

# Basics of Economics

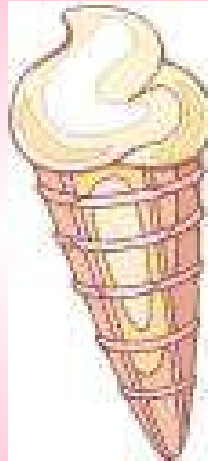
**SS6E7** The student will analyze different economic systems. **a.** Compare how traditional, command, and market economies answer the economic questions of 1 – what to produce, 2 – how to produce, and 3- for whom to produce. **b.** Explain how most countries have a mixed economy located on a continuum between pure and market and pure command.

**SS6E9** The student will describe the factors that cause economic growth and examine their presence or absence in Europe. **a.** Explain the relationship between investment in human capital (education and training) and gross domestic product (GDP). **b.** Explain the relationship between investment in capital goods (factories, machinery, and technology) and gross domestic product (GDP). **c.** Describe the role of natural resources in a country's economy. **d.** Describe the role of entrepreneurship.

# Needs and Wants

- Need: something we can't live without.

- Food, water, air, shelter



- Want: something we would like to have (but you can live without)

- iTunes downloads, iPods, iPhones, other cellular devices, junk food



# Wants and Needs are Produced from Limited Resources



- Limited: only a certain amount
- Resources: things used to provide what we need or want
- Factors of Production:
  - Land resources: land, soil, plants, animals, water, oil, and metals.
  - Labor resources: the work people do with their hands and their minds (carpenters, singers, teachers, etc.)
  - Capital resources: the goods used to make other goods (buildings, machines, technology that creates more technology)



# Goods versus Services

- Goods are things you can touch, or feel, or hold in your hands. Goods must be grown or made by someone.
- Services are the jobs people provide to make goods available (pizza delivery guy, hair dresser, dentist, etc.)



# 3 Basic Economic Activities

- An economic activity is anything people do to meet wants and needs. The things people do to provide goods and services can be divided into three groups. We call these groups the basic economic activities. The 3 groups are:
  - Taking materials from the earth
  - Making things, and
  - Providing services



# 3 Basic Economic Questions

- Every nation must answer three questions about goods and services. We call these questions the 3 basic questions of economics. The questions are: **What to produce?**
  - What goods and services should be produced?
  - How should these goods and services be produced?
  - Who will get the goods and services?

How to produce?

**For whom?**

# Kinds of Economic Systems

- How a country answers the 3 economic questions determines the form of economic system.
- The 4 major economic systems are:  
(leave room to describe each)
  1. Traditional
  2. Command
  3. Market
  4. Mixed



# Traditional Economy

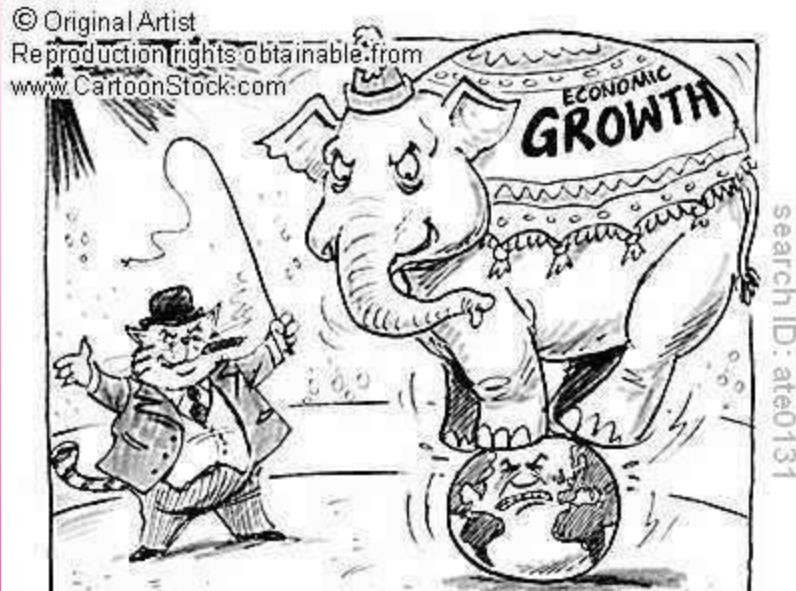
- Traditional Economy: makes decisions based on what has been done in the past. People produce the goods and services they have always produced. (herd cattle, produce clay pots)





# Command Economy

- In a command economy, government leaders decide the answers to the basic economic questions. The government controls the land, labor, and capital (the three factors of production).



# Market Economy

- A market economy is the opposite of a command economy. In a market economy, each person answers the 3 basic questions (what, for whom, how).
- People make decisions for themselves.



# Mixed Economy

- Most nations in the world have a mixed economy. A mixed economy is one which is part command and part market economy. Most governments have some say over how the 3 basic questions are answered. However, many decisions are left up to the people.



# Voluntary Trade in Europe

**SS6E8** The student will analyze the benefits of and barriers to voluntary trade in Europe. **a.** Compare and contrast different types of trade barriers such as tariffs, quotas, and embargos. **b.** Explain why international trade requires a system for exchanging currencies between nations.

- Countries sometimes set up trade barriers to restrict trade because they want to sell their own goods to their own people. Trade barriers include: (Please leave space between each for descriptions)
- Tariffs
- Quotas
- Embargos

# Tariffs

- Tariffs are taxes placed on imported goods. Tariffs cause the consumer to pay a higher price for an imported item, increasing the demand for a lower-priced item produced domestically.





# Quotas

- Quotas are restrictions on the amount of a good that can be imported into a country. Quotas can cause shortages that cause prices to rise.

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"Only two cookies? What is this — a quota system?"

# Embargoes

- Trade embargoes forbid trade with another country.



# Free Trade and the European Union

- The European Union (EU) was primarily established to set up free trade among countries in Europe. Today, the EU is a powerful trade bloc, making one-fifth of the world's trade. Products produced in Europe can now move freely, without tariffs, to other EU member nations. This free trade leads to tremendous cost savings for European consumers and businesses.



# Your Money = My Money



Because every country does not use the same type of money, international trade requires a system for **exchanging currencies** between nations. Money from one country must be converted into the currency of another country to pay for goods in that country. This system is called **foreign exchange**. The exchange rate is how much one currency is worth in terms of the other.