Econ Basics

You should copy *some* information directly into your notebooks

(Look for the Dollar Sign)

LARGE = Grab as much (all) from the slide

small = bookend key phrases or ideas

What is Economics?

$ **Economics** is the study of how people make choices to satisfy their wants $

Scarcity and *Shortages*

Scarcity occurs when there are limited quantities of resources to meet unlimited needs or desires

Shortages occur when producers will not or cannot offer goods or services at current prices

Factors of Production (Resources)

Land (Natural) All natural resources that are used to produce goods and services.

Labor (Human) Any effort a person devotes to a task for which that person is paid.

Capital Any human-made resource that is used to create other goods and services.

Trade-offs and *Opportunity Cost*

Trade-offs are all the alternatives that we give up whenever we choose one course of action over others.

The most desirable alternative given up as a result of a decision is known as *opportunity cost*. *"The Next Best Thing"*

All individuals and groups of people make decisions that involve trade-offs.

The Decision-Making Grid

Economists encourage us to consider the *benefits* and *costs* of our decisions.

Decision-making Grid		
	Alternatives	
	Sleep late	**Wake up early to study**
Benefits	Enjoy more sleep Have more energy during the day	Better grade on test Teacher and parental approval Personal satisfaction
Decision	Sleep late	Wake up early to study for test
Opportunity cost	Extra study time	Extra sleep time
Benefits forgone	Better grade on test Teacher and parental approval Personal satisfaction	Enjoy more sleep Have more energy during the day

The Three Economic Questions

Every society must answer three questions:

- What goods and services should be produced?
- How should these goods and services be produced?
- Who consumes these goods and services?

Why Do Markets Exist?

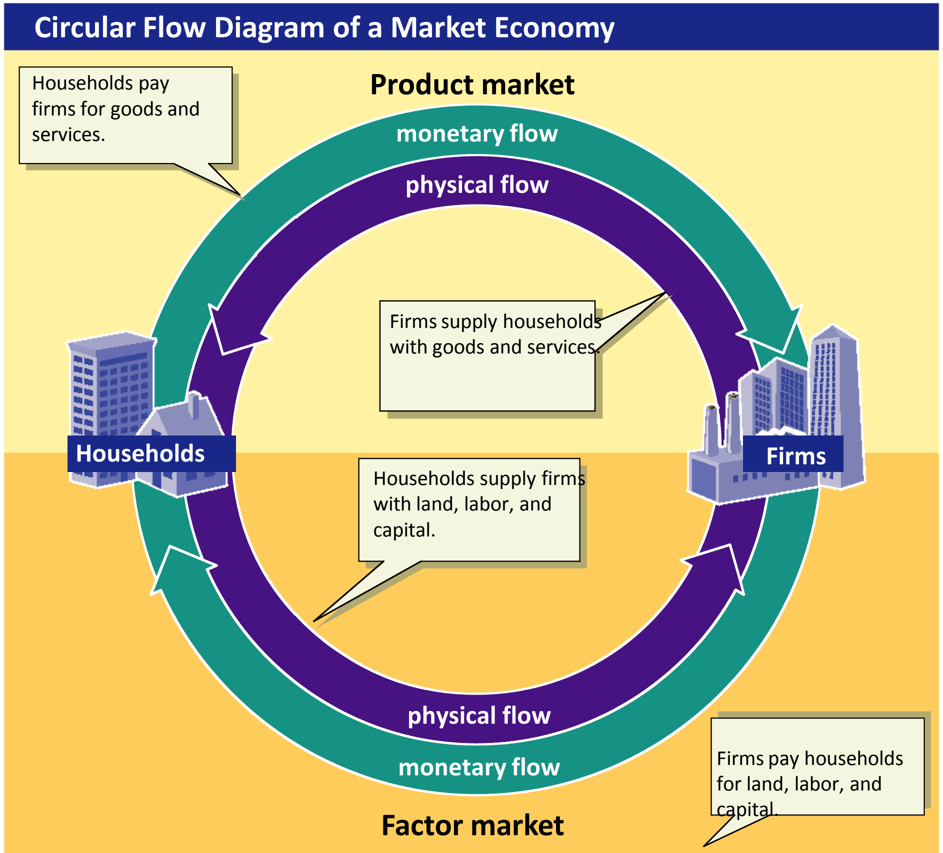
Markets exist because none of us produces all the goods and services we require to satisfy our needs and wants.

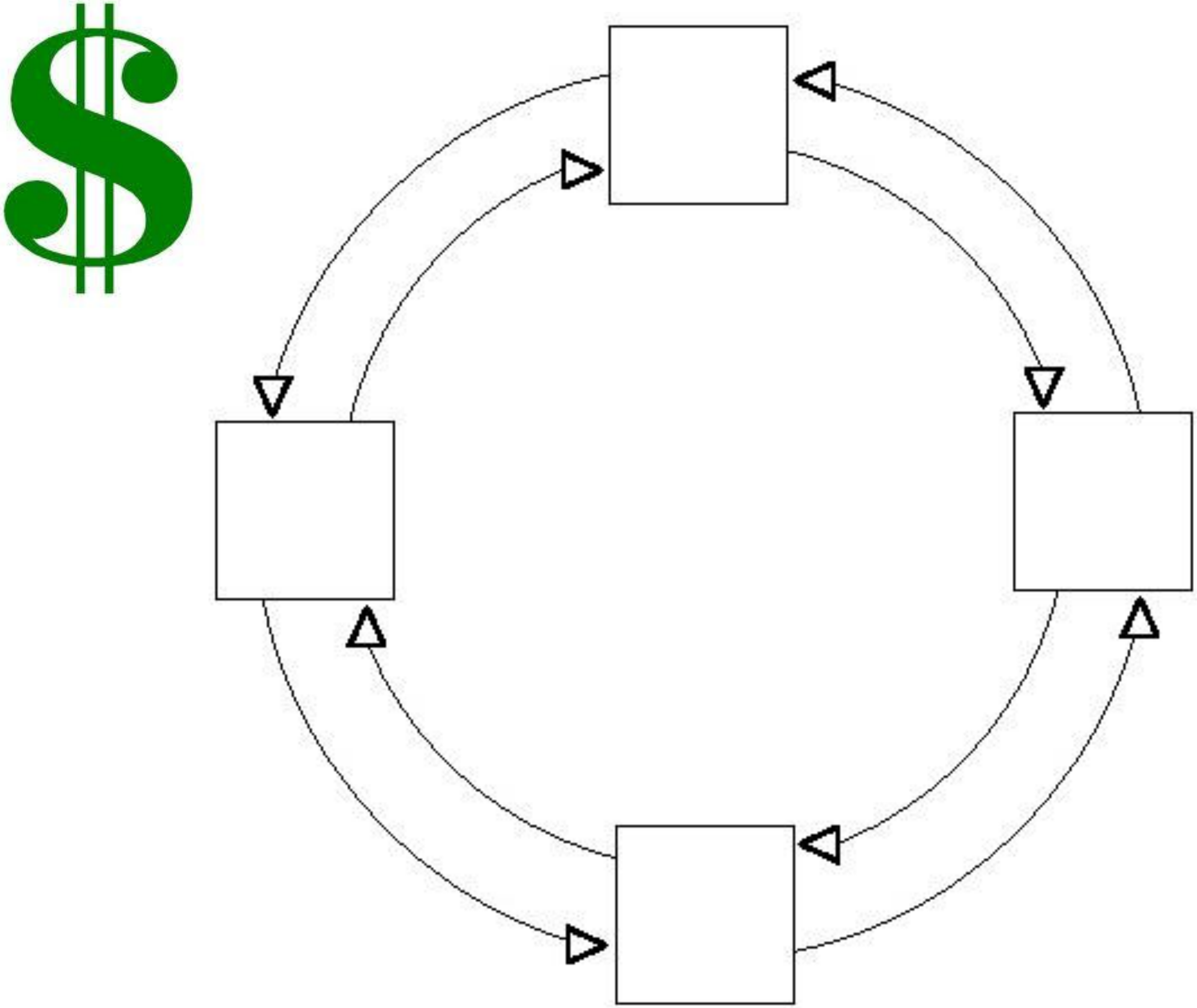
A *market* is an arrangement that allows buyers and sellers to exchange goods and services.

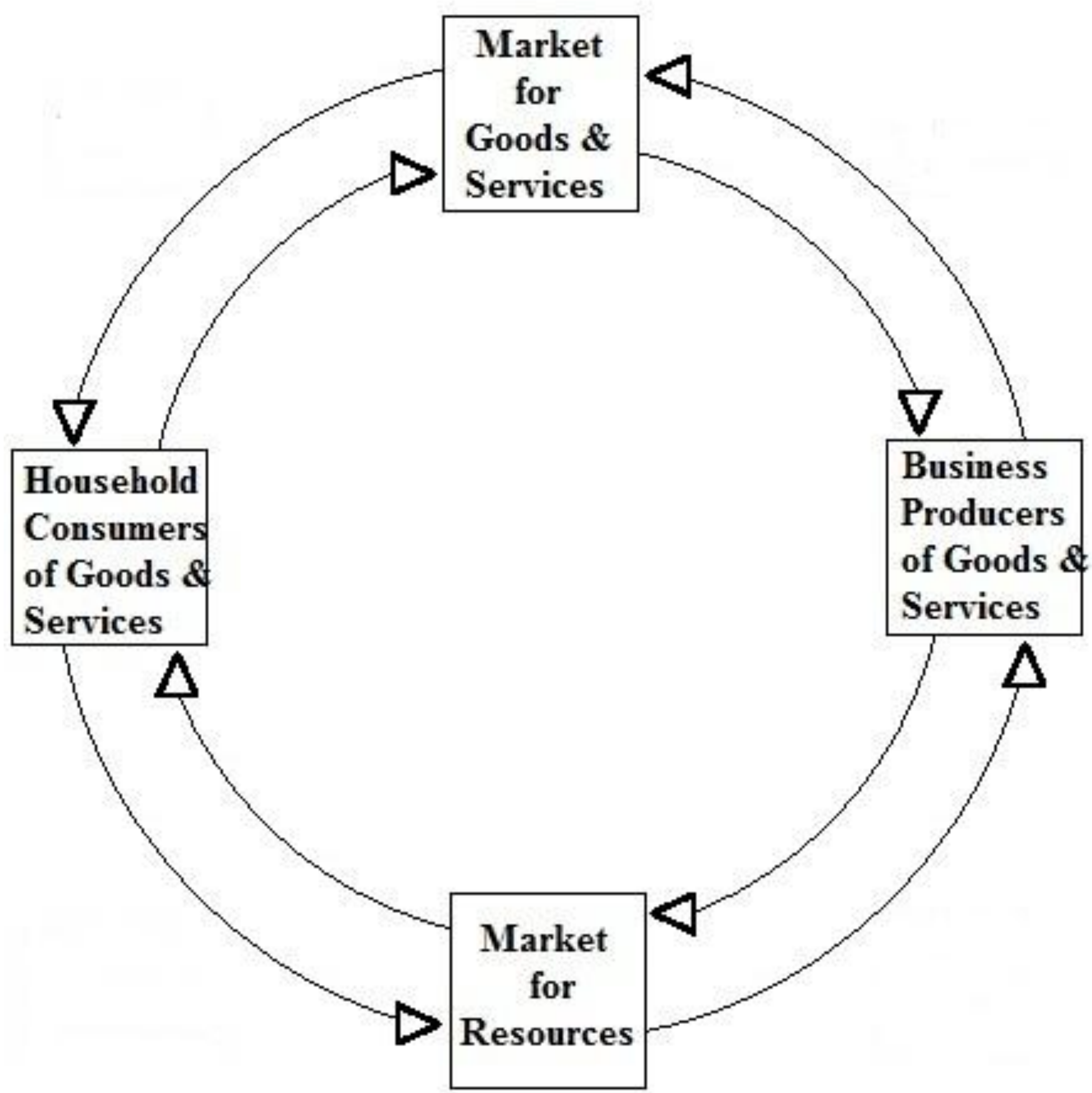
***Specialization* is the concentration of the productive efforts of individuals and firms on a limited number of activities.**

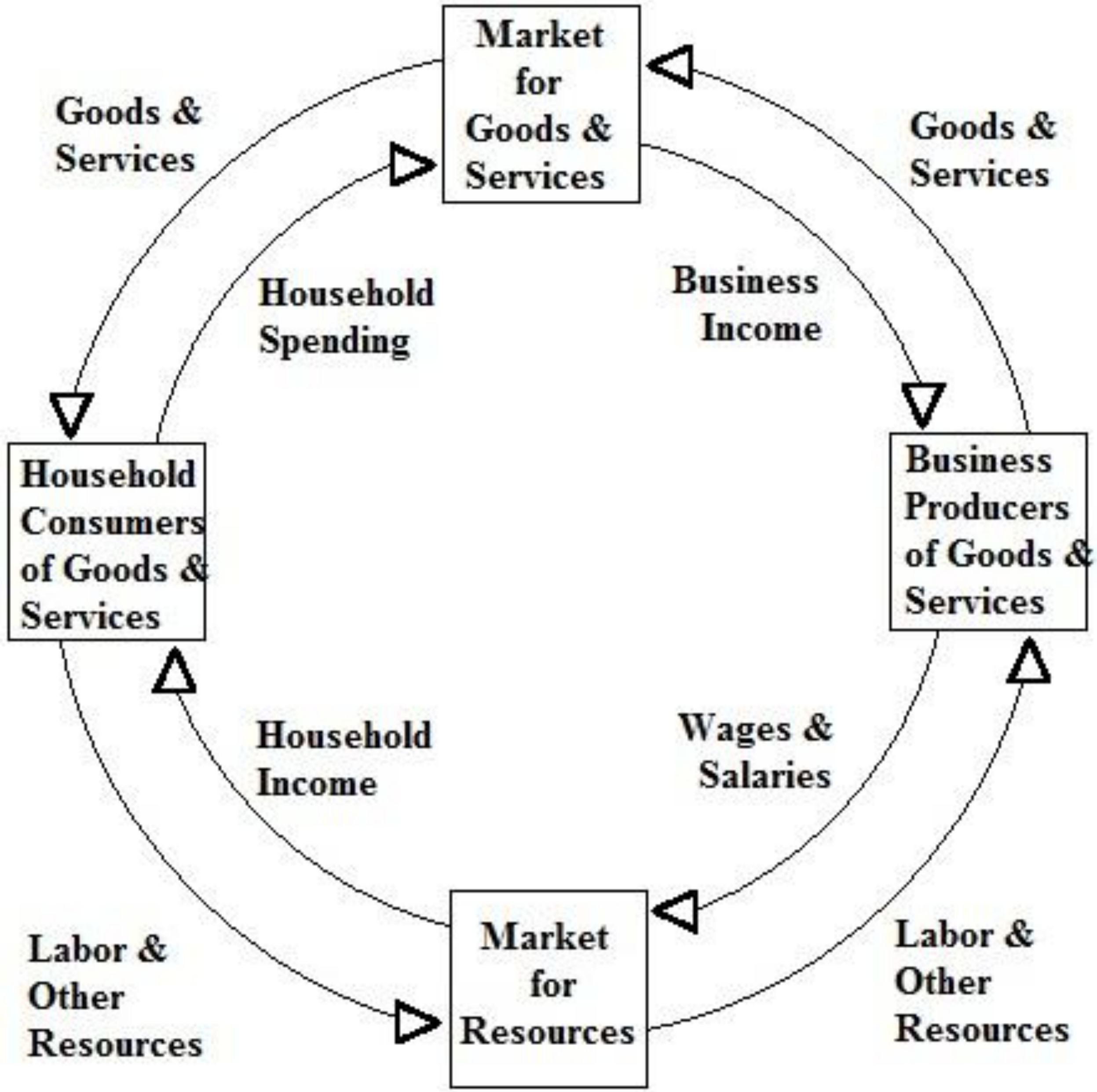
The *Free Market* Economy

In a free market economy, households and business firms use markets to exchange money and products. Households own the factors of production and consume goods and services.






Market for Goods & Services
Household Consumers of Goods & Services
Business Producers of Goods & Services
Market for Resources


Market for Goods & Services
Goods & Services
Goods & Services
Household Spending
Business Income
Household Consumers of Goods & Services
Business Producers of Goods & Services
Household Income
Wages & Salaries
Labor & Other Resources
Labor & Other Resources
Market for Resources

The Basic Principles of Free Enterprise

Several key characteristics make up the basic principles of free enterprise.

1. **Profit Motive**

   The drive for the improvement of material well-being.

2. **Open opportunity**

   The ability for anyone to compete in the marketplace.

3. **Legal equality**

   Equal rights to all.

4. **Private property rights**

   The right to control your possessions as you wish.

5. **Free contract**

   The right to decide what agreements in which you want to take part.

6. **Voluntary exchange**

   The right to decide what and when you want to buy and sell a product.

7. **Competition**

   The rivalry among sellers to attract consumers.

What Is the Law of Demand?

The *law of demand* states that

consumers buy more
when its price decreases

and

consumers buy less
when its price increases.

The law of demand is the result of two separate behavior patterns that overlap, the substitution effect and the income effect.

These two effects describe different ways that a consumer can change his or her spending patterns for other goods.

The Substitution Effect and Income Effect

The Substitution Effect

The substitution effect occurs when consumers react to an increase in a good's price by consuming less of that good and more of other goods.

The Income Effect

The income effect happens when a person changes his or her consumption of goods and services as a result of a change in real income.

Shifts in Demand

Ceteris paribus is a Latin phrase economists use meaning "all other things held constant."

Demand is accurate only as long as the ceteris paribus assumption is true.

When the ceteris paribus assumption is dropped, movement no longer occurs along the demand curve. Rather, the entire demand curve shifts.

What Causes a Shift in Demand?

1. Income

   Changes in consumers incomes affect demand. A normal good is a good that consumers demand more of when their incomes increase. An inferior good is a good that consumers demand less of when their income increases.

2. Consumer Expectations

   Whether or not we expect a good to increase or decrease in price in the future greatly affects our demand for that good today.

3. Population

   Changes in the size of the population also affects the demand for most products.

4. Consumer Tastes and Advertising

   Advertising plays an important role in many trends and therefore influences demand.

The Law of Supply

According to the law of supply, suppliers will offer more of a good at a higher price.