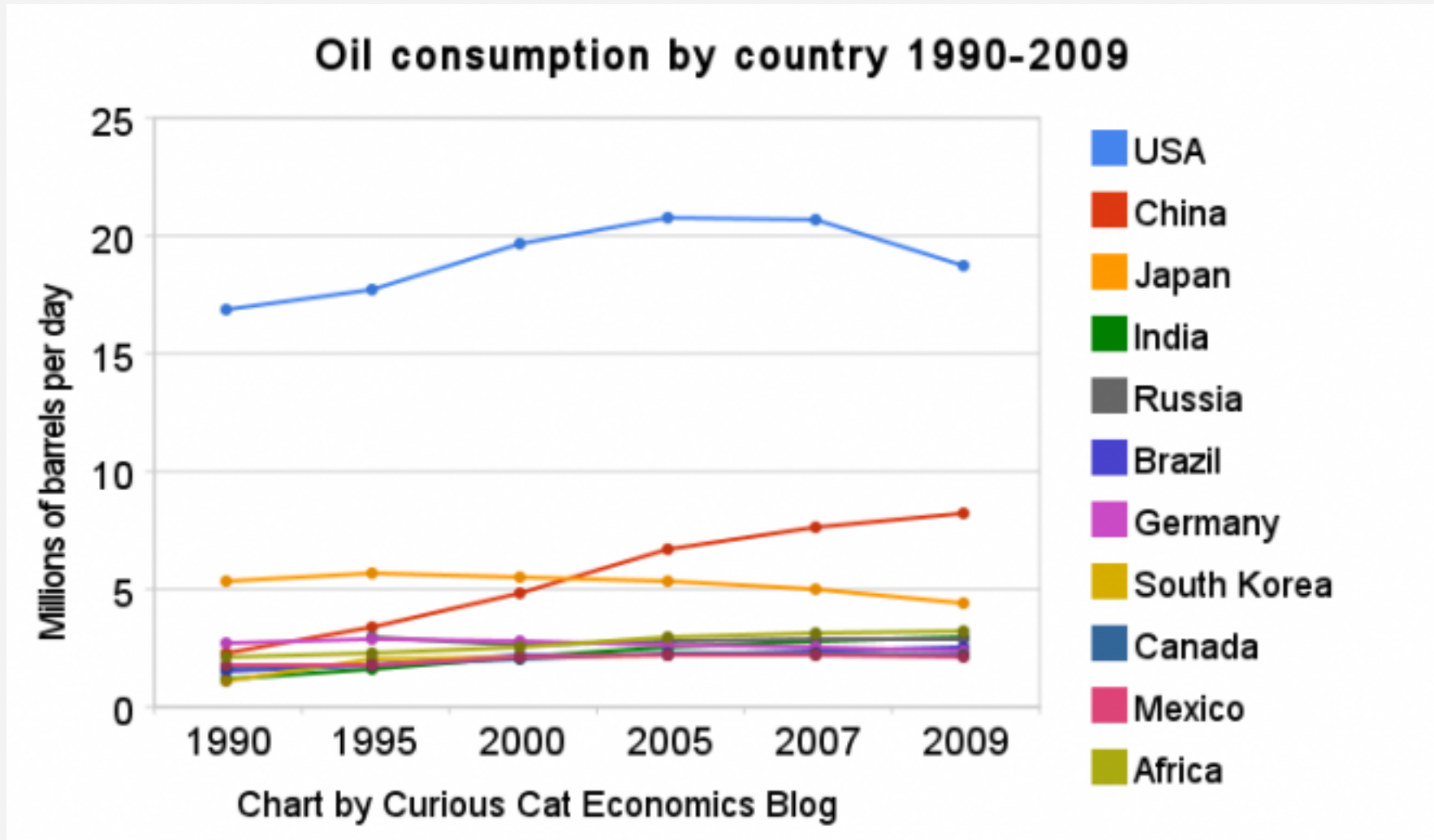
--Ever wonder why we "bailed" out the banks?



--Ever wonder why we don't want foreign countries, like (Greece) to suffer economic collapse?

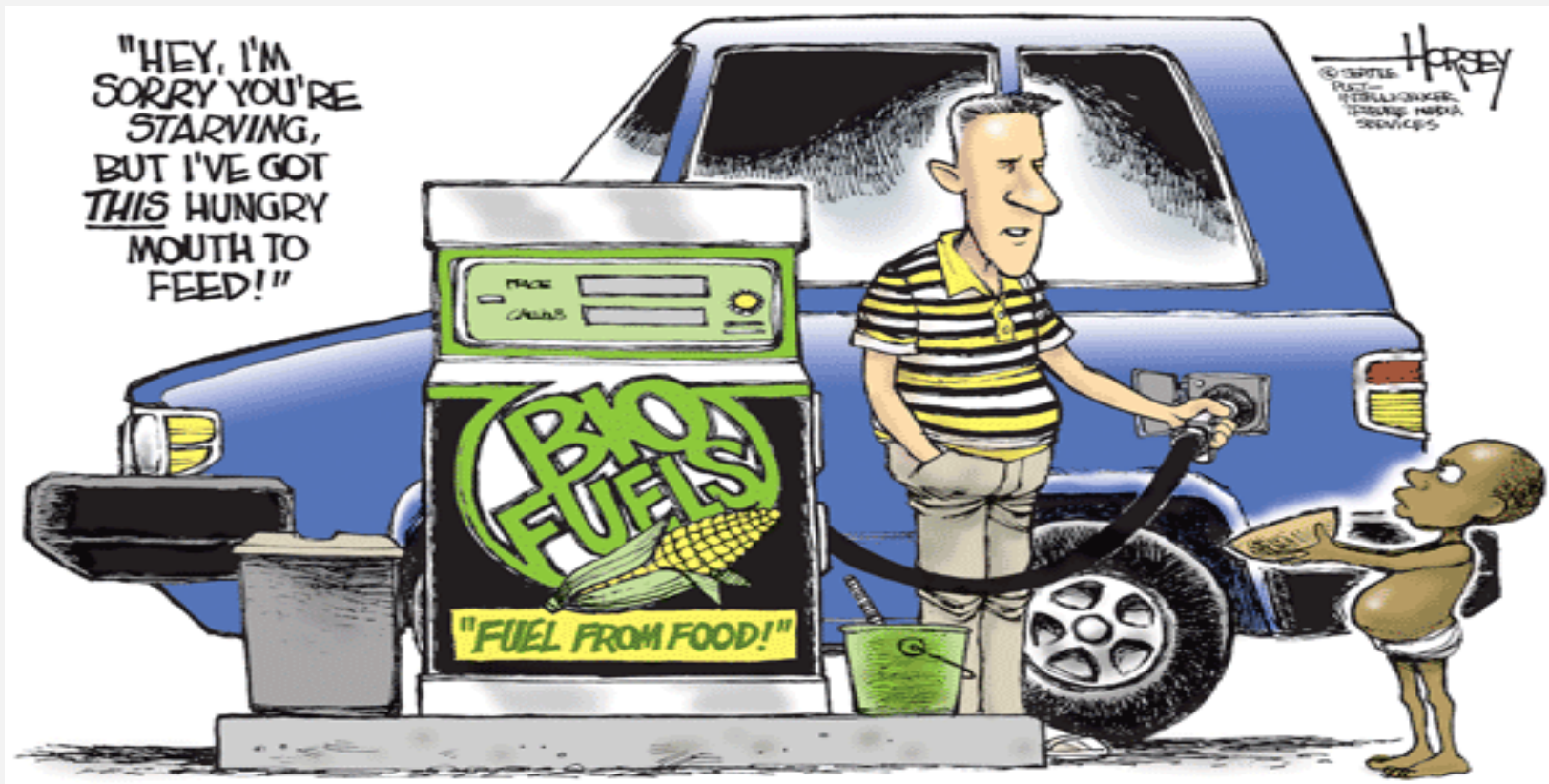


--Why does oil control our economy?





Economics: the study of the human attempt (making choices) to satisfy unlimited wants and needs (demands) with limited resources (supplies).



Everything we **want** or **need** is either a **good** or **service**. **Scarcity** means that we cannot have all the goods and services we would like to have. Therefore we have to make choices. When we make our **choices** we **trade off** other opportunities. **THIS IS ECONOMICS!!!!**

Scarcity: limited quantity of resources to meet unlimited demands...

Want: something we desire but do not need for survival...

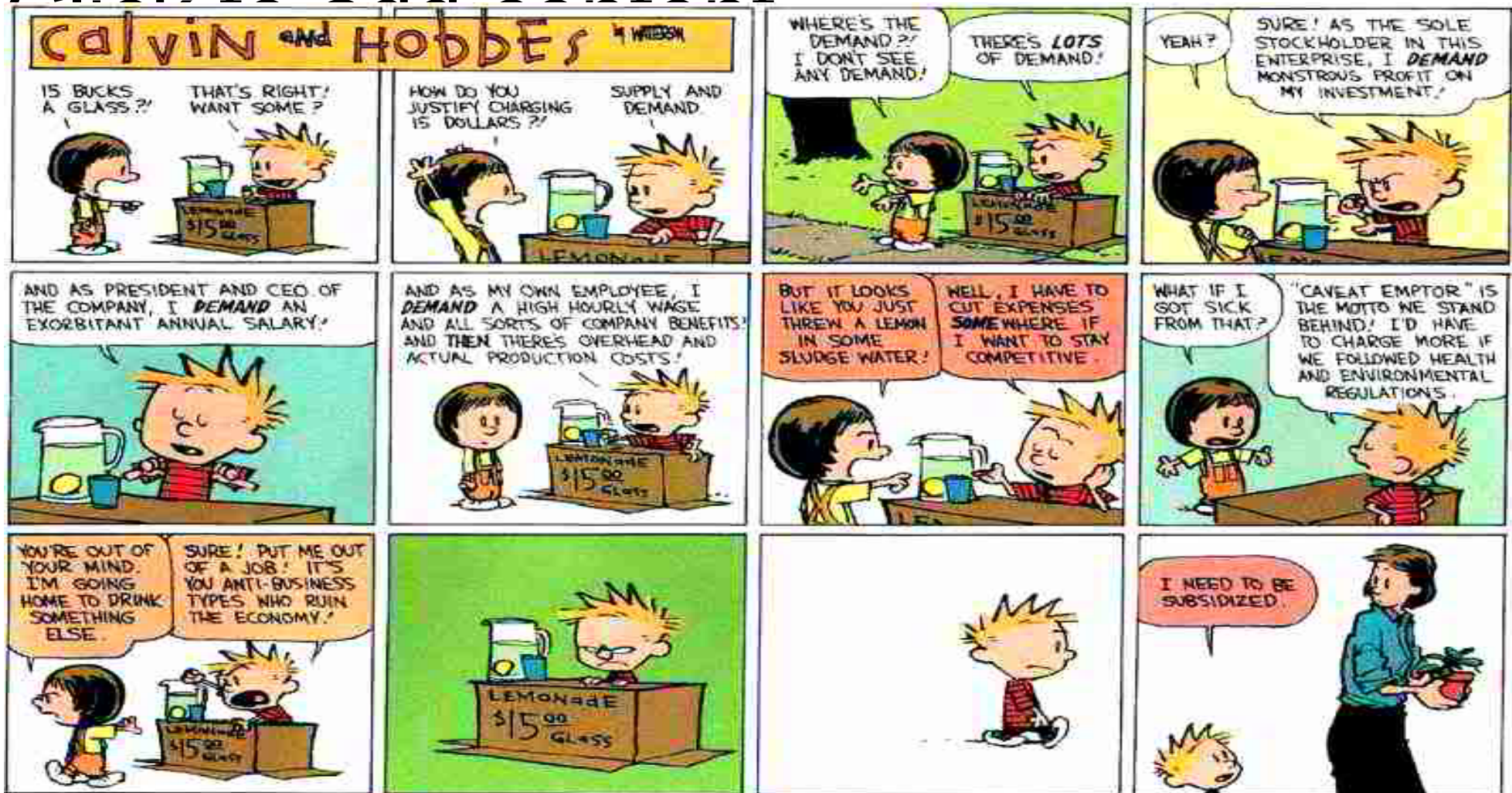
Need: something we need for survival...

Opportunity Cost/Trade Off: something that is given up in order to have something else...

Goods: physical objects made or processed by people...

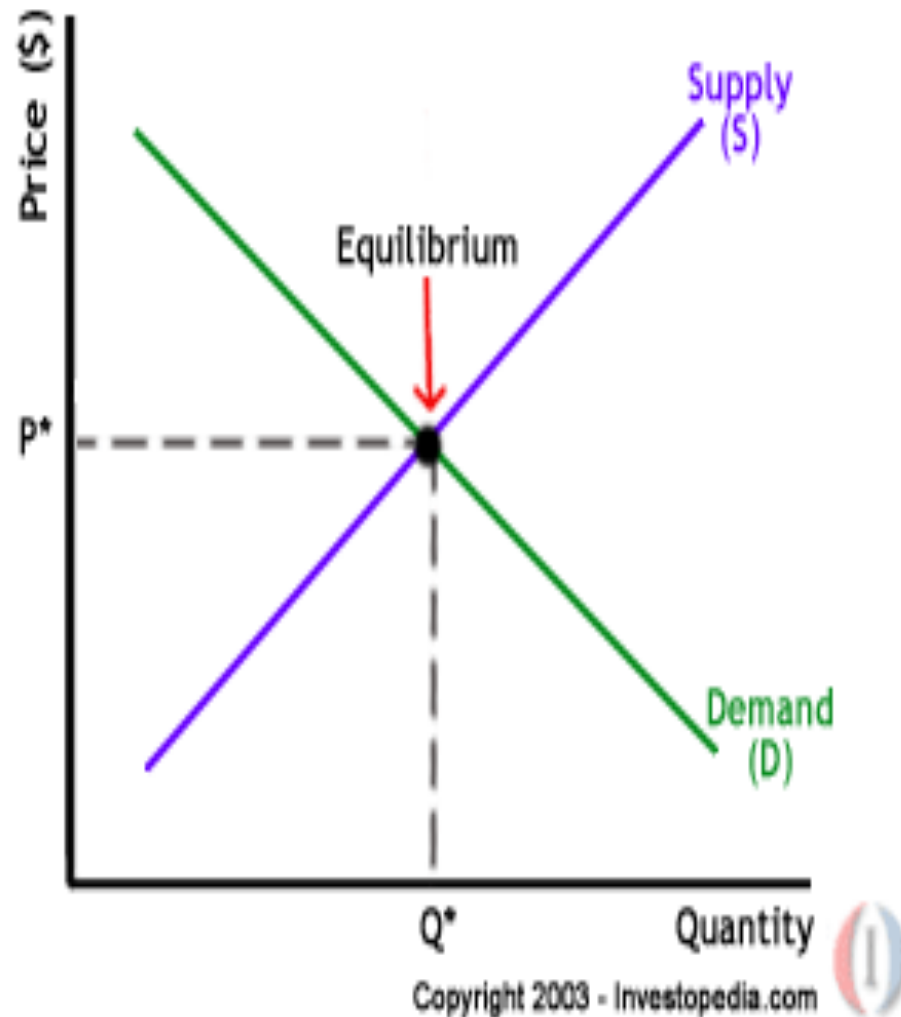
Services: actions or activities that one person performs for another...

Supply and demand: the demand for a good or service will be met by a supplier of that good or service (the more demand and less supply the higher the price...less demand and high supply the lower the price...)



Everything we want or need is either a good or service. Scarcity means that we cannot have all the goods and services we would like to have. Therefore we have to make choices. When we make our choices we trade off other opportunities. Our choices create a supply/demand situation.

Supply/Demand Curve...Helps Set the Price



Supply/Demand Examples...

--Have you ever wondered why we don't just print more money to solve financial problems?

--Ever wonder why things cost what they do?

--Ever wonder what gives a "dollar" or "euro" its value?

--Ever wonder why we "bailed" out the banks?

--Ever wonder why we can't let foreign countries collapse?

--Why does oil control our economy?

You will know the answer to these questions and more... when we finish... or maybe you won't... it is your **choice!!!**

Have you ever wondered why we don't just print more money to solve problems?

(scarcity/supply/demand)

Ever wonder why things cost what they do?

(choices/supply-demand/wants & needs)

Ever wonder what gives a "dollar" or "euro" its value?

(choices/supply-demand/scarcity)

Ever wonder why we "bailed" out the banks?

(multiplier effect)

--Why does oil control our economy?

Have you ever wondered why we don't just print more money to solve problems?

(scarcity/supply/demand)

If you have 10 \$1.00 bills and 50 people wanted them...how valuable is each one?

If you have 5000 \$1.00 bill and 50 people wanted them...how valuable is each one?

Ever wonder what gives a "dollar" or "euro" its value?

(choices/supply-demand/scarcity)

Remember the last example? That is part of the answer....

Another part of the answer...
you determine the value by how you decide to spend it!!!

and a third factor is...what and how people **feel** about the dollar/euro.

Ever wonder why things cost what they do?

(choices/supply-demand/wants & needs)

Consumer choices (you help determine the cost by the choices you make (if you are willing to pay the price the supplier will charge you what you are willing to pay!!! (profit motive)...combined with supply and demand concepts... determines the price of goods and services

Ever wonder why we "bailed" out the banks?
(multiplier effect)

Banks create wealth in our economy by "multiplying" the money we put into them...without them our entire economy would go into downward spiral...and collapse!!!

I pay 1,000 to Fred Meyer for dog food = I have 1,000 in goods and Fred Meyer has 1,000 in cash

FM Deposits it in Bank= 1,000(FM) and 1,000(bank)=2,000

Bank loans 1,000 to Mr.Zorbas =FM(1,000)...Bank (1,000)...
Mr. Zorbas (1,000)=3,000

Ever wonder why we can't let foreign countries collapse? (Greece for example?)

The US is invested in countries throughout the world...if they collapse we lose our investments. **The U.S. is the largest foreign investor in Greece; direct U.S. foreign investment in Greece was about \$4.5 billion in 2006.**

Banks loan to other banks...if a bank collapses they can't repay their loan and their lenders lose value. **Greece Crisis May Be US Investment Opportunity:**

If foreign countries citizens can't buy US products we lose jobs and wealth. **In 2005, the U.S. accounted for approximately 5.41% of Greek imports and 6.79% of Greek exports went to the U.S.**

We live in a Global economy...all aspects of our economy are

Why does oil control our economy?

The US is the most mechanized, energized nation in the world...we use approximately 40% of the world's energy resources. (supply and demand, scarcity, consumer choices)

Oil affects every aspect of the production of goods in the US from resource production/extraction (planting and harvesting the resource ...corn) to product creation (turning resource into refined product...high fructose corn syrup...coca-cola) to transportation (from field to factory to warehouse to supermarket) to consumer consumption (consumer driving to store and back)!!!

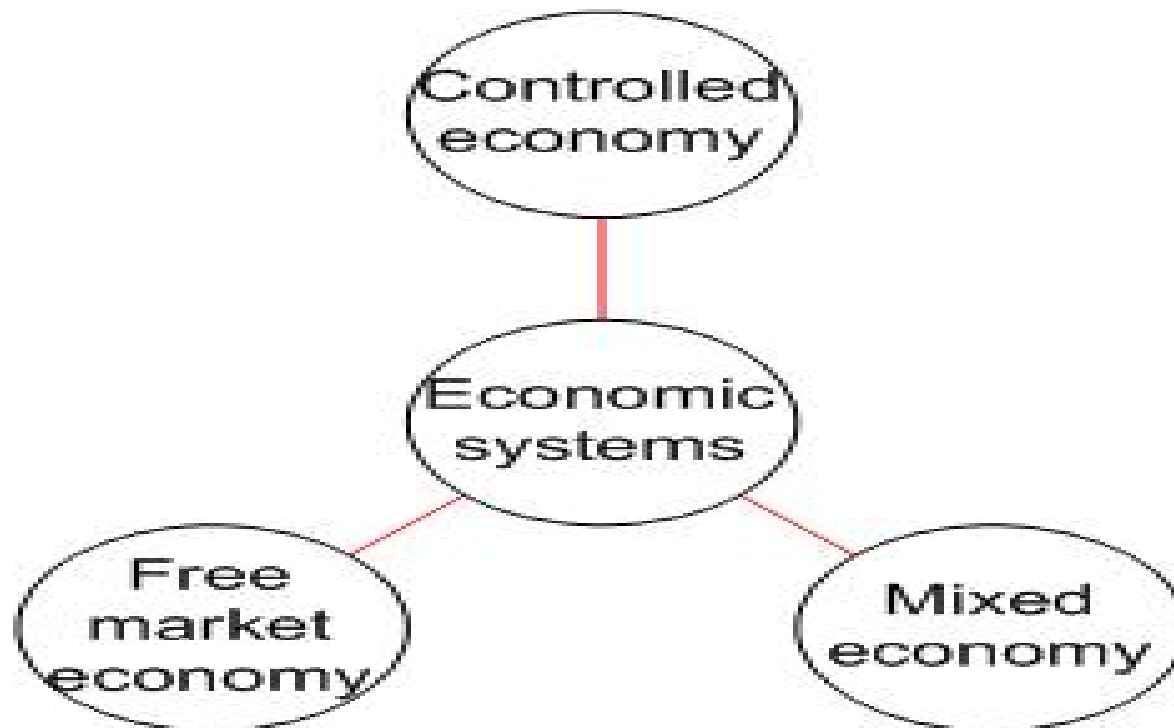
An **Economic System** is the method used by a society to produce and distribute goods and services. A nation's choice of an economic system is how they answer the three basic economic questions.

Three Basic Economic Questions

1. What goods and services should be produced?
2. How should these goods and services be produced?
3. Who should get these goods and services?

Types of Economic systems are:

1. Traditional (before commercial revolution- prehistory to Medieval Period)
2. Command: Socialsit, Communist (after Industrial Revolution: 1840's)
3. Market: Capitalism (commercial revolution:result of age of exploration)
4. Mixed (all economies in modern day)



Traditional economies are based on custom and tradition. They are family based and communal in nature. They tend to be small and rural.

Advantages

- very stable
- people know what to expect
- everyone has a place in the economy
- no one is left out
- children do what their parents do

Disadvantages

- individuals do not have much choice in what work they do
- roles are based on custom
- change comes very slowly

Command economies are controlled by a king, dictator or powerful political party. Land and capital goods are controlled by the central authority.

Advantages

- Changes in what is produced, how it is produced and how much is produced are made quickly
- the needs of the entire country can be considered by the central authority

Disadvantages

- Individuals are not encouraged to develop new ideas
- there are less incentives for individuals
- the needs and wants of individuals are not always met
- power is in the hands of a few individuals

Market/Capitalism/free enterprise systems are based on individuals making choices as to what they will buy and sell/system operates with less control or more freely.

Advantages

- Large numbers of people are involved in making economic decisions
- more individual freedom
- more self interest
- more innovation and new ideas are generated
- economy is flexible

Disadvantages

- Individuals who are not successful have no way of meeting their needs
- failure can result in harsh consequences
- the needs of the country as a whole are overlooked
- the good of society may suffer
- subject to up and down cycles
- labor (workers) can be exploited.

Mixed economies usually combine market and command economy principles. THE MAJORITY OF COUNTRIES IN THE WORLD USE MIXED ECONOMIES.

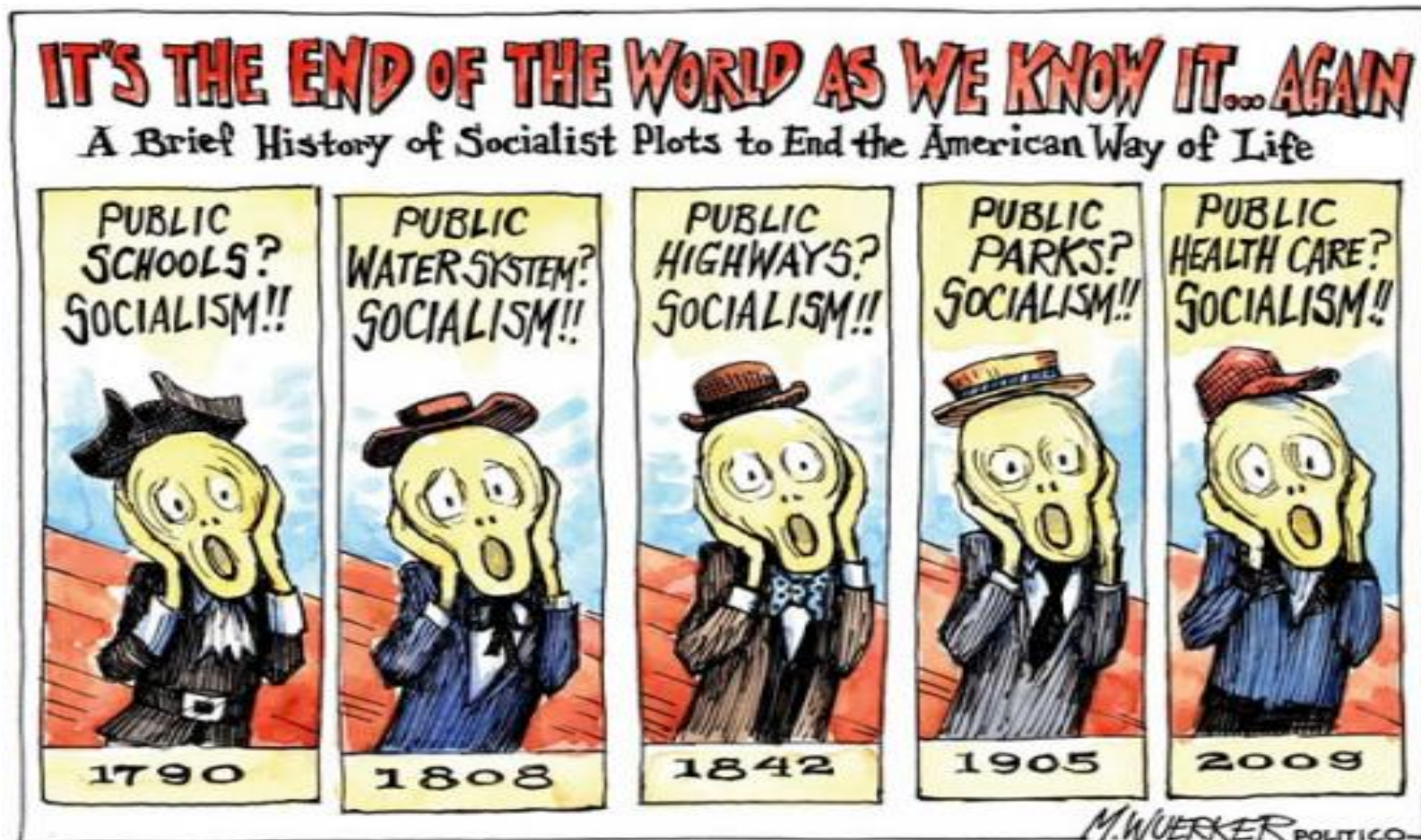
Advantages

- depends on which economies are mixed and the balance of the mixing.

Disadvantages

- depends on which economies are mixed and the balance of the mixing.

SOCIALISM: a social, political, and economic philosophy based on the belief that democratic means should be used to evenly distribute wealth throughout a society. PUBLIC AND PRIVATE OWNERSHIP OF MEANS OF PRODUCTION.



COMMUNISM: a social, political and economic system characterized by a centrally controlled economy with all economic and political power resting in the hands of the central government. **GOVERNMENT OWNERSHIP OF MEANS OF PRODUCTION**



Source: David Horsey, *Seattle Post-Intelligencer*

Capitalism: an economic system characterized by private or corporate ownership of goods/decisions are made by private sources and not government/ all this takes place in a free market environment/profit is the motivation. **Private ownership of the means of production.**



List examples of these systems in America

Socialism

Free Market/Capitalism

Basic features of Free Market Capitalism

1. Private Ownership
2. Competition
3. Profit Motive
4. Free Enterprise/Open Opportunity
5. Law of supply and demand