**Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Introduction to Business**

**Ch. 2 Economic Resources & Systems**

What is Economics?

When you were in the middle of doing something have you ever had a shortage of resources?

* Recipe ingredients when cooking?
* The appropriate shirt or shoes?
* Money to purchase something you want?

**Factors of Production = Economic Resources**

* **Scarcity** - the shortage of resources.
* A basic economic problem for any society is how to manage its resources.
* Factors of Production
  + Natural Resources
  + Human Resources
  + Capital Resources
  + Entrepreneurial Resources
* Examples: wheat that grows in the ground, the tractor that harvests the land, the labor that turns the wheat into flower.

**Natural Resources** – Raw materials found in nature.

Examples?

Basic elements that can be combined in various ways to create goods.

The economy of many countries is based on its natural resources.

* Saudi Arabia depends on its oil production.
* Many Latin American countries rely on their coffee crops.
* Other countries, such as Japan, have few natural resources and must get them somewhere else.

**Renewable vs. Nonrenewable Resources**

|  |  |
| --- | --- |
| **Renewable Resources -** They can be reproduced. | **Nonrenewable Resources -** Only a limited supply is available. |
| Examples:  Wheat  Cattle  Fish | Examples:  Coal  Iron  Oil |

**Human Resources** - The knowledge, efforts, and skills people bring to their work.

* Human resources are needed for everything from drilling oil out of the ground to selling gasoline at a service station.
* Labor can be skilled or unskilled, physical or intellectual.
* One of the biggest problems facing many nations today is not a shortage of labor but a shortage of **skilled labor**.
* Many developing nations have human resources, but lack the training & technology to use them.
* U.S. is experiencing a shortage in nurses.
* 78 million baby boomers will begin turning 65 in a decade.
* What is going to happen?

**Capital Resources** - The things used to produce goods and services.

List some examples?

**Entrepreneurial Resources -** The initiative to improve goods and services or create and produce new ones.

* Meeting the changing needs and wants of the people.
* The key to dealing with scarcity – develop new resources & technologies.

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1. What is scarcity?
2. What are the four factors of production?
3. What are some examples of capital resources?

**Making Decisions About Production**

* No society has enough productive resources available to produce everything people want.
* Every society must, therefore, make choices.

**Basic Economic Questions**

* What and how much should be produced?
* How should it be produced?
* Who should share in what is produced?

What & how much should be produced?

* Every country must decide how to use its resources to meet the needs of its people.
* Deciding to use it for one purpose means giving up the opportunity to use it for something else.
* Example: Land can be used to grow wheat or corn but it cannot also be a site of a factory, park, etc.

How should it be produced?

* What methods will be used?
* How many people will work on the production?
* What will be the quality of the items produced?
* 2 Important Factors to Consider:
  + How the goods are to be produced?
  + Quantity of available resources?
* *Example: In a country where there are workers but very little capital resources, it’s probable that little equipment and larger amounts of labor are used in producing goods.*

Who should share in what is produced?

* Amounts are limited.
* People can have as many goods & services as they can *afford* to buy.
* Income is a determining factor.
* How does society determine the income earned by each individual?

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1. When a society chooses to use a resource for one purpose and gives up the opportunity to use it for some other purpose, what cost is involved?
2. What happens to production methods when a country discovers new ways to combine economic resources?
3. In most countries, what determines how many goods and services a person can buy?

**Types of Economic Systems**

**Economics** – studies how society chooses to use resources to produce & distribute goods & services for people’s consumption.

An economic system determines how resources will be used.

* Primary goal of an economic system is to provide people with a minimum standard of living or quality of life.

**Opposing Economic Systems**: Market Economy vs. Command Economy

**Market Economy** (aka - Capitalism, Private Enterprise)

* Economic decisions are made according to the laws of supply & demand.
* **Price** – Amount of $ given or asked for when goods or services are bought or sold.
  + Price must be high enough to make a profit but low enough to be affordable.

**Demand**

* Quantity of goods & services that consumers are willing to buy at various prices.
* When price goes up, demand usually goes down.
* Sale prices often help to stimulate sales.

**Supply**

* The amount of goods & services producers will provide at various prices.
* Price must cover all costs and provide a profit.

**Equilibrium Price** – Price where amount supplied & amount demanded meet (the perfect price).

Supply & Demand Curve pg. 24 in textbook

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Supply

Demand

**Market Economy, Capitalism, Private Enterprise**

* Resources are privately owned.
* You decide how your business will be run, what to sell & how much to charge.
* Governmental control is minimal.
* Goal of Government: to support the marketplace by removing obstacles.
  + Examples:

**Market Economy Motivators**

* Profit Motive (desire to make money)
* Competition – compete for customers by producing better & cheaper products.

**Problem with Market Economy**

* Owners & producers reap most of the rewards.
* Unskilled workers and older adults are often limited.
* Great poverty in the midst of wealth.
  + An average CEO makes 500 times as much money as an average blue-collar worker.

**Command Economy** (aka - Planned Economy, Managed Economy)

* A central authority (government or the state) makes key economic decisions.

**2 Types:**

* Strong Command Economy – Communism
* Moderate Command Economy - Socialism

**Strong Command Economy** (Communism)

* State makes all economic decisions.
* State controls resources for public good.
* State decides what to produce, how much, and how to distribute it.
* Examples:

**Moderate Command Economy** (Socialism)

* State owns major resources.
* Individuals may own some businesses.
* Examples:

**Advantages of Command Economy**

* Guarantees everyone an equal standard of living.
* State provides you with a job, a place to live, and health care.
* Goods & services are distributed evenly.
* State takes care of utilities, transportation & defense.
* Usually less crime (all needs & wants are met).

**Disadvantages of a Command Economy**

* Strong command economies give little choice of what goods & services to buy.
* Goods not considered necessities are often unavailable.
* Prices are fixed by state so no incentive to produce better quality products.
* Wages are fixed, no matter what you are trained for.
* No incentive to start your own business.

**Mixed Economy**

* Combination of a market & command economy.
* State takes care of the people’s needs while the marketplace takes care of peoples wants.
* In every country one type of economy is dominant, however, most countries find a mixed economy is the best way to manage their limited resources.

United States:

* Government provides defense & education.
* Marketplace provides things like cars, computers, fast food, etc.
* There is some governmental regulation of business.

**Fast Review – pg. 27**

1. What is an economic system?
2. What is the difference between a market economy and a command economy?
3. What are the advantages and disadvantages of a command economy and a market economy?