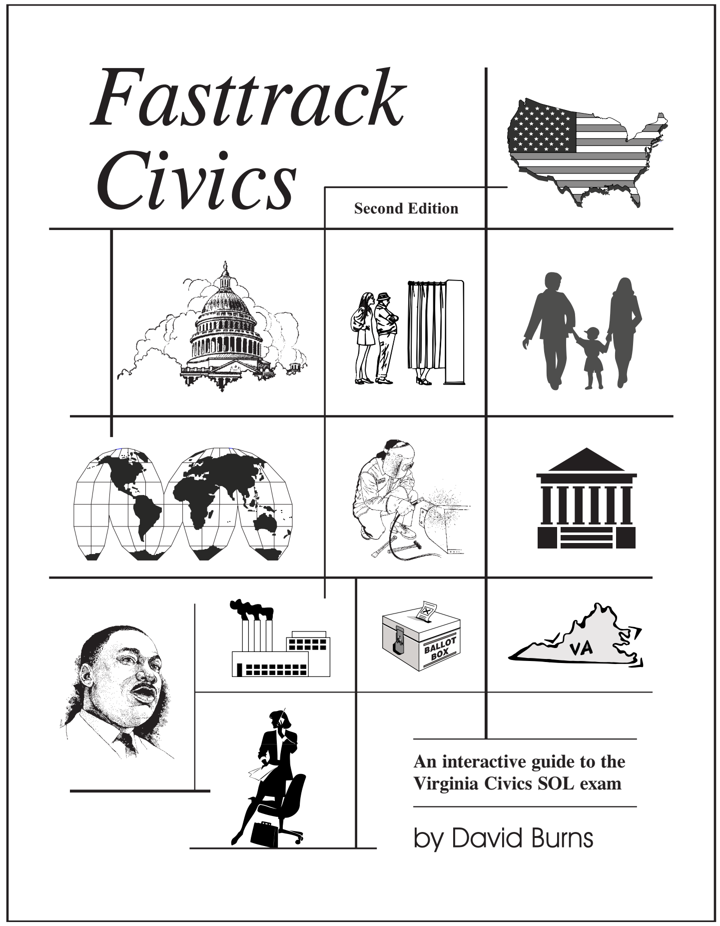
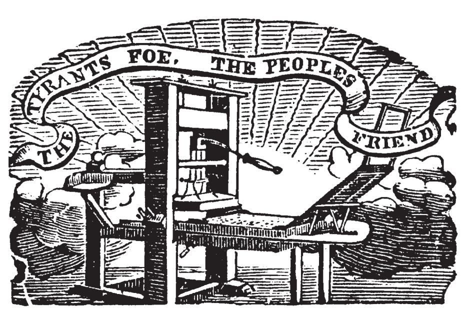


Section CE 11: Economic Decisions and the Marketplace

The Teacher Key and additional resources to use with these pages are at:

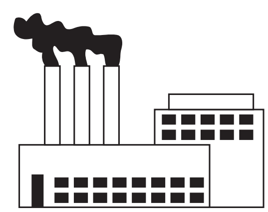
www.fasttrackteaching.com/civics



CE 11 | Economic Decisions and the Marketplace

This unit will focus on these big questions:

- **What is economics all about?**
- **How do people and societies make economic decisions?**
- **What determines the price of things?**
- **What kind of economic system does America have?**
- **What other economic systems can be found around the world?**



Vocabulary:

capital	entrepreneur / entrepreneurship	production
capitalism	free market system	profit
central planning	incentives	profit motive
choice	market / markets	public sector
command economy	means of production	real property
communism	mixed economy	resources
competition	opportunity cost	scarcity
consumer sovereignty	price	supply
consumption	private property	traditional economy
demand	private sector	

Contents & References

Related Textbook Pages

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Glossary for CE 11 Vocabulary Words		

Internet Support Site: www.fasttrackteaching.com/civics

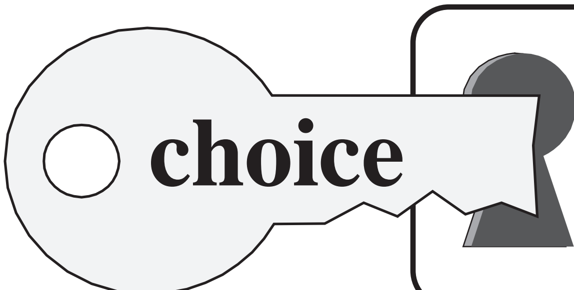
Notes:

Scarcity and Choice: Two Keys to Economics

Complete this page with your teacher to review and summarize the topic.

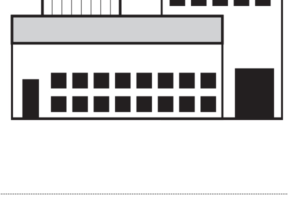
Economics starts with an unavoidable fact of life: scarcity.
Resources and goods are limited, but human wants are unlimited!

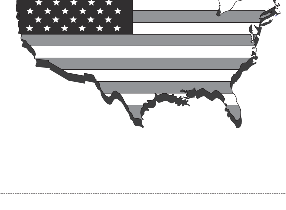
Whether we are talking about groceries, houses, or gasoline, scarcity forces everyone to make choices. What do we want most? What must we give up to get what we do choose?



Who has to deal with scarcity? Who has to make choices?

Individuals, businesses, and governments all face the reality of scarcity and choice. All must make economic choices based on the available alternatives. How those choices are made is the subject of economics.





Senior Prom: Making Economic Choices

Complete this page with your teacher to review and summarize the topic.

What choices about your Senior Prom would you make?

You must pick one choice from each category, using the Estimate Sheet to make sure you come in at or under the budget of $7,000.

Location:

Excelsior Hotel (very fancy!)	$4,000
Rec Center Ballroom (very plain)	$1,000
H.S. Cafeteria (cleanup fee only)	$250

Entertainment:

Live band (popular local group)	$2,000
D.J. and equipment	$1,000
Student D.J. and equipment rental	$500

Food:

Fancy catering service	$2,000
Trays of snacks from grocery store	$750
Punch bowls only - PTA sets up	$200

Decorations:

Inflatable palm trees + flowers	$2,000
Student made decorations	$500
Not needed at Excelsior Hotel	$0

Gifts for 10 Chaperones:

Flowers, class pin, and prom photo	$400
Flowers and class pin	$300
Flowers only	$250

Prom Cost Estimate Sheet

Choices and Opportunity Cost

Complete this page with your teacher to review and summarize the topic.

My 1st Choice

My 2nd Choice

My 3rd Choice

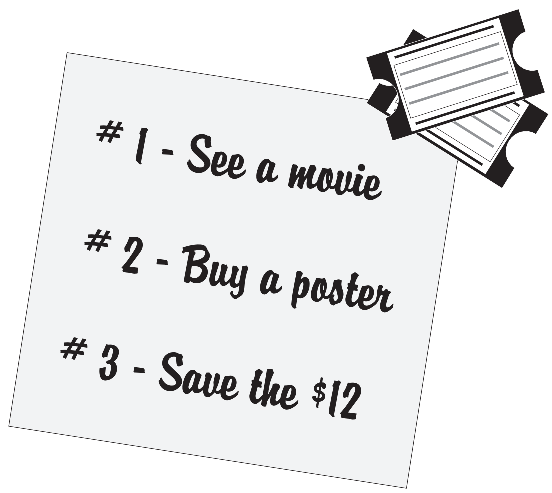
Opportunity cost is the term for the <u>second choice</u> - the choice you give up - when you make your decision to choose an item or action.

When you choose one item or action over another, you are giving up the opportunity to have or to do your second choice. So whenever you make a choice, it's important to consider carefully the opportunity cost of your decision.

Example:

You earned twelve dollars last week by babysitting. You are deciding whether to spend that money to see a new movie, or buy a neat poster you'd like, or just save it.

Finally you decide the movie is your first choice, the poster is a second choice, and saving the money for spending later is your third choice.



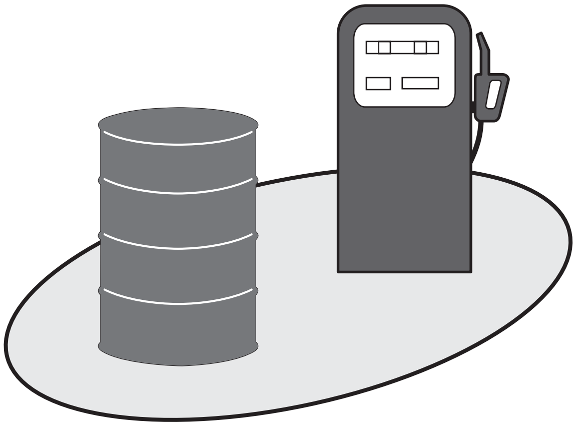
What is the next best choice that you are giving up by choosing the movie?

The <u>opportunity cost</u> of choosing the movie, therefore, is the value to you of:

Thinking of opportunity cost is important, because it keeps us aware that choices do not just involve spending money. Our choices involve picking one thing over others, and therefore giving up some things in order to have others.

Resources: The Factors of Production

Complete this page with your teacher to review and summarize the topic.



Resources are things like oil, iron, labor, and machinery that are used as factors of production in the making of goods and services.

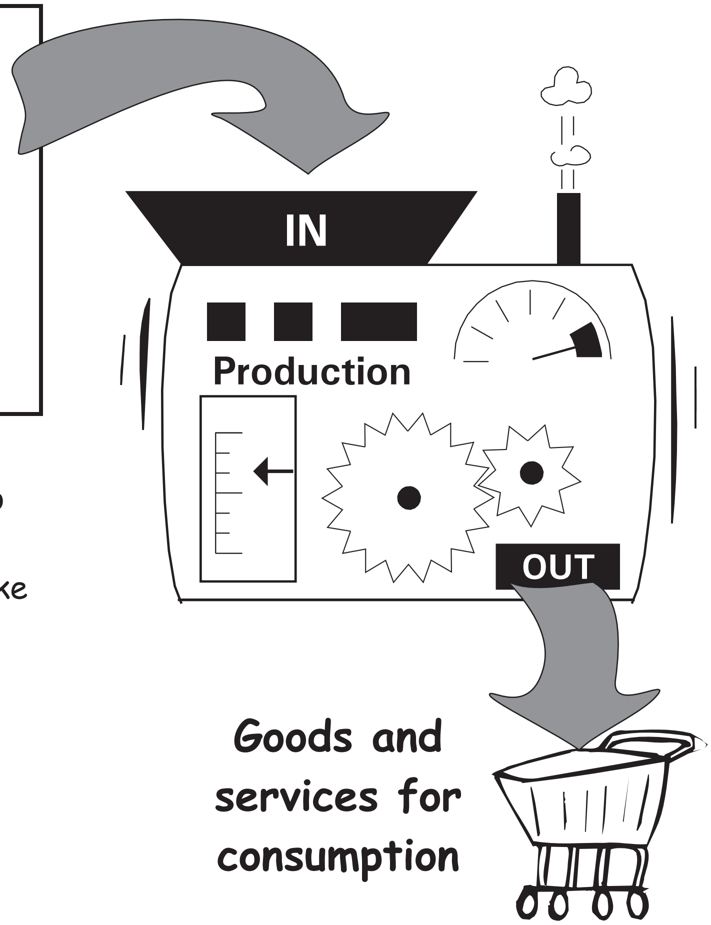
Types of Resources

Production and Consumption

Complete this page with your teacher to review and summarize the topic.

<u>Production</u> is the act of combining resources to make goods and services. <u>Consumption</u> is the act of using those goods and services.

Types of Resources



Businesses constantly make choices to adjust the production process and the resources they use. Their goal is to make production more efficient, which lowers costs. With lower costs a business can reduce prices and still make a profit.

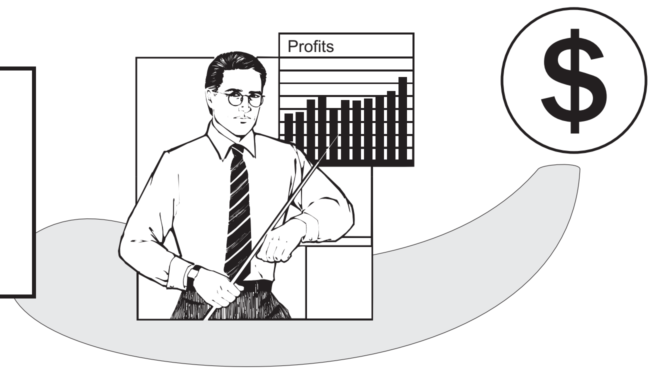
Consumers constantly make economic choices about what best meets their own needs and desires. As a result, what gets purchased for consumption is determined mainly by consumer preferences and by prices.

Incentives Affect Economic Choices

Complete this page with your teacher to review and summarize the topic.

Incentives are things that change economic behavior and choices. They play a very important role in any economic system.

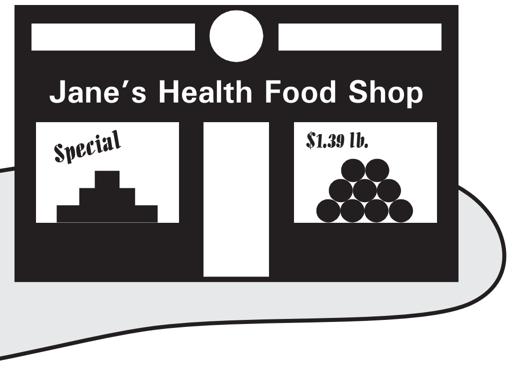
There are lots of different forms that incentives can take, including these:



Prices: A Balancing of Choices

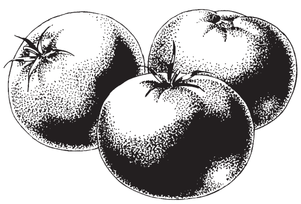
Complete this page with your teacher to review and summarize the topic.

In our system, prices are a kind of balancing act between the sellers and the buyers. Put another way, prices are based on supply and demand.



<u>Sellers</u> of a product or service are the <u>supply</u> side.

TOMATOES $1.89 /LB.



supply – ______________________________

____

____

<u>Buyers</u> of a product or service are the <u>demand</u> side.

demand – ______________________________

____

____

Prices normally move to a level that brings supply and demand into balance. Prices, therefore, reflect the economic choices made by buyers and sellers.

price – ______________________________

____

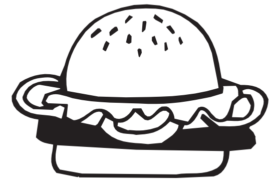
TOMATOES

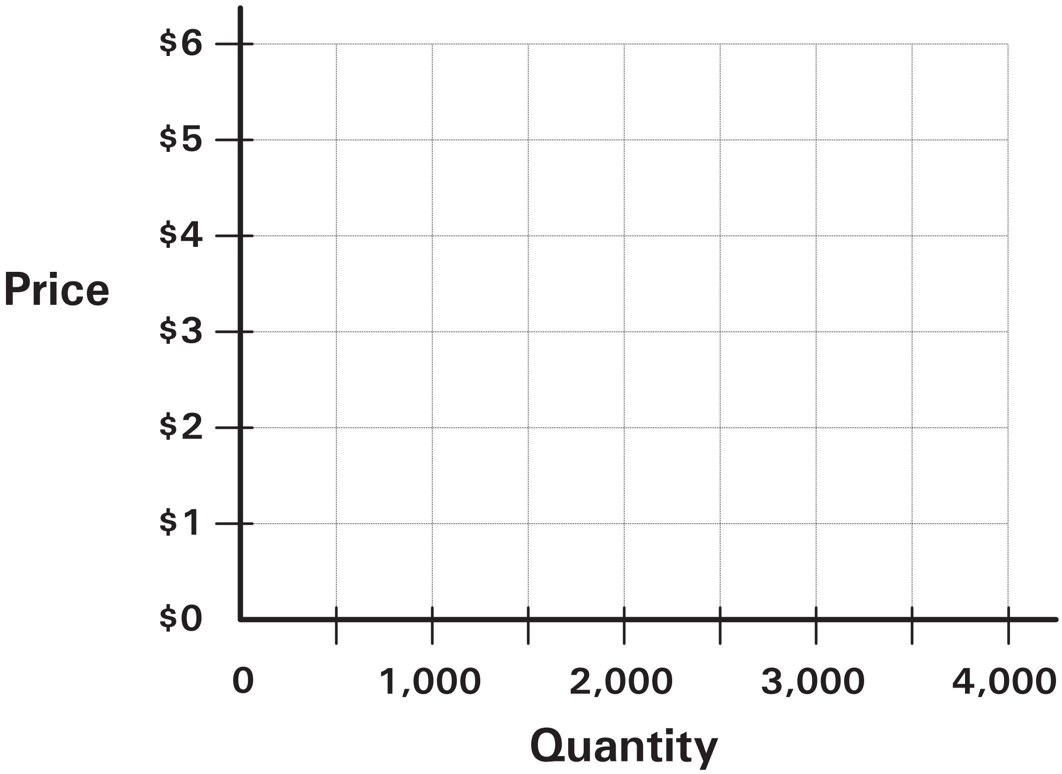
WERE $1.89 /LB.
NOW $1.39 /LB.

Graphing Supply, Demand, and Price

Complete this page with your teacher to review and summarize the topic.

Prices in a free market are determined by the interaction of <u>supply</u> and <u>demand</u>. Here's an example: hamburgers in a beach town during a nice summer day!





Supply and Demand Schedule
- Hamburgers in Beachtown -

Price	Quantity Demanded	Quantity Supplied
$ 1.00	4,000	500
$ 2.00	2,500	1,700
$ 3.00	1,750	2,500
$ 4.00	1,250	3,100
$ 5.00	800	3,600
$ 6.00	500	4,000

The equilibrium price per burger:

____

The quantity that will be sold at that price:

____

The Three Big Economic Questions

Complete these pages with your teacher to review and summarize the topic.

Every country needs to develop an economic system. It must have a way to determine how to use its resources in a productive way.

Every economic system that has ever been devised must answer three big questions:

1 ________________

2 ________________

3 ________________

The questions look easy, but in reality they are not. People all over the globe have struggled for many centuries to create a system that answers these questions in a way that works and also seems fair.

Some nations have devised systems that claim to be fair, but don't work. (Communist countries, for example.) There have been systems that work, but don't seem very fair. (The kingdoms of Europe before modern times are a good example.)

Over the next few pages, we will look at the main types of economic systems that have been tried in the world. These are:

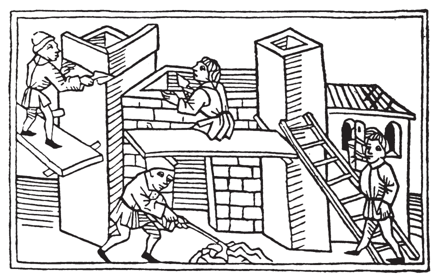
- Traditional economies
- Free market economies
- Command economies
- Mixed economies

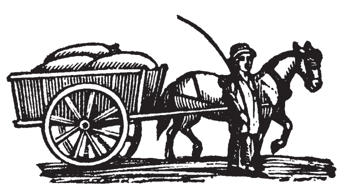
Traditional Economies

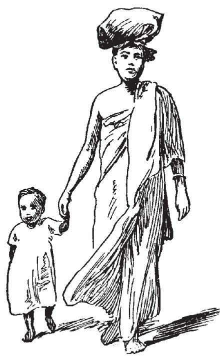
Complete this page with your teacher to review and summarize the topic.

In a traditional economy, economic decisions are based mainly on whatever was done before. Choices are determined by tradition.

These three pictures show scenes from Europe around 1500. In most areas, it was a traditional economy. Most people worked the land and grew the same crops their ancestors had for generations. A farmer's son became a farmer. A merchant's son, a merchant. A stonemason's son became a stonemason.







Societies with traditional economies do have some attractions. Everyone has a "place" and knows what it is. Life has a steady and familiar pattern.

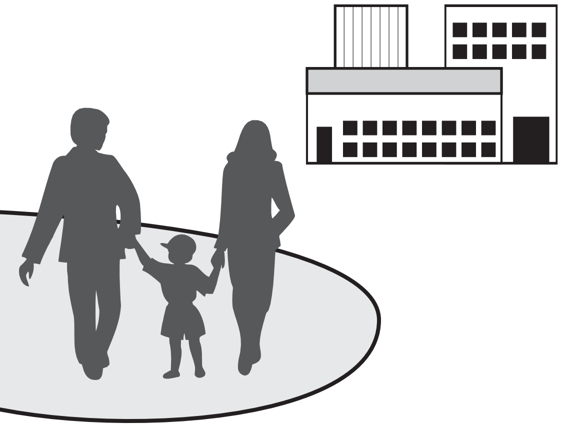
But such societies also have big disadvantages. There is little opportunity to get ahead, regardless of one's talents. People at the bottom mostly stay there. The ruling families stay at the top.

Traditional economies were very common in past times, but are found today only in very isolated regions of the world.

The Free Market Economic System

Complete this page with your teacher to review and summarize the topic.

In the free market system, individuals and businesses make almost all of the economic decisions. The government interferes as little as possible.



Here are some of the other characteristics of a free market system. (Keep in mind that no country actually has a "100% free market" system. Governments usually operate public schools, build roads, and provide other services.)

____

People own and control their own property, whether personal, land, or business.

____

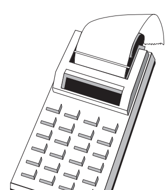
People have the freedom to make their own economic choices.

____

Businesses base most decisions on what will create the largest profit.

____

When businesses compete, they improve products and lower prices.



profit = income of the business minus the cost of operating the business

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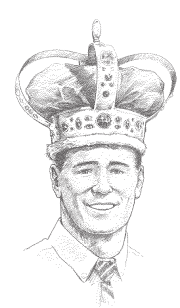
Businesses will make and sell what customers want and are willing to buy.

sovereign = the ruler

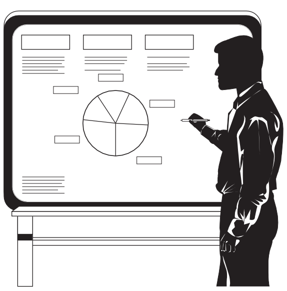


Command Economies

Complete this page with your teacher to review and summarize the topic.

In a command economy, the government makes most economic decisions. Communist countries almost always have this type of economy.

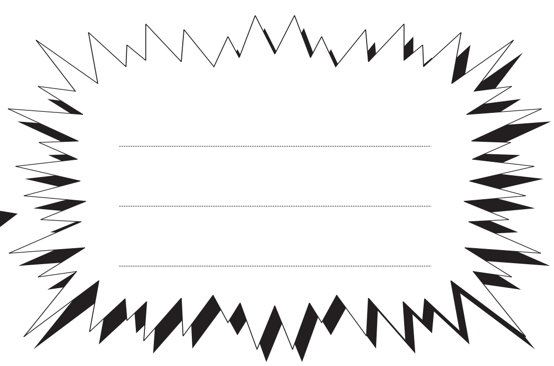
In a command economy, the government owns and controls most forms of property, such as these:

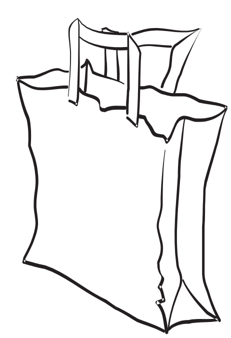


A command economy is <u>centrally planned</u>. That means the government determines:

Bad News!

In a command economy, consumers end up with very little power. That's because in a command economy:



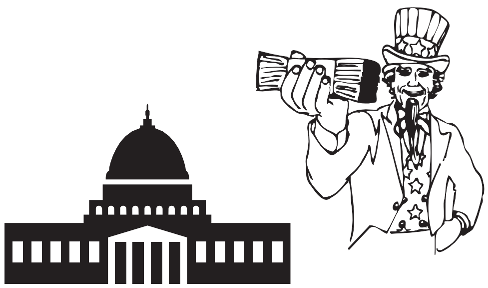


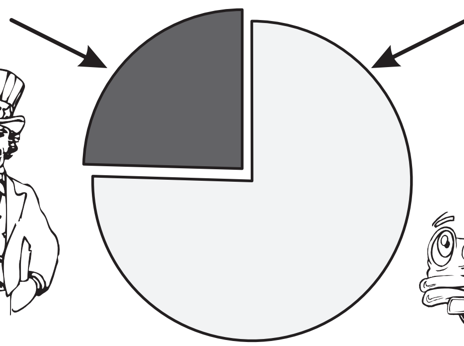
Mixed Economic Systems

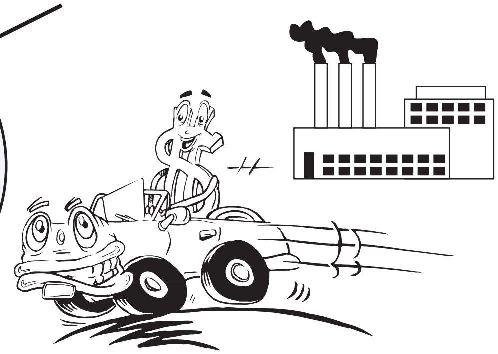
Complete this page with your teacher to review and summarize the topic.

A mixed economy, such as that in the United States, is a blend. It combines a free market private sector with a public sector run by the government.

The public sector | **The private sector**







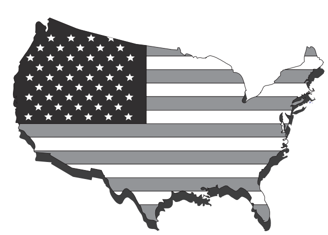
Public sector (government)

Examples:

Private sector (free market)

Examples:

The American economy is best described as a mixed economy. In fact, the mixed economy is the most common form of economic system in the world today!



Characteristics of the U.S. Economy

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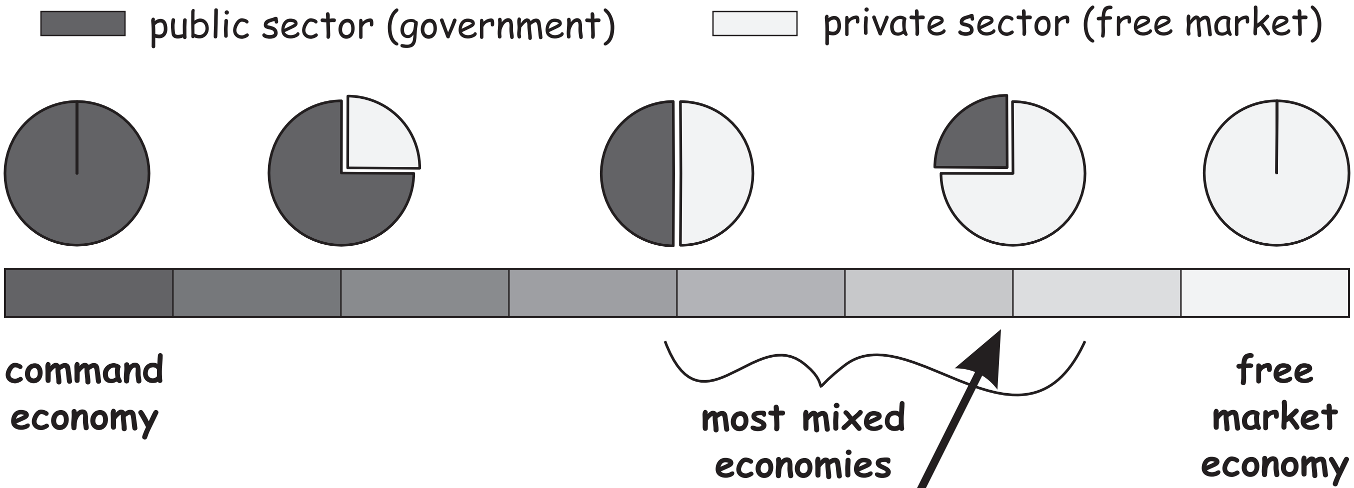
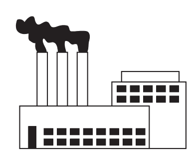


Worth noting: The economic system in America is also called <u>capitalism</u>.

The United States

The U.S. has primarily a free market economy. Government involvement in the economy is limited. Because there is some government involvement, however, it is classified as a mixed economy.

Main characteristics of the U.S. economy:



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capital - the money, equipment, tools, and buildings used by a business to produce goods and services.

capitalism - the basic economic system in the U.S. and most modern industrial nations, it is also called the free market system. See the entry for **free market system**.

central planning - in a command economy such as the communist system, the government plans almost all aspects of the economy. This effort is called central planning, because the economic planning is done by the central government.

choice - in economics, selecting the best item or action after examining all the possible alternative actions.

command economy - an economy in which the government makes the decisions about what will be produced, how it will be produced, and who will get the products. Example: Almost all communist countries have command economies.

communism - an economic and political system in which the government owns the factories, farms, and mines. (These are called "the means of production" in most communist writings.) Government agencies decide what businesses will produce, how to produce it, and who will get the products. Prices are set by the government as well. The system of communism, therefore, is a command economy.

competition - when sellers try to attract buyers away from other sellers by producing better products at lower prices.

consumer sovereignty - in a free market system, the principle that "the consumer is king." That is, sellers will normally produce what buyers (consumers) want, at prices consumers are willing to pay.

consumption - the act of buying and using a product.

demand - in economics, demand refers to the amount of a product or service that will be purchased by buyers at all possible prices. It is often represented as a table or graph showing the relationship between various prices and the quantities that would be purchased at those prices by buyers.

entrepreneur / entrepreneurship - a person who starts a new business, especially if it involves a new idea or product created by the entrepreneur. Entrepreneurship – the ability to be an effective entrepreneur – is a very important resource. Entrepreneurs bring ideas, talent, and a willingness to "put it all together" to create new products and services.

free market system - the basic economic system in the U.S. and most modern industrial nations, it is also called capitalism or the capitalist system. It this system, individuals own businesses, and have freedom to choose how to spend, buy, sell, or invest without undue government interference. Business decisions are normally based on what will bring the highest profit, and businesses compete freely with other businesses. Since consumers have freedom to decide what to buy, this means that businesses normally produce good products that consumers desire at affordable prices.

incentives - anything that motivates or encourages an individual or business to do something. In a free market system, profit is the incentive that motivates businesses to make better products at lower prices.

m**arket / markets** - a market is a place where things are bought and sold. Prices in a market can vary up or down over time, depending on supply and demand for the various products being offered. Markets are sometimes physical places, where sellers offer their goods and buyers can walk by to shop. Markets can also be conducted in other ways, such as online auction sites and other Internet based businesses.

means of production - the factories, farms, and mines of a nation. In a communist or other command economy, these are owned and controlled by the government. In a free market economy, individuals and businesses have the right to own the means of production.

mixed economy - an economy that is a mix of the free market system with some government influence. The U.S. economy is best described as a mixed economy in which the free market system is the largest part, but the government also plays a role by providing public services such as schools and roads.

Most countries in the world today use some form of a mixed economy.

opportunity cost - in any economic decision, the value of the "next best alternative"choice that was given up. Example: If you decide your best choice is attending

continued

college to increase your future earning power, the opportunity cost is the value to you of the full time job you could take instead during those same years. That would probably include not only the job's salary, but the experience you would gain in the job during those years. Before making any decision, it is important to consider the opportunity cost.

price - the amount of money exchanged for a good or service. In a free market system, prices are determined by the interaction of supply and demand. In a command economy, prices are set by the government.

private property - anything owned and controlled by an individual or a group of individuals, rather than by the government. Private property can include:

- real property, the term for land and buildings on the land, such as a house.
- personal property, the term for things that can be easily moved, such as a car, furniture, books, etc.
- businesses, factories, farms, and mines, which are sometimes called "the means of production" in books about economics.

private sector - the part of the economy that is controlled by individuals or businesses, not the government. The private sector includes individuals, families, workers at a business, the business itself, shops, farms, factories, etc.

production - the act of turning resources into goods and services that can be offered for sale.

profit - the money earned by a business above its expenses. To make it a formula or equation, we can write: **profit = income of the business minus the cost of operating the business**.

profit motive - the motivating force or principle that says businesses will normally make decisions based on what will create the largest profit for the company. In most cases, the best path to making higher profits is to create good products at affordable prices. As a result, the profit motive tends to help improve life for everyone at the same time it helps businesses.

public sector - the part of a nation's economy that is controlled by the government. Examples: Public schools, roads, police and fire departments, etc.

real property - in property law, the term for land and permanent buildings on the land. In a free market economy, people have a right to own private property. Private property includes real property as well as personal property and businesses. In a command economy, real property is usually owned and controlled by the government.

resources - anything used to produce goods and services. These can be <u>natural resources</u>, like aluminum or wood. Resources can also include <u>capital</u> (investment money, tools, and equipment), <u>human resources</u> (labor), and <u>entrepreneurship</u> (the ability needed to start a new business.) Sometimes resources are referred to as "factors of production."

scarcity - the principle that there is never enough of everything to satisfy the total of what everyone wants. Resources and goods are limited, not infinite. Therefore, businesses and individuals must make economic decisions about what they want or need most, and what they are willing to give up.

supply - in economics, supply refers to the amount of a product or service sellers are willing to sell at all possible prices. It is often represented by a table or graph showing the relationship between various prices and the quantities that would be offered by sellers at those prices.

traditional economy - an economy where economic decisions are based mainly on whatever was done in the past. Much of Europe in the centuries before 1600 had a traditional economy. People raised crops and animals as they had for generations. The son of a farmer would become a farmer, and the son of a merchant would become a merchant. No one had much opportunity to either change or improve one's life.

Traditional economies tend to operate at a subsistence level, with much of the population very poor by modern standards.

Centuries ago, most people all over the world lived their lives in traditional economies. Today, traditional economies are only found in isolated regions of the world.