**ECONOMICS NOTES: SET 1**

***Use this for your Test on \_\_\_\_\_\_\_\_\_\_\_\_***

* **Economics** is the study of how individuals, businesses, and countries make and use things, and how they earn, spend, and save money. **Economists** study economics.
* **Goods** are physical objects that some people make. They can be seen and touched. Some are used quickly, while others are able to be reused. Examples are: food, toothpaste, computers, phones, and clothing.
* **Services** are actions that people perform for others. For example, a doctor checks the health of patients and prescribes medicines, while a banker provides financial services. People who provide services also include plumbers, mechanics, and teachers.
* Economists understand the problem of **scarcity**. Something is scarce when we don’t have enough of it.
* **Scarcity is based on 2 things:**

1. **Unlimited Wants**: Everyone always finds new things that they want.
2. **Limited Resources**: There is only so much of limited resources in the world. Goods and services that each society can produce at one time is limited. We can never fully fulfill all the wants because of this.

**TYPES OF ECONOMIES:**

* **Traditional Economy**: a system where decisions are based on customs, religions, and beliefs.
* **Command Economy:** a system where decisions are based by a monarch or dictator. (Often in socialism economies)
* **\*Market Economy**: when people are free to produce whatever they wish and to buy whatever they can afford. The United States operates as a market economy. It is also known as both **capitalism** or also the **free** **enterprise** system. Because we can make our own goods and services, and we can start a business. In this economy, the role of government is limited. Government acts like an umpire, setting laws, making sure that people’s rights are protected, and guarding against corruption.
* **Producers** make goods or provide services. They decide *how much* to produce something and *how* *to* produce it. They can also set their own selling prices.
  + There are three questions that are always asked:
    - What should be produced?
    - How should it be produced?
    - Who gets what is produced?
* **Consumers** buy the goods and services they want from producers.
* **Entrepreneurs** are people who start and own their own businesses. They create new businesses by applying new ideas to meet challenges or to satisfy consumers’ needs. They risk investing their own money in a business in hopes of turning a **profit**, which is what is left over after the costs of running a business are paid (salaries, supplies, etc)

**FACTORS OF PRODUCTION:**

* **There are 4 factors of production.** LAND (Natural Resources), LABOR (Human Resources), Capital Goods, and Entrepreneurship. You know from above what an entrepreneur is, what are the rest?
  + **LAND or Natural Resources** are those found in nature. These are the starting point for producing all goods. No matter how advanced a society is, it cannot make goods without natural resources. Examples are minerals, oil, coal, plants, water, air, soil. They are then turned into products we use.
  + **Capital Goods** are things we make in order to make other goods or perform a service. For example, machines and tools, factories, trucks, machines.
  + **LABOR or Human Resources** are the people who produce goods or provide services through their work. They include the talents and skills of all the people who have contriubuted in some way to the making of a product or providing a service. All involve human labor.
  + **ENTREPRENEURSHIP:** (see above)

**Specialization** is one of the most important principles of economics. Limited resources are more effectly used when producers **specialize**. This means that they focus on producing only certain kinds of goods and services. Nations, in general, or better off **specializing**, or producing things they make best. Countries then leave the production of other goods to others. The uneven distribution of both natural and human resources around the world encourages this process. Each region produces those goods and services that it can make at the lowest cost. Each region uses less labor and time to make those gods than it would to make others. This leads to a higher skill set at creating these goods or services. They can also make them faster, which could also drive down costs.

Regions specialize and rarely produce everything that they need. Instead, different regions depend on one another to supply many goods and services. They exchange these goods through **trade**. Countries **export** products they make and **import** products they need from others.

**Imports** are goods from foreign countries brought into a country for use or sale. **Exports** are goods and services sold to other countries. For example: In Japan there are many natural resources that they need but do not have. For example, oil. They need fuel to operate factories, create electricity, run cars, and heat homes. In Saudi Arabia, there is a lot of oil. It actually controls 1/5 of the WORLD’s oil! It has much more than needed. Japan needs to import oil from countries, such as Saudi Arabia.

The unequal distribution of resources allows countries, such as Japan, to trade with others.