**Unit 1 Introduction to Economics**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the study of how individuals, families, businesses, and societies use limited resources to fulfill their unlimited wants.

**Wants vs Needs**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_ are anything other than what is needed for basic survival.
  + Examples?
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are things required for basic survival.
  + Examples?

**Choices**

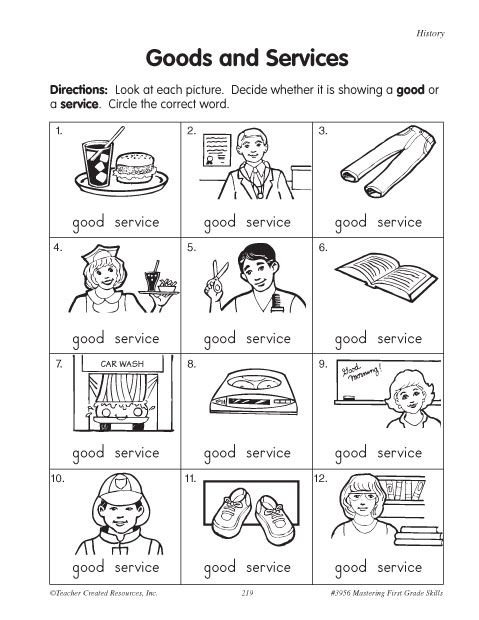
* Spending \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ involve choices.
* Each available \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ competes with other available choices.
* Businesses, like individuals, must make \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ decisions about \_\_\_\_\_\_\_\_\_\_\_\_ to produce, \_\_\_\_\_\_\_\_\_\_\_\_\_\_ to produce it, and when to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ producing.
* Societies face choices about how to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ their resources in the production of goods and services.

**Goods and Services**

* A \_\_\_\_\_\_\_\_\_\_\_\_\_ is something you buy and consume. Goods are things that you can keep, eat, or use.
  + If you got to the store and buy an apple, you get to keep the apple and take it home with you, to it is a good.
* A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is something that someone does for you. When you buy a service, you hire people to perform work. You are not buying something you can touch or hold.
  + If your car is broken, you might hire someone to fix it. You are paying for a service.

**Read each scenario and tell whether you are purchasing goods or a service**.

1. You get your hair cut.
2. You buy a book from a garage sale.
3. You buy your mother a flower from a flower shop.
4. You hire someone to cut your lawn.
5. You visit the doctor for a checkup.
6. You purchase a game to give as a birthday gift.
7. You pay your sister $5.00 to clean your messy room.
8. You buy an ice cream cone from an ice cream truck.
9. You take an airplane when you go on a trip.
10. Your brother sells you his old baseball mitt for $2.00.

****

**The Problem of Scarcity**

* \_\_\_\_\_\_\_\_\_\_\_\_ resources are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* People \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for limited resources.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ exists because people cannot satisfy their every want.
* Unlike scarcity, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are temporary.

**Factors of Production**

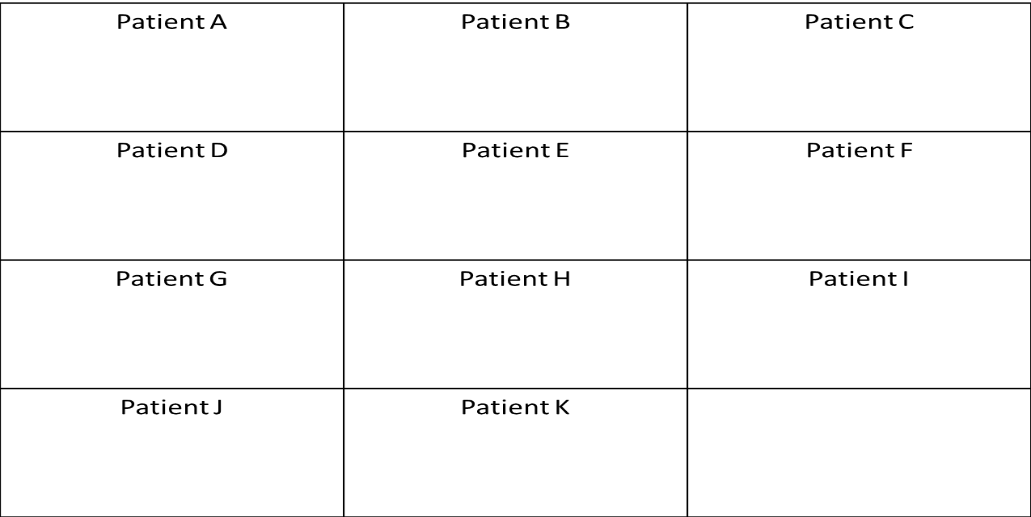
* Land –
* Labor –
* Capital –
* Entrepreneurship –

**Trade-Offs**

* When making \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, limited resources force individuals, businesses, and nations to make \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* Trade-offs result in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ something of value to get what is most wanted.
* When people make \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, they \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ one good or service for another. In making a purchase, the good they are exchanging is\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* Exchanging one thing to get the use of another is called a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* You make trade-offs every time you use a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in one way instead of another.
* The result of a trade-off is what you \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in order to get or do \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* Sometimes the choice can involve the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, for example, choosing to volunteer at an animal shelter instead of going with friends to the local mall.
* At other times, the choice may \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_-buy the newest Playstation Game or save for a cell phone?

**Opportunity Costs**

* Every time an economic decision is made, there is the risk of not selecting the best \_\_\_\_\_\_\_\_\_\_.
* The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of a decision is what is given up when the alternative choice is not selected.
* For example, the opportunity cost of deciding to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ studying for a math test is the lost opportunity to spend time with friends.
* The risk is whether the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ studying will result in a higher test score.
* For example, time is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ resource. There are a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of hours in a day and you must choose how to use them.
* If you use one-hour of study a school assignment, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are all the other things you could have done during that hour.
* The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is what you would have done for that hour had you chosen not to study.
* In other words, it is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that you have up in order to study.
* Knowing about the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can help you make decisions at all levels. You will be able to make wiser use of your resources if you are aware of the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of your decisions.
* Businesses must also consider these factors when they make \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ about investing money or producing \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ rather than another.

**What is Economics is Really About Activity**

**Production Possibilities Curve**

* The production possibilities curve shows the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ combination of goods and services that can be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ from a given amount of resources.
* Using a production possibilities curve, a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can decide how to use resources.

**Identify what will happen to the PPC for consumer goods and capital goods.**

1. What would happen if we had faster computers and better technology?

Capital Goods

Consumer Goods

1. What if a country’s power plants were destroyed and the amount of the electricity they produce decreased?

Capital Goods

Consumer Goods

3. What if there was an increase in unemployment which causes recession in the economy?

Capital Goods

Consumer Goods

4. What if there was an increase in education?

Consumer Goods

Capital Goods

**Three Basic Economic Questions**

1. \_\_\_\_\_\_\_\_\_\_\_\_ goods and services \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_be produced?
   * If more of one particular\_\_\_\_\_\_\_\_is produced, then less of something else will produced.
2. \_\_\_\_\_\_\_\_\_\_ should they be produced?
   * Decisions must be made as to what the best \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of available inputs will be to get the job done for the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ possible cost.
3. For \_\_\_\_\_\_\_\_\_\_\_\_ should it be produced?
   * The type of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ under which people live determines how the goods and services will be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_among its members.

**Economic Systems**

* The way a nation uses its resources to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ its people’s needs and wants is called an economic system.

**Traditional Economy**

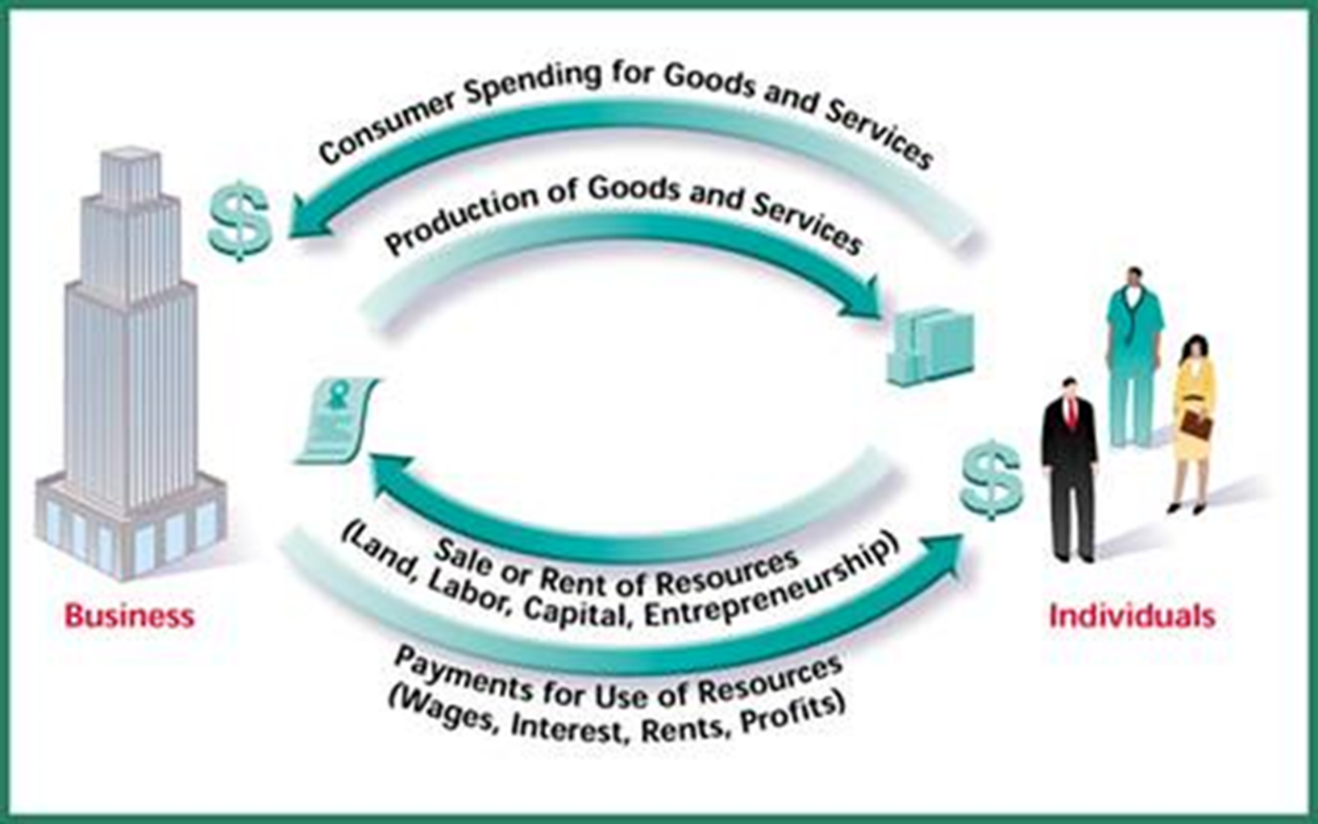
* The traditional economy system makes decisions based on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_that have been handed \_\_\_\_\_\_\_\_\_\_\_ from generation to generation.
* *Advantages:*
  + You know what is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of you.
  + Family and community ties are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* D*isadvantages:*
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is discouraged and perhaps punished.
  + Methods of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are often inefficient.
  + Choices\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ consumer goods are rare.
  + Individuals rarely experience an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_level of material well-being.

**Command Economy**

* In a command economy (\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_) system, government leaders control the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of production and make \_\_\_\_\_\_\_\_\_\_\_decisions about their use.
* *Disadvantages:*
  + Lack of\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to work hard or show inventiveness.
  + Lack of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ choices.

**Market Economy**

* In a market economy (\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_) system, individuals \_\_\_\_\_\_\_\_\_the factors of production and make economic choices based on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ while looking out for their own and their families’ best interests.
* *Advantages:*
  + People have\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ provides consumers with a wide array of goods and services to choose.
  + There is an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ system of determining costs.
* *Disadvantages:*
  + Lack of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ about those too young, too old, or too sick to work.

***Circular Flow***

* The flow of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, goods and services, and income in a \_\_\_\_\_\_\_\_\_\_\_\_\_\_ system is a circular flow of income and output.

**Mixed Economy**

* A mixed economy system \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ characteristics more than one type of economy.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_countries have a mixed economy in which \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ownership of property and individual decision making are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ with government intervention and regulations.
* A mixed economy is a combination of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_economies.

**Limited Role of Government**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is another name for the market economy system.
* Pure capitalism has been called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ system; a French term meaning “let (people) do (as they choose).”
  + Laissez-faire is an economic system in which the government minimizes its interference with the economy. Also known as “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_” government.
* Capitalism in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is best defined as an economic system in which\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ individuals own the factors of production but \_\_\_\_\_\_\_\_them within certain legislated limits.

**Other Characteristics**

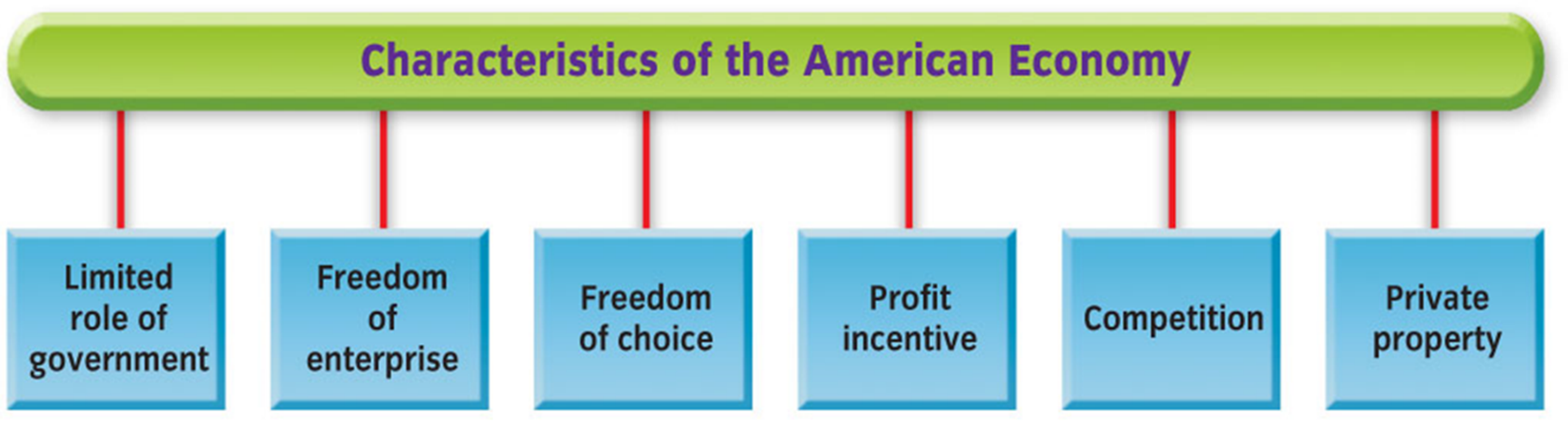
* The American economy is known as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. Individuals are \_\_\_\_\_\_\_\_\_\_ to own the factors of production and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ how to use them within\_\_\_\_\_\_\_\_\_\_\_\_ limits; same as capitalism.
* Americans also have freedom of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ where buyers, \_\_\_\_\_\_\_\_\_sellers, make the decisions about what \_\_\_\_\_\_\_\_\_\_\_\_\_\_ be produced.
* At times, the government has \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in various areas of the economy to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ buyers and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ price.
* The goal of a business is to make a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* The desire to make a profit is referred to as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ or profit motive.
* The risk of \_\_\_\_\_\_\_\_\_\_\_\_, when profits are not realized, is also\_\_\_\_\_\_\_\_\_ of the free-enterprise system.
* In a free-enterprise system, the \_\_\_\_\_\_\_\_\_\_\_ of profits encourages \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* For competition to exist, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ barriers to enter into, and exit from must be\_\_\_\_\_\_\_\_.
* Competition leads to an\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ use of resources since businesses are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_to keep costs of production as low as possible.
* One of the most important characteristics of capitalism is the existence of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Goals of Free Enterprise**

* Economic goals of Americans:
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_– to allow each member of society to make choices.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – wise use of limited resources.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_– economic system should be fair and just.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – want protection against risks beyond our control.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – attempt to reduce extreme ups and downs in the standard of living.
  + \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_– increased production of goods and services over time.

**Rights and Responsibilities**

* The American \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ system bestows numerous economic rights and protections on us, but we must take on certain \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (such as supporting ourselves and our family).
* We must also become \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ about government policies and elect responsible government officials.



**Pure Socialism**

* Pure command socialism is an economic system in which there is \_\_\_\_\_\_\_\_\_\_\_\_ private property and the government \_\_\_\_\_\_\_\_\_\_ the factors of production and attempts to manage output and the distribution of\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Characteristics of Pure Socialism**

1. Most \_\_\_\_\_\_\_\_\_\_\_\_\_ are set by the state, rather than by forces of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and demand.
2. The movement of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, particularly \_\_\_\_\_\_\_\_\_\_\_\_, is strictly controlled. The \_\_\_\_\_\_\_\_\_\_\_\_\_ planning authority makes all decisions.
3. Most of the major \_\_\_\_\_\_\_\_\_\_\_\_\_ of production are owned by the state. Private \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ rights are strictly limited to small tools that an \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ needs for an occupation.
4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ risk taking is not allowed. The state takes all of the \_\_\_\_ when it decides which \_\_\_\_\_\_\_ companies shall be formed. All citizens \_\_\_\_ for unsuccessful risk taking.
5. Economic decisions about what. \_\_\_\_\_\_\_\_, and for whom to produce are all made by \_\_\_\_\_ officials through central planning agencies and other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ units.
6. Taxation is \_\_\_\_\_\_\_\_\_\_\_ used to redistribute income.

* Karl Marx viewed history as a continual \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ between capitalists (owners of land, machines, and factories) and the workers.
* He believed that the capitalists \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the workers.
* He outlined the eventual \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of capitalism and predicted the evolution of socialism into communism,an idealized \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_in which no government is necessary.

**The Change from Capitalism to Socialism According to Marx**

1. Capitalism would suffer extreme \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and depressions that would \_\_\_\_\_\_\_\_\_\_ workers. A \_\_\_\_\_ rich capitalists would have all industrial power.
2. The \_\_\_\_\_\_\_\_ gap between the rich and the poor would cause workers to \_\_\_\_\_\_\_\_\_ and overthrow capitalism.
3. The victorious \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ would establish a new socialist system. Workers, through the \_\_\_\_\_\_\_\_, would own and control the means of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
4. The system would \_\_\_\_\_\_\_\_\_\_\_\_\_ into pure communism. Workers would contribute to society to their \_\_\_\_\_\_\_ abilities and, in return, take only what they needed.

**In the twentieth century, socialism split into two major trends:**

* Democratic socialism: system that works within the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ framework of a nation to elect socialists to office; the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ usually controls only some areas of the economy.
* Authoritarian socialism: system that supports \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ as a means to overthrow capitalism and bring about socialist goals; the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ economy is controlled by a central government; also called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**The Benefits of Capitalism**

* Supporters of capitalism:
* Those who place a high value on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ freedom, initiative, and individuality.
* Demonstrate that \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ allows for more efficiency in the marketplace and for greater \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of economic growth.

**Planning in Market and Command Economies**

|  |  |
| --- | --- |
| **Market System: Decentralized** | **Command System: Centralized** |
| In the U.S. market system, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is undertaken by private firms, individuals, and elected government representatives. Economic activity is coordinated by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ businesses and individuals responding to market signals. | In pure socialist systems, central planners undertake the planning on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of everyone. Planners also \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the movement of resources, particularly labor. |

* The United States has an economy planned by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ firms, individuals, and elected government officials, while socialism has an economy planned by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_planners.

**Problems of capitalism:**

* Income is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ distributed throughout the economy.
* There are \_\_\_\_\_\_\_\_\_\_\_enough schools and museums for the general public.

All economic systems answer **three basic questions:**

There are four basic types of **economic systems:**