Economics

Review Week!

Monday, March 7th

Opener

- **Econ Budget Project**
  - Time to turn in your Project!
  - Put it in the bin at the front of the room

- Then…use your Unit One Vocabulary Flash Cards to complete your Unit One Crossword Puzzle.
  - Take a trip down Memory Lane and try to remember all our Unit One studies!

Unit One
Fundamentals of Economics

- Economics is the study of how individuals and nations make <u>choices</u> about how to use their <u>scarce/limited</u> resources to fill their unlimited needs and wants.

- <u>Microeconomics</u>- Deals with individual units of the economy.
  - Individual Units can mean a person, a family or a community

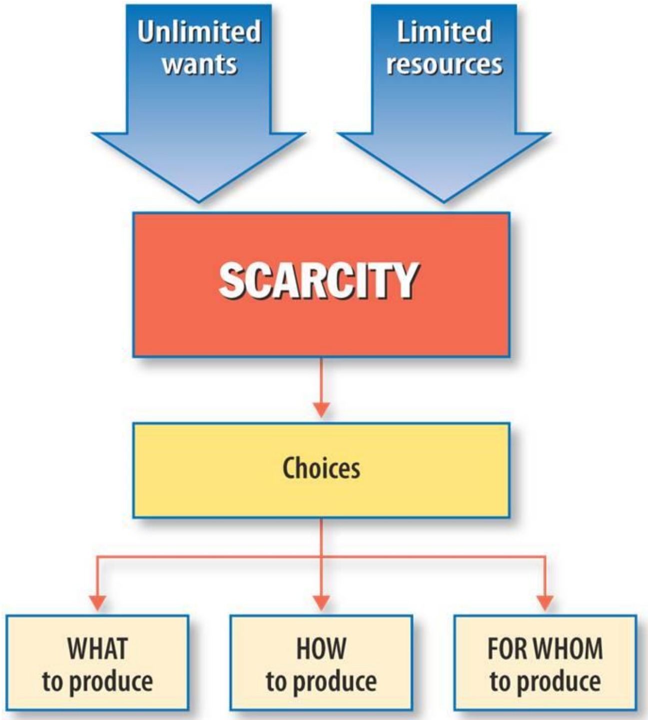
- <u>Macroeconomics</u>- Deals with the economy on a national or global level

Four Themes of Economics

1. Scarcity – The effect of limited resources on making charges.
2. Voluntary Exchange - The ways in which people gain from trade
3. Incentives - The role of incentives in making choices (Ex. Profit Motive)
4. Economic Interdependence - The costs and benefits of interdependency between two or more individuals, businesses, and/or nations

Scarcity: The basic economic problem

- Unlimited needs and wants with limited resources.
- Primary needs include air, water, food, shelter, clothing, sleep.
- Secondary needs are called wants which include cars, Abercrombie, jewelry.
- Intangible needs include love, peace, happiness, pain.



Who makes the decisions?

- Consumers- make decisions on what to buy
- Producers- make decisions on what to produce

Possible products fall into two categories:

- Goods- physical objects to purchase
- Services- actions/activities performed for a fee

4 Factors of Production

1. Natural Resources – anything provided by Mother Nature

2. Human Resources - people's physical and intellectual value

3. Capital resources - are goods produced and used to make other goods and services.

   Basic categories of **capital resources** include tools, equipment, buildings, and machinery.

4. Entrepreneurship – people putting resources together to create and innovate!

Efficiency

- A company that is not wisely using its resources should improve efficiency.
- Efficiency is the (often measurable) ability to avoid wasting materials, energy, efforts, money, and time in doing something or in producing a desired result.
- 'Economic Efficiency' is a broad term that implies an economic state in which every resource is optimally allocated to serve each person in the best way while minimizing waste and inefficiency.
- When an economy is economically efficient, any changes made to assist one person would harm another.

Efficiency - when there's room for improvement

- When companies strive to improve efficiencies they might introduce division of labor
- Division of Labor involves assigning one or more task/s to each individual worker.
- Each worker specializes in that particular task/s and becomes proficient (or very efficient) at that task.
- The production of most goods can be broken down into a number of specific tasks (division of labor), with each of these tasks assigned to specific workers (specialization)

Remember the basic economic problem?

1. Scarcity
2. Utility- the usefulness of an item to a person

- Utility can vary from person to person.
- Now we see that a diamond is both scarce and it also has utility.
- Water has utility, but it is not scarce enough to give it a high value.

Scarcity > Choices > Trade Offs

- Because choices must be made to efficiently use your resources, sometimes you will have to make a trade off
- T.O. = Trade Off- the sacrifice of one good in order to purchase or produce another.
- The cost of the T.O. is called a O.C.
- Opportunity Cost- the value of the next best alternative in terms of money, time, value and utility.

Incentives

- An **incentive** is something that encourages a person to do something or to work harder.
- An example:

The manager motivated his employees to achieve the highest sales in the company by giving them season passes to their favorite team as an incentive if they succeeded in breaking sales records.

Incentives

Positive Incentives

Reward people financially for making certain choices and behaving in a certain way

Negative Incentives

Punish people financially for making certain choices and behaving in a certain way

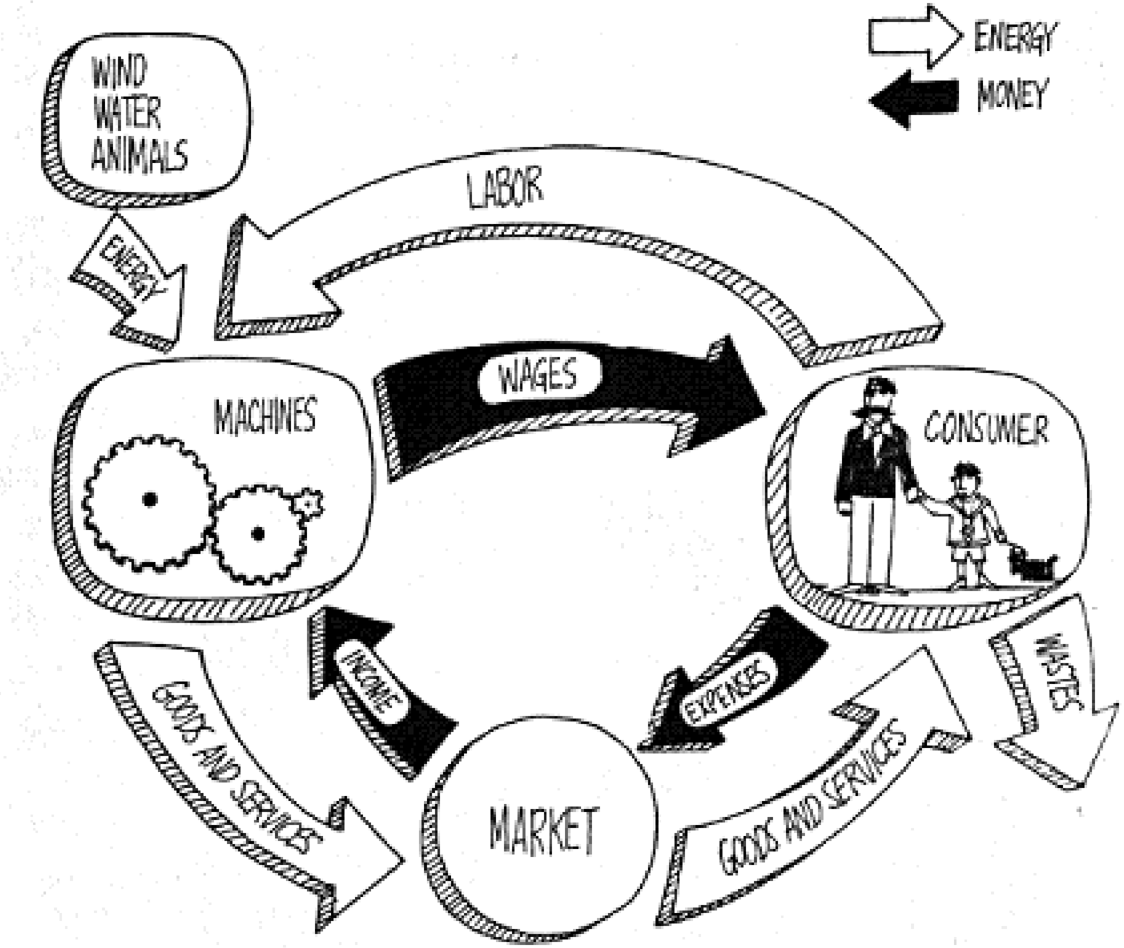
Voluntary Exchange

- Must be <u>voluntary</u> – forced exchange will not be sustainable
- Because it's voluntary, each participant is looking out for their own <u>self interest</u>.
- Therefore, they wouldn't trade unless the transaction would result in their <u>personal gain</u>

Voluntary Exchange = <u>Greater</u> Economic Value

ECONOMIC INTERDEPENDENCE

A characteristic of a society or macroeconomy with a high degree of job specialization (also called division of labor), where people depend on other people to produce most of the goods and services required to sustain life and living



Traditional Economy

- Traditional Economy – an economic system that is based on customs and beliefs.
  - People will make what they've always made.
  - They do things the same way as their parents and grandparents.
  - People are not free to make their own decisions on what they want.
- Exchange of goods is done through bartering – exchanges with no money involved
- Examples of these societies do not really exist any more. Native American societies and India in the past were like this.

Command Economies

- Command Economy – One in which a central authority makes all economic decisions about how best to allocate resources.
- Examples of these economies include Cuba, North Korea, and China.

Market Economy

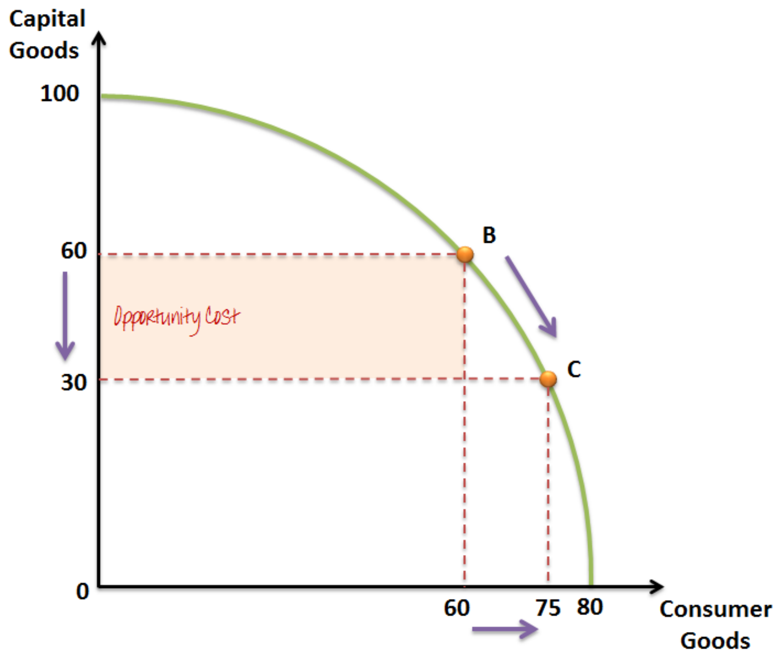
- Market Economy – One in which people or businesses' use their own best interest to make a profit. These economies are based on supply and demand.
- Buyers and sellers answer the economic questions as they come together to exchange goods and services.
- Examples include the USA, Great Britain and Japan

Mixed Economy

- Market + Command = <u>Mixed</u> Economy
- There are <u>no</u> pure market or command economies. To some extent, <u>all</u> existing economic systems demonstrate characteristics of both systems and can be called mixed economies.
- Economies are usually <u>closer</u> to one type of economic system than the other.
- People/businesses own most resources and determine what & how to produce, but the government may <u>regulate</u> certain industries.

Determining opportunity cost with a PPC

- Remember, every time we make a choice our next best alternative is a trade-off.
- The value of that trade-off is called opportunity cost.
- A PPC can tell us the opportunity cost of different economic decisions.
- The opportunity cost is the value of the next best alternative choice…it is always less.



In this example, our opportunity cost from point B to C is 30 units of capital goods (60 units minus 30 units = 30 units.

Coach Reading Q&A

- Read your Coach Book Lessons #1 - #3 and answer the questions on your printed question sheet.

Test Practice Questions

- To wrap up our review today, work with your assigned partner to answer your Test Practice Questions. Put your heads together to figure them out.
  - Ask for help if you can't figure it out!

First Block – Student Partners

Denisia Aliyah	Laith Ernesto	Steven Deshon Nayeem	Prosperity Denike
Qiara Kysalyn	Jared Jhaylon	Raneeka Calyah	

Test Practice Questions

- To wrap up our review today, work with your assigned partner to answer your Test Practice Questions. Put your heads together to figure them out.
  - Ask for help if you can't figure it out!

Third Block – Student Partners

Desiree Amina	Javarri Lorenzo	Owen Adie	Grayson Shamari
Geo Veer	Megan Debora	Javon Cory	Claribella Juliette
Nate Sam	Edith Chi Olivia	Tyson Ernesto	Veer Will

Test Practice Questions

- To wrap up our review today, work with your assigned partner to answer your Test Practice Questions. Put your heads together to figure them out.
  - Ask for help if you can't figure it out!

Fourth Block – Student Partners

Heitor	Guilherme	Mariana
Diego	Jose	Heidi
Misuel		

Heber	Haddy
Kelvin	Ying