**Economics: The Bible**

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| **Unit 1: Fundamental of Economics**  **Key Terms**   * **Economics:** a social science studying the **allocation** of **scarce** resources and goods. * **Allocate:** to distribute according to some plan or system. (SSEF4c) * **Scarcity:** limited productive resources versus unlimited wants. (SSEF1a, SSEF4c)   **FACTORS OF PRODUCTION or** the productive resources   * **Land (natural):** Example: Cows, minerals, trees * **Labor (human):** Janitor, Teacher, Plumber * **Capital (physical and human):** Example: Physical-tools and equipment, Human-skills, technical college * **Entrepreneurship:** Steve Jobs, Elon Musk   **Productive Resources:**   * Used by a society to produce outputs. * **Natural resources**, also known as **land resources**, are the gifts of nature we use to produce goods and services. * **Human resources** are the people involved in the production of goods and services. People offer their time to production as well as their physical abilities, knowledge, and skills. * The abilities each person brings to the production process is known as their **human capital**. * **Physical capital** refers to tools, machines, and structures used over and over again in the production of goods and services. * **Entrepreneurs** take risks by using their own financial resources to create new products or start new businesses. (SSEF1b) * Those outputs, which are often finished products such as hamburgers and cars, are called goods. * The decision to produce one good instead of another often relates to **choice** and **opportunity cost**. (SSEF1d)   **Incentives:**   * In economics, an incentive motivates individuals, businesses, and/or governments to undertake an action or avoid an action. * **Positive Incentives** are when individuals, businesses, and/ or governments choose an option associated with a perceived benefit or gain. * For example, an income tax credit for purchasing a home will most likely lead to more people buying homes so they can take advantage of the tax credit. * Incentives are negative, sometimes called disincentives, when individuals, businesses, and/or   **Production Possibilities Curve (PPC)**   * A **production possibilities curve** is used to show the maximum combination of goods and services that can be produced from a fixed amount of resources. * The production possibilities curve can show trade-offs. * **Trade-offs** are what was exchanged for the use of something else. * On the Production Possibilities Curve below: B, C, and D are all Trade-offs * On the PPC below: A represents inefficient use of resources * On the PPC below: B, C, and D represent efficient use of resources * On the PPC below: E represents unattainable use of resources      * The production possibilities curve shows the opportunity cost of any trade-offs made. (SSEF6d) * On the production possibilities curve below: The measure between Points A and B will be your opportunity cost based on your choice.     **Economic growth**   * Economic Growth is increasing production of goods and services over time. * Economic growth can be shown by an outward shift of the production possibilities curve. * **Economic efficiency** has to do with how well factors of production are allocated to uses desired by consumers and how they are used in production to keep costs low. (SSEF6)   **Major Economic Systems** (SSEF4a, b)  [Image result for economic systems spectrum](https://www.google.com/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&cad=rja&uact=8&ved=2ahUKEwjru4CqkIDZAhVD2lMKHVzsBMQQjRx6BAgAEAY&url=https://catalog.flatworldknowledge.com/bookhub/reader/271?e%3Drittenecon-ch02_s04&psig=AOvVaw08s7dztKsvUE9lDCnOQAwO&ust=1517416794930244)  **Market:**   * This is also called a **capitalistic** or **free-market** system. * In a market system, private individuals and firms control all resources, and the price and quantity of all goods are determined by the interaction of demand and supply in unrestricted, open markets. * Ownership of property and goods is determined in the private sector, and the government does nothing to interfere with any market. * Instead, this system relies on the belief that a market system naturally leads to efficient results (called the **“invisible hand”)** that theoretically correct any inequalities in resource allocation. * The United States is very market oriented, but it is not a purely capitalistic system. In a market system, it is easy to open a new business. * Customer tastes drive which goods and services will be produced. * There is a high level of competition in a market system. Competition incentivizes firms to lower prices, increase quality, and/or use resources more efficiently.   2. **Command:**   * A command economy is the opposite of a market economy. * In this case, the government commands all markets, determining what to produce, how to produce, and for whom to produce. * Centralized planning committees take into account all the resources a nation has to offer (labor, land, and capital) and then set up an economic system to produce this predetermined mixture of goods and services. * Since the government is in charge of everything, citizens should all receive equal amounts of basic goods and services. * In theory, this means that there should be no problems with high unemployment or poverty. In a command economy, the government is meant to provide for the welfare of its citizens. * Because the government makes all economic decisions, there is little opportunity or reward to pursue individual economic success. * There is little to no competition among individual firms so there is little incentive to innovate, increase quality, or lower prices.   the private market is unable to provide that good or service at a level that would benefit society.   * Public goods and services are (GDP), which is the sum of all goods and services produced usually paid for through the collection of taxes. * **Public goods** are “shared consumption” goods. This means that when one person uses the good it does not lessen the value of the good for another person. * They also are **non-exclusionary**. This means that it is difficult to prevent someone from enjoying the benefit from that good even though they are unwilling to pay for that good. (SSEF5a)   **2. Redistribution of Income**   * Sometimes governments choose to **redistribute income**. This means using the tax money from one group and giving it to other groups. * Social welfare payments and unemployment compensation are examples of the government redistributing income. (SSEF5a)   **3. Private Property Rights**   * The government is also responsible for the protection of **private property rights**. * If consumers or businesses are uncertain that they will be able to hold on to their physical or intellectual property, they are less likely to purchase goods or invest in or expand their business. * Private property rights are protected by intellectual property laws, such as patents and copyright laws. * Deeds for property and titles for cars are examples of how physical property is protected by the government. (SSEF5a)   **4. Resolve Market Failures**   * **Market failures** occur when the private market is unable to produce goods and services in a way that the marginal benefit to society from the production of the good is equal to or greater than the marginal cost to society for producing the good. * **Externalities** are a type of market failure. They occur when a third party other than the consumer or producer of a good is hurt or benefits from the production or consumption of that good. * Another type of market failure is market power. * Market power refers to a market failure resulting from the formation of monopoly and oligopoly market structures. (SSEF5a)   **Unit 2: Personal Finance**  **Key terms**   * **Savings** are monetary deposits secured for a later, undetermined use. Money in savings might eventually be spent on groceries, a vacation, or some other form of consumption. * An **investment** is money used with the expectation of some future return or benefit. * **Interest** is money paid regularly at a particular rate. * One way banks make profits is by taking the money deposited by bank customers and loaning out a portion to people who want to borrow. * By charging interest on the loans, banks make money. * The more money on deposit, the more loans they can make, which is why some banks offer very generous checking account services. * The interest on the loans is always more than the interest paid out to depositors. * Commercial banks and other financial institutions offering loans are businesses. * They must make a profit if they expect to continue operating. Banks make money by charging interest on loans. * Banks are able to give loans because of the money that consumers have deposited with them. * Banks encourage deposits by paying interest on money a depositor has in a savings account. * The **interest charged** on loans is always higher than the **interest earned** on deposits. * Banks make revenue by charging borrowers a higher rate of interest than they are paying to depositors. (SSEPF2b)   **Types of Financial Institutions**   * **Bank:** For most consumers, banks provide a safe means to store earnings. Typically, banks also offer direct deposit (where a person’s paycheck goes directly into his or her account), check-writing services, debit and credit cards, loans of all sorts (personal, home equity, business), and a host of other services. In their basic form, banks take the money deposited in them and loan out a portion of these savings to people who apply for them. By charging interest on the loans, banks make money. * **Credit union:** A credit union provides services similar to those of a bank; the main difference is that a credit union only provides these services to its members, and these members own and control the institution. * **Payday lenders:** A payday loan company will give out small loans in return for a portion of an upcoming paycheck. * If the company does well, its stock price usually rises, which translates to an increase in the wealth of its stockholders. * Some companies also pay out dividends to their stockholders, which are a portion of their profit. (SSEPF2d)   **Mutual Funds**   * Another form of investment is the **mutual fund,** which is usually a collection of various investments (stocks, bonds, and other forms of securities). * The goal of a mutual fund is to have many people pool their earnings, thereby giving these individual investors much greater purchasing power as a unit. * The accrued earnings are then used to buy a range of investment options, and any earnings made by the fund are distributed among the individuals. (SSEPF2d) * Over time, workers will demand more money to keep up with having to pay higher prices, but in the short run inflation causes an increase in prices. * If this increase is not matched by a similar increase in wages, workers will find that their paycheck can no longer purchase all the items it once purchased. (SSEMA1d)   **Risk vs. Reward**   * Whatever the investment, in finance, with risk comes reward. * People willing to invest money in riskier ventures—such as young companies in emerging fields—run a high chance of losing their entire investment, but they also stand to make the most of their investment if the venture is successful. (SSEPF2c)      * For example, a home mortgage is available to people with lower incomes because the bank can seize the home if the mortgage is not paid.   **Annual Percentage Rate**   * When you use a credit card and do not pay the balance off in full each month, you will be charged interest. * If you place your savings in a savings account or other investment option, you will earn interest. * The APR or **annual percentage rate** is the yearly rate charged for borrowing or the yearly rate earned through an investment. (SSEPF4b, c)   **Simple Interest vs. Compound Interest**   * There are different types of interest rates. With a **simple interest rate**, the interest is determined annually with the original loan amount. * With a **compound interest rate**, future interest is determined with the existing amount owed. * Compound interest rates could lead to you owing more money in order to pay off the loan. (SSEPF4b, c)   **Fixed Interest Rate vs. Variable Interest Rates**   * The type of interest to be paid is determined when the loan is opened. * With a fixed rate, the **interest rate** is determined when the loan is originated, and it does not change. * With a variable rate, the interest rate fluctuates over time because it is based on an index that changes periodically. (SSEPF4b, c)   **Summary of Credit**   * Overall, taking out a loan or using some other form of credit can be very helpful in a variety of instances. * In every case, a consumer must balance the benefit of having access to additional money with the cost associated with the interest and the financial difficulties that can result from defaulting on a loan.   **Insurance (KEY TERMS)**   * In general, all **insurance policies** allow a person or business to pay a relatively small amount of money (a **premium**) in the present to purchase **asset protection** against the possibility of a future financial loss caused by an unforeseen event. * Assets that can be protected range from one’s home to one’s health. * Most insurance policies include a **deductible** that stipulates the amount of money the insured must pay when a claim is filed with the insurance company. * Purchasing insurance involves shared liability between the insurer and the insured.   **Impact of Sales Tax**   * Like the different types of income taxes, a change to the **sales tax** affects different income groups in different ways. * Since all consumers purchase essential goods like food, a high sales tax on food would affect poor people more than wealthy people because both groups will be paying the same tax rate for the same good. * For this reason, economists usually classify sales tax as a regressive tax because it takes a greater percentage of income from a low-income person than from a high-income person. (SSEPF3b)   **Unit 3: Microeconomics**   * **Microeconomics:** the study of people and businesses within a single market. * This small focus—on only one particular market—is one way microeconomics (literally “small economics”) is different from **macroeconomics** (“large economics”).   **The Circular Flow Diagram**   * When buyers and sellers freely and willingly engage in market transactions, it is known in economics as **voluntary exchange**. * The transactions are made in such a way that both the buyer and seller benefit from the exchange. (SSEF3b) * The **circular flow diagram** shows the interactions between buyers and sellers in different markets. * **Economic Interdependence:** reliance on one another to provide the goods and services that people consume   **Role of Households in Circular Flow Diagram**   * **Households in the factor market** own productive resources. * They sell land, labor, and capital to businesses in the factor market in exchange for **income**. * **Households in the product market** are the consumers of goods and services. * They use their income to buy goods and services from businesses.   **Role of Businesses (firms) in Circular Flow Diagram**   * **Businesses (firms) in the factor market** consume productive resources (land, labor, capital, and entrepreneurship). * **Businesses (firms) in the product market** produce the goods and services purchased by households.   their supply of the good because of the greater expense associated with the input. When input prices become cheaper, sellers can increase their supply because it is cheaper to produce their product.   * **Government regulations**—If more taxes are imposed, most businesses will not be willing to supply as much as before. * **Number of sellers**—The supply of a particular good may increase or decrease because of change in the number of sellers in the market for a good. * **Producer expectations**—When sellers believe the price for a good will go lower in the future and they can increase their supply now, they will sell all they can before the price decreases. If they believe prices will go up in the future and they can delay the sale of their goods, they will supply less of the good now and wait for the price increase. * **Technology**—Technological improvements in the tools or processes used to make goods and services increase the supply of those goods and services. New technology eventually makes production cheaper. * **Education**—A better-educated and better-trained workforce should be able to produce more goods in less time. This should lower costs and increase supply. * A shift of the supply curve to the left indicates a decrease in supply. A shift of the supply curve to the right indicates an increase. (SSEMI2e)     **Equilibrium Price**   * **Equilibrium price** or **market clearing price** is found at the intersection of the market demand and supply curves. * It is the point at which the quantity demanded by consumers is equal to the quantity supplied by producers. (SSEMI2c)   **Equilibrium Price Graph**  Equilibrium  Price  **Price Floors and Price Ceilings**   * A government may set a price floor or price ceiling on a good or service. * A **price floor** sets a minimum price for which a product can be sold. * Price floors often lead to a surplus of a good. * An example of a price floor is a minimum wage. * A **price ceiling** sets a maximum price at which a good can be sold. * A price ceiling often leads to a shortage. * An example of a price ceiling would be rent control. (SSEMI2g)   **Price Floors and Price Ceilings Graph**    **Types of Business Organizations**   * There are many different **types of business organizations**, and each type has its advantages and disadvantages.  1. **Sole proprietorship:** A sole proprietorship has a single owner. (SSEMI3a)   **Forms of Unemployment (SSEMA1e)**   1. **Structural:** Structural unemployment occurs when someone has job skills that no one wants or when a company wants to hire someone but can’t find anyone who has the required skills. 2. **Frictional:** Unemployed people don’t always take the very first job they can find. They often wait to find a job that fits their talents and preferences. While they search for a job that is a good fit, these people are frictionally unemployed. 3. **Cyclical:** Most economies encounter cyclical periods of growth and recession. People who are laid off as a result of a contracting economy are cyclically unemployed. 4. **Seasonal:** Some people are unemployed at certain times of the year because of the industry they are in. There is a limited need for some work to be performed year round, such as lawn care.   **The Business Cycle**  **Business cycle:** The economy goes through a cycle of expansion and contraction. (SSEMA1f)   * **Peak:** the highest point in the business cycle, marking the end of an economic expansion and the start of a contraction in the business cycle. * **Contraction:** a stage in the business cycle in which the economy as a whole is in decline. * **Trough**: the lowest point in the business cycle, marking the end of an economic contraction and the start of a recovery. * **Recovery:** a stage in the business cycle that signals the beginning of economic growth and the end of a recession. * **Expansion:** a stage in the business cycle in which the economy as a whole grows until it reaches a peak     curbs inflation. If the Federal Reserve wanted to stimulate the economy to reduce unemployment, it could buy securities on the open market. (SSEMA2d, e)  **The Discount Rate**   * The Federal Reserve can also manipulate the **discount rate**, which is the interest rate that the Fed charges on loans it makes to banks (The Fed is like a banker’s bank in many ways.) * Altering this rate affects whether banks take loans from the Federal Reserve Bank. * For example, a low discount rate encourages banks to borrow money, leading to more loans, which ultimately means more money in the economy.   **The Reserve Requirement**   * The Federal Reserve can influence the money supply by changing the **reserve requirement**. * A lower reserve rate means banks can loan out more money. * These financial institutions must determine whether they can earn more profit by loaning this money out to customers or by earning interest from the Fed by keeping the excess reserves. * If the Fed changes the amount of interest earned on reserves it changes the incentives for institutions to keep or to loan out the money.(SSEMA2d,e)   **Key Institutions of the Federal Reserve Bank (FED)**   * The operations of the Federal Reserve is directed by the **Board of Governors**. * It supervises the 12 Federal Reserve banks and regulates some activities of member banks. * The **Federal Open Market Committee (FOMC)** has 12 members and meets throughout the year to make economic decisions such as whether to raise or lower interest rates. (SSEMA2b)      * International trade allows a country to concentrate on what it does best and trade for what it can’t or doesn’t produce. * In effect, trade allows a country to specialize in certain goods, which leads to more efficient production.   **Absolute Advantage**   * When a country has an **absolute advantage** over another country, it simply means that the country can produce more of a good than another country. * Absolute advantage refers to an individual, firm, or country using the fewest inputs to produce the same amount of output or the individual, firm, or country producing the largest number of units of output given the same productive resources. (SSEIN1a)   **Comparative Advantage**   * While large countries will probably have an absolute advantage in production over smaller countries, when any two countries are producing two goods (like cars and sugar), one country will always have a comparative advantage over the other in the production of one of the two goods. * **Comparative advantage** in production of a good or service exists when one individual, firm, or country has the lowest opportunity cost for producing the good or service. (SSEIN1a)   **Balance of Trade**   * A **balance of trade** records the value of all goods and services exported from a country minus the value of all goods and services imported from outside the country. * This is often referred to as the “**trade surplus**” (if exports exceed imports) or the “**trade deficit**” (if imports exceed exports). (SSEIN1c)   **Trading Blocs**   * Trading blocs are formed in order to reduce barriers to trade. In theory, this will lead to lower prices for buyers (citizens) within the trading nations as well as for firms that are more competitive on the international market (because of increased competition).   **NAFTA**   * The **North American Free Trade Agreement, NAFTA,** is one such trading bloc; its goal is to eliminate barriers to trade—most notably tariffs—between Canada, Mexico, and the United States.   **ASEAN** is the **Association of Southeast Asian Nations.** It was established to promote economic growth, free trade, and economic collaboration between member nations. (SSEIN2c)  http://www.asiaeducation.edu.au/images/default-source/logos/all_country_flags_with_names_asean.jpg?sfvrsn=2  **Arguments in Favor of Free Trade**   * Free trade increases competition, which reduces costs for buyers and improves quality of goods. * Free trade allows for domestic goods to be sold all over the world and protects export industries. * Free trade allows the country to exercise comparative advantage through specialization. (SSEIN2d)   **Arguments against Free Trade, or Promoting Restricted Trade**   * Infant industries (new industries in the early stage of development) are protected by trade barriers. * This allows infant industries to grow. * Free trade hurts domestic workers. * Companies may move oversees to utilize cheaper labor and increase profits. * Labor standards are not the same in all countries. Some countries may treat their workers poorly. * Some industries are critical to the country’s national security. * These industries should be protected even if they cannot compete internationally**.** (SSEIN2d)   **Barriers to Trade**   1. **Tariff:** A tariff is a tax on an imported good. 2. **Quota:** A quota is similar to a tariff, but instead of taxing the import, a quota limits the amount of a good that is allowed into the country. | Governments avoid a particular option because they associate it with a cost that is too high.   * Fines and penalties for breaking laws are **negative incentives** or disincentives. * People are less likely to break a law if they know it might cost them financially. * Traditionally, economists believe individuals, businesses, and governments will respond predictably to positive and negative incentives. (SSEF2c)   **Marginal Cost and Marginal Benefit**   * Most economic situations can be discussed using the concepts of scarcity and opportunity cost. It doesn’t matter if the subject is a nation or a person. * Basic **economic decision-making processes** center on deciding how best to allocate the scarce resources at hand. * Every day, consumers and producers everywhere compare **marginal benefits** to **marginal costs** in order to make economic decision. * **Marginal cost:** the cost of procuring one more item. (SSEF2a) * **Marginal benefit:** the benefit associated with that one additional item. (SSEF2a)   **Productivity:**   * **Productivity** looks at the relationship between inputs and outputs. * An **input** is something that goes into making a good. * An **output** is the amount of a good or service produce. (SSEF6a)   **Investment in Capital and Technology**   * Investment in human capital, physical capital, and new technology are ways to increase economic growth. * **Human capital** is the economic value of an employee’s skill set. * Investing in human capital can be done through education, training, and enhanced benefits. * Investing in human capital by companies or by governments can lead to a higher standard of living. * **Physical capital** is one of the factors of production. It includes man-made goods that assist in the production process, such as machinery or buildings. * Investments in physical capital as well as technology can lead to economic growth. (SSEF1b, SSEF6b, SSEF6c)   **Rational Decision Making Model**   * A **rational decision making model** is a multistep process for choosing between two or more alternatives. * Some steps of the rational decision making model include: identifying the decision, establishing criteria for making the decision, identifying and evaluating alternatives, predicting outcomes, and concluding with implementation and evaluation of the option selected. (SSEPF1a)   **Specialization**   * **Specialization** allows people to concentrate on a single activity or area of expertise. * For an entire society, specialization helps boost overall productivity and leads to an efficient use of resources. People gain knowledge and skills in a certain area, which allows them to do that job better than other non-specialists. * This specialized knowledge might allow them to build a product faster, increasing output. It could also allow them to complete something that others could not even attempt. * Either way, specialization expands the efficiency of a society and usually helps boost overall production ability. * Furthermore, this “skilled labor” can charge more for their services, which allows individual wealth to increase. * An assembly line utilizes the benefits of specialization by allowing individual workers to concentrate on a certain task. * As each of these workers gains experience in one particular part of the production process, the entire factory is able to produce more without increasing the number of workers it employs or the time each employee spends on the job. * This is also known as **division of labor**. (SSEF3a)   **Economic Systems**   * The United States is primarily a **market-based system**, but this is not the only economic system being used in the world today. * All economies must answer three questions: **what to produce**, **how to produce**, and **for whom to produce**. * The following provides a brief description of four major economic systems.   3. **Mixed:**   * While the command and market economy describe theoretical concepts of how an economy might function, in the real world most economies blend two or more systems together. * For instance, while China is considered a command economy, it has rapidly begun to incorporate many aspects of a market structure into its economy. * Likewise, while the United States is considered to have one of the most capitalistic economies in the world, the government still intervenes in some markets. * Therefore, there is a third economic system known as a mixed economy. * Individuals, firms, and the government all have the right to own property. * Laws determine how disputes about property are resolved. * Entrepreneurs can freely start businesses. Businesses produce goods that consumers want. * Competition is encouraged in a mixed economy, unless there is a compelling reason to allow a monopoly. * Businesses have to follow laws set by the government and may be required to acquire licenses and to complete other government paperwork before opening.   4. **Traditional:**   * In a traditional economy, economic decisions are made based on history and tradition. * The goods and services provided by people are most likely the same goods and services their ancestors provided to people. * Production and distribution of goods and services are based on how past generations made and distributed goods. * The consumer will have little control in what is produced. * Even as consumer preferences change or as new producers enter the market, the economy will continue to operate in the same manner as it has in the past. * Traditional leaders, like councils of elders or tribal chiefs, will most likely resolve business disputes between members of the community. * Their decisions will be based on how these disputes were solved in the past.   **Five Roles of Government in the United States Economy**  **1. Public Goods and Services**   * Governments in the United States provide **public goods and services** only when there is a reason that   **5. Government Regulations**   * **Government regulation** takes many forms. Some regulations protect citizens from corporate abuse. Other government regulations help businesses recover from external problems by offering money to help offset an unforeseen disaster * **Deregulation** is the reduction or elimination of government power in an industry. * Deregulation may help increase competition, which could improve business profits and reduce costs for consumers. (SSEF5b)   **Ways to Allocate Resources**   * There are many different ways economic systems can allocate scarce resources. * The following describes some ways to allocate these resources:   **9 Ways to Allocate Resources**   * **Price:** allows the forces of supply and demand to determine market price of goods, services, and factors of production. * **Majority rule:** occurs when a group of people who have control over a good, service, or factor of production vote to decide how the good, service, or factor of production will be distributed. * **Contests:** an allocation strategy where the “winner” gets the good, service, or factor of production. * **Force:** giving or taking away productive resources by using threats. * **Sharing:** the owner of the good, service, or factor of production determines who and how to distribute them. * **Lottery:** also known as random selection. A lottery gives everyone who wants a good, service, or factor of production equal odds of achieving it. * **Authority:** when the decisions about who gets to obtain a good, a service, or a factor of production are made by the person or group in power. * **First-come-first-served:** an allocation strategy that allows people to receive a good, service, or factor of production if they get there first or are one of the people close enough to the front of the line to receive the good, service, or factor of production before they are all gone. * **Personal characteristics:** an allocation strategy that allows resources to be distributed based on a need or merit. Ideally the person who gets the good, service, or factor of production will be the one who puts it to the best use. (SSEF4c) * **Title pawn lenders:** A title pawn lender will grant loans where borrowers can use their vehicle title as collateral or as security for repayment.   **Savings and Investment Options**   * Some people like to take their earnings and attempt to increase their wealth through an investment.   **Securities and Bonds**   * To accomplish this, they might buy government securities. * These are quite safe, but they do not offer a very high return. * Other types of investments are also known as securities. * For example, bonds are regularly offered by governments and other entities (companies); by investing in them, the investor gets a promise that his or her investment will be repaid with interest. (SSEPF2d)   **Savings Accounts**   * **Savings accounts** are bank accounts that people put money into, which they are able to access at any time. * Savings accounts are insured through the Federal Deposit Insurance Corporation (FDIC) up to $250,000, so there is no risk, but a savings account usually has a low interest rate. (SSEPF2d)   **Certificate of Deposit**   * A **certificate of deposit** is a savings certificate issued by a bank to a person depositing money for a specific length of time. * The maturity date and the interest rate are fixed when the certificate is issued. (SSEPF2d)   **Retirement Accounts**   * A **retirement account**, such as a 401K, is a plan/investing tool used by people to earn and designate funds for retirement savings. * These have little risk but money in the account usually cannot be used without penalty until the owner reaches a designated age. (SSEPF2d)   **Stocks**   * People who believe in the business prospects of a certain corporation can buy **stocks** in that company. * In return for partial ownership of the company, the investor gives that corporation his or her money to spend.   **Inflation**   * **Inflation** is the increase in the price level of goods and services in an economy over time. * It generally harms an individual because wages tend to rise more slowly than prices. There are a variety of factors involved.   **Unanticipated Inflation**   * **Unanticipated inflation** hurts lenders who lend at fixed rates. * Borrowers who borrow at fixed rates will benefit from unanticipated inflation. * Their interest rates remain stable as prices rise, and they pay back their loans with money that has less purchasing power than the money they borrow. (SSEMA1d)   **Credit Worthiness**   * **Credit worthiness** is a measure of a variety of factors, but it boils down to an attempt to determine whether you’ll be able to pay back a loan properly. (SSEPF4a)   **Some factors that affect credit worthiness:**  • character (credit score)  • capacity to pay  • collateral  **The “Three C’s of Credit”**   * The **“Three C’s of Credit”** are character, capacity, and collateral. * Since most lenders do not know potential borrowers personally, they evaluate a potential borrower’s character using the information on the borrower’s **credit report.** * It details the past seven years of a person’s borrowing and repayment history as reported to the three main consumer credit reporting companies by a person’s previous and current lenders. * A potential borrower who has “paid as agreed” on all credit accounts has good **credit character**. * The credit report also shows some aspects of **capacity.** * While income is one factor in assessing capacity, the amount it takes to service current debt is also a concern. * If the debt-to-income ratio is high, the borrower may not be able to handle additional debt payments. * Finally, **collateral** is something of value a borrower can use to back the loan if the borrower can no longer pay the scheduled payments.   **Types of Insurance**   * **Automobile insurance** is required by most states. At a minimum you need liability insurance to pay for the other vehicle(s) when you are at fault for an accident. * You can purchase more insurance that will cover your own car in case of an accident. * **Health insurance** is designed to pay for medical costs; **disability insurance** provides people with income in case they become injured or are unable to work at a job; **life insurance** provides a monetary payment when the insured person dies; and **property insurance** such as homeowners insurance pays for damages sustained to your real estate and for injuries to others that happen on your property. * Another type of property insurance is **renters insurance**. * It protects your personal property assets when you live in a rental property instead of a home you own. (SSEPF5a, b)   **Factors That Affect Earnings**   * In general, the two factors that can boost the wages of a particular job are demand for that service and the training requirements needed for the job. * High demand raises wages because it allows the limited supply of labor force in that area to ask for more money and get it. * Additional training (educational or job specific) frequently raises wages and **standards of living**. * There are some skills or traits that will help you find success in the workplace, regardless of occupation. * These include having a positive work ethic, punctuality or being on time, time management, teamwork, communication skills, and good character. (SSEPF6a, b)   **Taxes**   * A **progressive tax** is a tax rate that increases as income increases, meaning the wealthy pay a higher percentage of their earnings than people less financially well-off. (SSEPF3a) * A **regressive tax** is a tax rate that decreases as income increases. (SSEPF3a) * A **proportional tax**, also known as a flat tax, does not change with respect to changes in income. (SSEPF3a) * A **property tax** is the taxation of the value of real property (buildings and land) and personal property (stocks, bonds, etc.). * This tax is collected at the state and local level. (SSEPF3c) * The money received by businesses from households is revenue. (SSEMI1a, b)   **Circular Flow Diagram**    **Law of Supply and Demand**   * **Law of supply:** an economic principle stating that as price rises, the quantity a seller is willing and able to sell increases. (SSEMI2a) * **Law of demand:** an economic principle stating that as the price of a good rises, the quantity of the good consumers are willing and able to buy decreases. (SSEMI2a) * Prices are rarely stable over a long period of time. * Many factors can affect the supply or demand curves within a market. Here are some of the factors that can affect the price and quantity of a good.   **Supply Curve**  **Determinants (Shifters) of Supply**   * **Changes in** . . . * **Costs of productive resources—**When input prices rise, producers must spend more of their revenue to buy the inputs and therefore are forced to reduce   **Demand Curve**    **Determinants (Shifters) of Demand**  • Changes in . . .   * **Related goods**—Based on the law of demand, we know that when the price of a good rises, consumers will buy less of that good. If the price of a complementary or related good changes, this could change the demand curve. * **Income**—When a large number of consumers in the market for a good experience a change in income, the entire demand curve may shift. * **Consumer expectations**—When consumers believe a change in price will occur, they may hold off on purchasing the good until the price drops or buy more of the good before the price rises. * **Preferences/tastes**—When a large number of consumers experience a change in preference toward or away from a good, the demand will change. * **Number of consumers**—The demand for a good may increase or decrease depending on the number of people in the market for the good. * A shift of the demand curve to the left indicates a decrease. A shift of the demand curve to the right indicates an increase. (SSEMI2f)      1. **Partnership:** A partnership divides up the risk and reward among a group of people. (SSEMI3a) 2. **Corporations:** Corporations issue stock, and anyone who owns stock in the corporation owns a portion of that corporation. (SSEMI3a)   **Four Types of Market Structures**   1. **Monopoly:** a market structure in which a commodity is supplied by one firm. (SSEMI3b) 2. **Oligopoly:** a market structure of imperfect competition in which an industry is dominated by a small number of suppliers. (SSEMI3b) 3. **Monopolistic competition:** a market structure in which there are a large number of sellers who are supplying goods that are close, but not perfect, substitutes. Sellers have a degree of control over price. There are few long-term barriers of entry and exit. (SSEMI3b) 4. **Pure (perfect) competition:** a market structure in which there are a large number of sellers who are supplying goods but not a large enough number to set the price of the goods. There are no barriers of entry and exit. (SSEMI3b)   **Unit 4: Macroeconomics**   * **Macroeconomics:** a term meaning “large economics” that covers large-scale economic issues. * While a single company has employees, a nation has a national employment rate. * While a single firm produces a set of goods or services, a nation has a Gross Domestic Product.   **Key Economic Indicators**   * **Gross Domestic Product (GDP):** refers to the total market value of all final goods and services produced within a country in a given time period. The Gross Domestic Product (GDP) is the sum of consumer spending, investment in business, government expenditures, and net exports. * **Net Exports:** refers to the value of a country’s exports minus the value of a country’s imports in a given time period. * **GDP = C+I+G (Net Exports)** * **Real GDP:** adjusted for price changes (inflation) * **Inflation:** a rise in the price level. * **Consumer Price Index (CPI):** the average price of a market basket of goods used to measure inflation. * **Aggregate supply and demand:** macroeconomic ideas that parallel supply and demand in microeconomics. Total demand for goods and services within a nation combines to form aggregate demand, while the total supply of goods and services within a country is its aggregate supply. * **Recession:** a decrease in total output that lasts for at least two consecutive quarters of a year. * **Depression:** a long downturn in economic activity in one or more than one economy.   **Three Roles of Money**   1. **Medium of Exchange:** Money in the United States economy primarily refers to the coins, currency, and checkable (demand) deposits available to consumers and producers to make purchases. This is known as the M1 definition of money which is the definition of money used for the money function “**medium of exchange.”** When we use money as a medium of exchange, we are using it to facilitate transactions. Households and businesses are willing to accept money as payment for resources and goods because they believe they will be able to use it for purchases in the future. 2. **Store of Value:** Money can also serve as a **store of value**. You can sell something, such as your labor, and then save that money to buy something later. 3. **Unit of Account/ Standard of Value:** Money also functions as a **unit of account/ standard of value**. The role of money as a unit of account/standard of value means money can be used to compare the values of goods and services in relation to each other. (SSEMA2a)   **The Federal Reserve System and Monetary Policy**   * In 1913, Congress created the Federal Reserve System to act as the nation’s central bank. * The Federal Reserve System consists of 12 different banks located throughout the United States. * Each bank covers a different district and has the right to print United States currency. * The Federal Reserve System (also called the Fed) influences **monetary policy** for two main reasons. * It wishes to maintain price stability and full employment.   **Monetary Policy Tools (of the FED)**  **Open Market Operations**   * The Fed achieves these goals by buying and selling government securities in the open market. * For example, suppose the Fed believes that a rapidly growing economy will cause inflation. * To deter inflation, the Fed will sell securities at prices low enough to guarantee someone will buy it. * This influx of securities causes bond prices to fall and interest rates to rise. * Higher interest rates discourage business investment and consumers spending, which reduces real GDP and in turn slows economic growth and   **Fiscal Policy**   * There is a difference between a government’s fiscal policy and its monetary policy. * **Monetary policy** refers to changes in the money supply of a nation in order to influence its economy. * The actions taken by the Fed are monetary policies. * **Fiscal policy** refers to expenditures, taxes, and borrowing made by a government in order to influence an economy. (SSEMA2c, SSEMA3a) * In addition to using monetary policy to influence the economy, the federal government can affect the national economy through taxes, expenditures, and borrowing. * To boost GDP, the government can reduce taxes. * This would encourage most consumers to purchase more because the government is taking a smaller portion of their income. * When consumers spend more, producers increase their output and the GDP increase. * Another way to increase GDP would be to increase government spending. (SSEMA3b)   **Federal Government’s Budget**   * A **deficit** occurs in the federal government’s budget when the tax revenue received for a given fiscal year is less than the amount of spending done by the government during that year. * The **national debt** for a country is the accumulation of annual deficits over the years plus any interest accrued on the money borrowed. * A budget **surplus** exists when the amount of income received exceeds the amount of expenses paid. (SSEMA3c)   **Unit 5: International Economics**   * A good way to think of Unit 4 is “macro-macroeconomics.” * While microeconomics covers the interaction of a single market and macroeconomics views the larger national picture, international economics views an even larger picture: how the various national economies interact to form a world economy. * The growth of massive multinational corporations is one sign that the world’s economy is becoming more interconnected each year. * As national economies become more interconnected, international economic issues such as trade agreements and trade barriers become more important.   **NAFTA MAP**  Image result for Nafta map  **European Union (EU)**  The **European Union (EU)** allows for free movement of goods and workers across country borders.  **European Union Map**  Image result for EU map   1. **Embargo:** An embargo on a particular good is like a quota set at zero; a government completely prohibits the import of that item. 2. **Standards:** Governments employ standards to ensure the safety of imported goods and to make sure that these goods comply with local laws. For example, the use of lead in paint is prohibited in the United States. 3. **Subsidy:** With a subsidy, the government makes payments to a local supplier to reduce the production costs of the supplier. (SSEIN2a)   **Exchange Rates**   * Tariffs, quotas, and other trade agreements are international trade issues that entire countries must address. * For individuals, the exchange rate is one of the most important international trade issues. * The **exchange rate** measures the price of one nation’s currency in terms of another nation’s currency. (SSEIN3a)   **Appreciation vs Depreciation**   * Exchange rates move up and down to reflect the value of one country’s currency in comparison to another. * If there is a great demand for U.S. products, people need more U.S. dollars to purchase these goods. * This drives the demand for U.S. dollars up, causing the dollar to **appreciate**, or strengthen. * At the same time, the peso has **depreciated**, or weakened, relative to the dollar. (SSEIN3b, c) |