Introduction to Economics Study Guide

16.1

Wants- what people would like to have (desires)

Wants are considered unlimited (we can always think of more we would like to have)

Resource- a thing that can be used to make something else

Resources are considered limited (there is only so much of any one thing available)

There are three types of resources:

Natural resources- lumber, oil, coal, iron ore, water, etc.

Labor- people to do the work

Capital- the tools and infrastructure needed to produce a good

Scarcity- not having enough resources to satisfy everyone's needs and wants

This is the basic economic problem and it forces us to make economic decisions

Economic System- a country's way of producing the things that people need or want

Each country's economic system must answer these three questions:

What are we going to produce?

How are we going to produce it?

Who will be able to have access/purchase what we produce?

Traditional Economy- decisions made based upon custom and habit (tradition)

Rural and isolate communities – You will grow up to take the same job your parents did

Market Economy- individuals and businesses control the resources and make decisions

Companies have the option to make whatever they want

People have the option to decide to buy whatever they want

Command Economy- the government controls the resources and makes decisions

Companies are told what to do (what to make, how much to pay workers, etc.)

People are told what goods they may buy and how much they cost

Mixed Market Economy- an economy that has parts of both market and command economy

People and businesses have a number of freedoms but there are some government regulations as well – The United States has a mixed market economy

16.3

Consumer- a person who buys something (good or product)

Producer- a person or business that makes something (good or product)

Supply- the amount of a good that is available

The number of producers and the cost of production affect how much will be available

Demand- the amount of a good that people want

The price of an item and how much is available affect how much people want to buy

Equilibrium price- the price where supply and demand are balanced

Both consumers and producers will be happy

Shortage- the supply provided is <u>less</u> than the demand

People want to buy more than what is available – companies can increase their prices

Surplus- the supply provided is <u>greater</u> than the demand

People want to buy less than what is available – companies may lower their prices