

Civics Chapter 13

What Is an Economy?

Section 1: Why Societies have Economies

- In any society, people must make choices about how to use their resources to produce goods and services to satisfy their wants. Notice that there are several elements to think about when looking at these economic facts – wants, resources, production of goods, and services, and choices.

Section 1: Why Societies have Economies

- People's Many Wants
 - Our most basic wants are for food, clothing, and shelter
 - One important influence on your wants is your environment. (EX)
 - Wants are also influenced by the societies in which we live and their culture (EX)
 - Another important characteristic of wants is that many of them can be satisfied only for a short time.

Section 1: Why Societies have Economies

- Using Resources
 - **Factors of production** are the resources people have for producing goods and services to satisfy their wants.
 - The three basic factors of production in an economy are labor, land, and capital.

Section 1: Why Societies have Economies

- Labor: One factor of production, labor, includes time and energy. (EX)
- Land: Another factor of production, land, is made up of the many natural resources that are needed to help produce goods and services.

Section 1: Why Societies have Economies

- Capital: **Capital** is anything produced in an economy that is used to produce other goods and services
- Capital includes any tools, machines, or buildings used to produce goods and services.
- Although it is not a factor of production, money is sometimes referred to as financial capital. Financial capital is money that is available for investing or spending.

Section 1: Why Societies have Economies

- Production of Consumption
 - To produce goods and services people want, the resources of labor, land, and capital must be combined in a process called production.
 - Production is followed by distribution, the process by which goods and services are made available to the people who want them.
 - When goods and services have been produced and distributed, they are ready for consumption. **Consumption** is the act of buying or using goods and services.

Section 1: Why Societies have Economies

- Making Choices
 - Benefits: one part of making an economic decision is looking at the benefits you will receive from each of the possible choices.
 - Costs: The major cost of any decision is giving up the benefits you would have received from the alternative. Every economic decision has an **opportunity cost**, the highest valued benefit given up when a choice is made.

Section 1: Why Societies have Economies

- Scarcity
 - **Scarcity** means that the resources are always limited compared with the number and variety of wants people have
 - Each decision to use resources to produce one kind of good or service is, at the same time, decision not to use the same resources to produce something else that people want.

Section 2: Basic Economic Decision

- The three most basic decisions are
 - Which goods and services should be produced, and in what amounts?
 - How should these goods and services be produced?
 - Who will get the goods and services that are produced?

Section 2: Basic Economic Decision

- What and How Much?
 - As an owner of resources decides what to produce, he or she also decides to **quantity**, or amount, to produce.

Section 2: Basic Economic Decision

- How to Produce Goods and Services
 - In what way will land, labor, and capital be combined to produce goods and services.
 - Choices to Make: In making decisions about how to produce, people usually want to choose the combination of resources what will be the least costly.
 - The Role of Technology: In our economy, the desire to find the least costly way to produce goods and services has led to the growth of **technology**, or the practical application of science to commerce or industry.

Section 2: Basic Economic Decision

- Who Gets What?
 - Deciding who will get the goods and services that are produced is the third basic choice that must be made in an economy. In other words, people must find a way to decide how all the goods and services will be divided up. Wants are always greater than the resources available to satisfy them.
 - The goals and values of a society have a great influence on how that society makes all three basic economic decisions.

Section 3: Three Types of Economics

- Traditional Economies
 - In a **traditional economy**, the basic economic decisions are made according to long-established patterns of behavior that are unlikely to change.
 - If they do change is it a fast or slow change?
 - In societies with traditional economies, all members work together to support the society rather than just their families.

Section 3: Three Types of Economics

- What to Produce: Tradition answers the question of what and how much to produce
- How to Produce: There are also customs that have to do with how to produce. (weapons)
- Who Gets What is Produced
- Who Owns the Resources: People in a traditional economy usually own their own resources, such as land, tools, and labor.

Section 3: Three Types of Economics

- Societies with traditional economies are usually small
- Today, few purely traditional economies remain in the world.

Section 3: Three Types of Economics

- Command Economy
 - In a **command economy**, the government or central authority owns or controls the factors of production and makes the basic economic decisions. In such a system, the government usually has charge of important parts of the economy.
 - Farms and many stores are government controlled
 - The government, not private individuals, make the major economic decisions.

Section 3: Three Types of Economics

- **Government Decision Making:** In a command economy, a central planning group makes most of the decisions about how, what, and how much to produce. It is up to the central planning group to make sure that there are enough resources and workers to produce what is needed. The result is that only those products that the government chooses will be available for people to consume. In this type of economy, consumers have little or no power in determining what and how much gets produced.

Section 3: Three Types of Economics

- **Who Gets What:** In a command system, the decisions of who gets what is produced depends on the goal and values of the central authority.

Section 3: Three Types of Economics

- Market Economy
 - **Market economy**, a system in which private individuals own the factors of production and are free to make their own choices about production, distribution, and consumption.
 - The economy of the U.S. is based on the market system.
 - All economic decisions are made through a kind of bargaining process that takes place in markets.
 - The value of what you have to offer sets the value of what you can get.

Section 3: Three Types of Economics

- Decision Making by Individuals: In a market economy, people are free to decide how to use land, labor, and capital. They are also free to start their own businesses and to choose what jobs they want to do. The major economic decisions about what and how much to produce and how to produce it are made by individuals, not by a central government's command or by tradition and custom.

Section 3: Three Types of Economics

- Competition: Producers compete to satisfy the wants of consumers. Workers compete for jobs.
- Profit Seeking: One of the chief incentives for people in a market economy is the potential to make a profit. **Profit** is the difference between the total cost of production and the total revenues received from buyers. The desire to make a profit also leads people to invest in a business. To **invest** means to use your money to help a business get started or grow, with the hope that the business will earn a profit in which you can share.

Section 3: Three Types of Economics

- Free Enterprise and Capitalism: There are two other names for the market economy. One of these is free enterprise. The term **free enterprise** refers to the system in which individuals in a market economy are free to undertake economic activities with little or no control by the government.
- The other name for the market economy is capitalism. **Capitalism** is a system in which people make their own decisions about how to save resources as capital and how to use their capital to produce goods and provide services.

Section 3: Three Types of Economics

- Modern-Day Economics
 - In today's world most countries are have a **mixed economy**, one that is a mixture of the three basic systems. The People's Republic of China and the United States are two very different examples of mixed economies.

Section 3: Three Types of Economics

- The Economy of China: Before the late 1980s, the economy of China was a command economy.
- In the late 1980s and the 1990s, the Chinese government took steps toward creating a more mixed economy by adding some features of free enterprise to its economic system.

Section 3: Three Types of Economics

- The Economy of the United States: The United States economy is considered a market – or free enterprise – system.
- There are elements of government control in our economy.
- Our government provides, or requires the economy to provide, certain services such as education, mail delivery, and an army and navy for defense. Government also provides such goods as highways and airports.