Principles of Economics

Chapter 12.1

Modern Economics

Using Resources

- There are three basic factors of production in an economy: labor, land, and capital
- Labor: includes time and energy. Labor also includes knowledge and skills used in a job.
- Land: Natural resources that are needed to help produce goods and services
- Capital: Anything that is saved to be used to produce other goods and services

Using Resources

- **Capital includes any tools, machines, or buildings used to produce goods and services**
- **Money can also be capital. It is only capital when it is not used for buying something now but is saved to be used for production in the future**

Benefits and Costs

- One part of making an economic decision is looking at the benefits from each possible choice
- Another part of an economic decision is the cost of your decision
- Every economic decision has an economic decision which is the benefit given up when scarce resources are used

What and How Much to Produce

- As an owner resources decide what to produce
- The amount of a good or service that is produced will depend on a number of factors
- Another economic decision is how to produce goods and services
- An owner then must decide who to provide this good/service and how to get it to this group

Traditional Economy

- Basic economic decisions are made according to long-established ways of behaving that are unlikely to change
- These customs are passed along from elders to youths
- Tradition answers the question of what and how much to produce

Command Economy

- The government or a central authority owns or controls the factors of production and makes the basic economic decisions
- The government has charge of important parts of the economy like transportation, communication, banking, etc.

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
- All economic decisions are made through a kind of bargaining process that takes place in markets

- **Competition plays an important part in a market economy**
- **Buyers compete to get the products they want. Workers compete for jobs.**
- **A profit is the difference between what it costs and what the buyer pays for it**
- **The desire to make a profit also leads people to invest in a business.**

Principles of Our Market Economy

- A healthy economy depends on a steady flow of resources, goods, and services
- Markets determine prices, this is dictated by the buyer

The American Free Enterprise System

- **Capitalism is referred to as a free enterprise system.**
- **The system needs a free market which its buyers and sellers are likely to buy and sell as they wish.**
- **A free enterprise system lets consumers, entrepreneurs, and workers enjoy the freedom of choice**
- **In a free enterprise system there are four factors**

Private Ownership

- Private individuals and companies own most of the factors of production, which are the basic resources used to produce goods and services
- Owners of private property are sometime individuals, but more often they are groups of people who share ownership

Individual Initiative

- Under a free enterprise system, individuals are free to start and run their own businesses. They are also free to dissolve these businesses.
- This is not necessarily true in other economic systems. In some countries, the government decides all of these factors

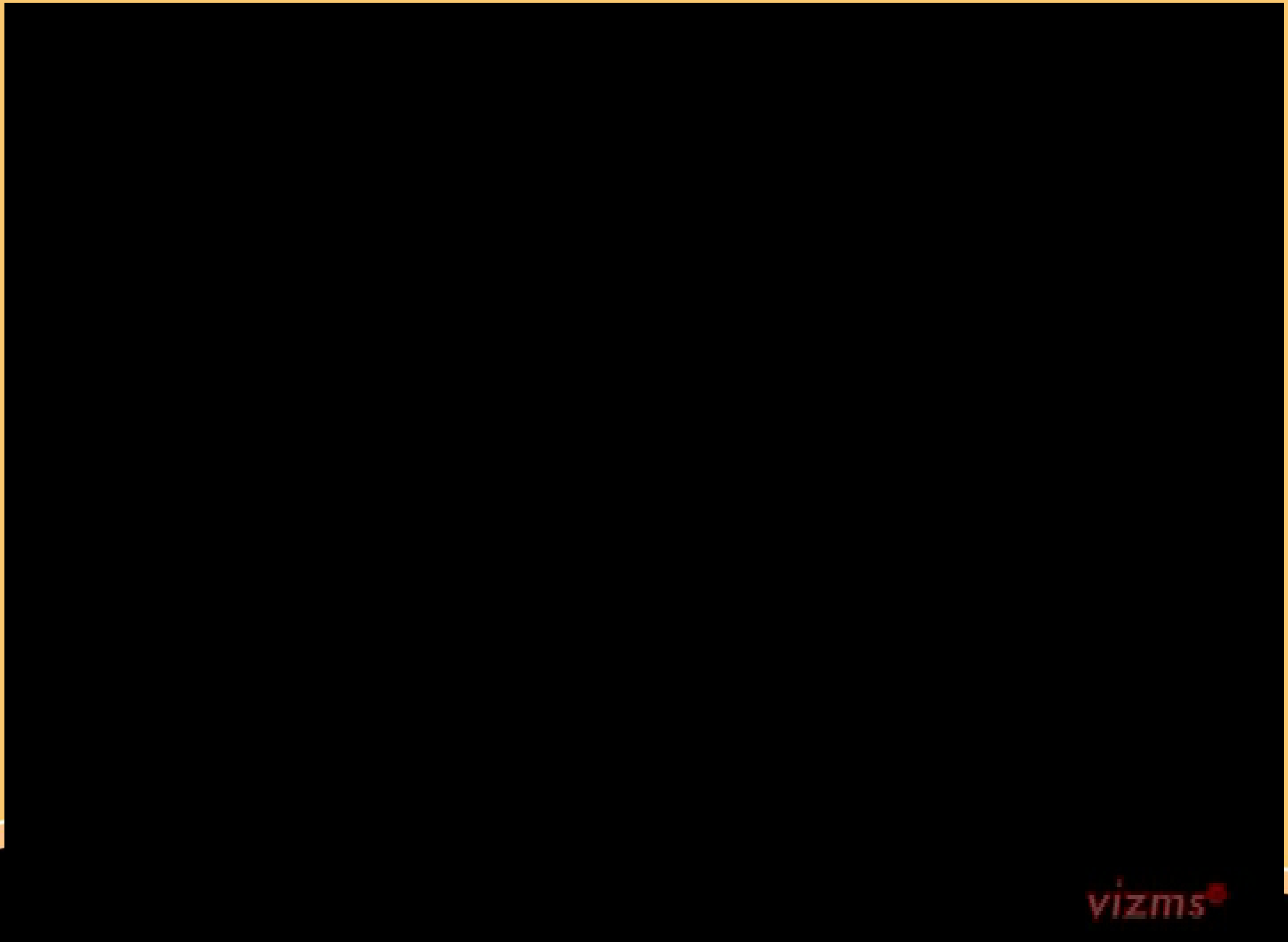
Profit Motive

- **The profit motive is the desire to gain from business dealings**
- **It drives entrepreneurs to create goods and services people will want to buy, and is a major reason why entrepreneurs are willing to take risks**

Role of Competition

- **Competition is a situation in which a number of companies offer similar products or services**
- **Customers are likely to buy from the company with the best product at the lower price**
- **Competition promotes efficiency, and the producer has the incentive to keep costs low**

Supply and Demand



Law of Demand

- Demand is the amount of a product or service buyers are willing to buy at different prices
- At a low price more people will want a product, however the seller must sell more to make a profit
- At a higher price less people will buy the product, however the sell does not have to sell as much to make a profit

Law of Supply

- Supply is the amount of product that producers are willing and able to offer at different prices

Supply and Demand

- The law of supply and demand work together
- What buyers and suppliers wish to find is market price
- A market price both parties are able to gain a victory

Monopolies and Trusts

- Competition does not always work smoothly. A firm that is the only source of a product or service is called a monopoly
- Monopolies can be very powerful in the marketplace
- In the late 19th century, certain monopolies were stifling competition and interfering with the free market.
- They were also concerned with a type of monopoly called a trust, which is when several corporations work together

Monopolies and Trusts

- The Sherman Anti-Trust Act of 1890 which remains the basic law to curb monopolies
- The Act prohibits every contract, combination in the form of a trust or otherwise to conspire to restrain trade or commerce

New Companies 1900-1909

TEXACO

Ford

QUAKER

Mc Graw Hill

SPARK PLUGS
AC
SPEED TESTED

Gulf

pepsi

USS

GM

MOTOR
HARLEY-DAVIDSON
CYCLES

Monsanto

BETHLEHEM STEEL

MR. PEANUT
PLANTERS

SYLVANIA

Spiegel

Firestone

jcpenney

CAPTAINS OF INDUSTRY

Vanderbilt

Rockefeller

Carnegie