Unit 1: Fundamentals of Economics

1. Scarcity: basic condition when unlimited wants exceed limited productive resources
2. Factors of Production: Productive Resources—Productive Resources are SCARCE
   1. Land
      1. Natural Resources
      2. Gifts of Nature
   2. Labor
      1. Workers (Human Resources)
   3. Capital
      1. Human Capital (ability each person brings to the production process)
      2. Physical Capital (tools, machines, structures used over and over again in the production of goods and services)
   4. Entrepreneurship
      1. Brings resources together in innovative ways to produce a product
      2. Begin new business because of PROFIT MOTIVE: possible reward outweighs potential costs
3. Opportunity Costs: Next best alternative when a choice is made
   1. Choices are necessary because of SCARCITY
   2. All alternatives are called tradeoffs---opportunity cost is 2nd choice only
4. Rational Decision Making: Marginal benefits of an action equal or exceed the marginal costs
   1. Marginal benefit: additional positive value one gains from undertaking one more unit of action
      1. (extra happiness that another slice of pizza gets you)
   2. Marginal cost: Additional amount of effort, expense, or time one suffers from undertaking one more unit of an action
      1. (extra calories/fullness with an extra slice of pizza)
5. Incentive: something that motivates people, business, and/or governments to take an action or avoid an action
   1. Positive incentive: perceived benefit or gain
   2. Negative incentive: perceived cost
6. Specialization: people or business concentrate on a single activity or area of expertise when producing a good or service
7. Voluntary Exchange: when two economic actors willingly trade one item for another because the value of the item they are receiving is greater at the time than the item they are giving up to receive it
   1. Barter—trading one good or service for another
   2. Money—money for a good or service
8. Economic System: the way a country organizes economic activity: WHAT TO PRODUCE, HOW TO PRODUCE, FOR WHOM TO PRODUCE
   1. Traditional
      1. How things have always been done in the past
   2. Command
      1. Answered by a central authority (central planners) or government
   3. Market: Free enterprise
      1. Interactions of buyers and sellers in the market
   4. Mixed: Combination of command and market
9. Social Economic Goals: values underlying the economic system a country chooses and act as a guiding force
   1. Economic freedom: ability of consumers, producers, and workers to make their own decisions about what they buy or produce
      1. Market economies have a lot of economic freedom
      2. Command economies may limit economic freedom in favor of more equal distribution of wealth
   2. Economic equity: fairness within the economy
      1. Market economies ensure competitive markets and protecting property rights
      2. Command economies pursue this goal by redistributing wealth and ensuring everyone’s access to public goods
   3. Economic security: protecting individuals and business from risk
      1. Market economy: little economic security
      2. Command economy: government insurance programs, guaranteed jobs, housing/food allowances
   4. Economic growth: increasing production of goods and services—increasing factors of production or new technological innovations
   5. Economic efficiency: Factors of production are allocated to their most productive use
      1. Market: very efficient due to competition and free trade
      2. Command: less efficient since there is no competition---no profit motive because government owns all productive resources
   6. Price Stability: price level is predictable
10. Allocation Strategies: FOR WHOM TO PRODUCE
    1. Price, authority, force, lottery, first come, first served, majority rule, personal characteristics
11. Roles of the Government In the US Economy
    1. Providing public goods and services
       1. Public highways
    2. Redistributing income
       1. Social welfare, payments to low income citizens, unemployment, social security payments
    3. Protecting property rights
       1. Copyright and patents, titles for cars, deeds for houses
    4. Resolving market failure
       1. Air pollution from creating a product
       2. Government increasing taxes
       3. Preventing monopolies
    5. Government regulation or deregulation
12. Productivity: relationship of inputs or outputs
    1. Input: something that goes into making a good or service
    2. Output: amount of a good or service produced
    3. Increases in productivity occur when producers can product more output with fewer inputs
13. Investment: introduction of machines and equipment, building of new factories, and/or the purchasing and implementation of new production technology----LEADS TO ECONOMIC GROWTH
14. Production possibility curve: economic model used to illustrate all possible combinations of efficient production available to an individual, business, or country given the resources available to produce the two goods or services shown on a graph

