

Basic Economic Concepts



**Uncle Sam wants you to
do better in economics.**

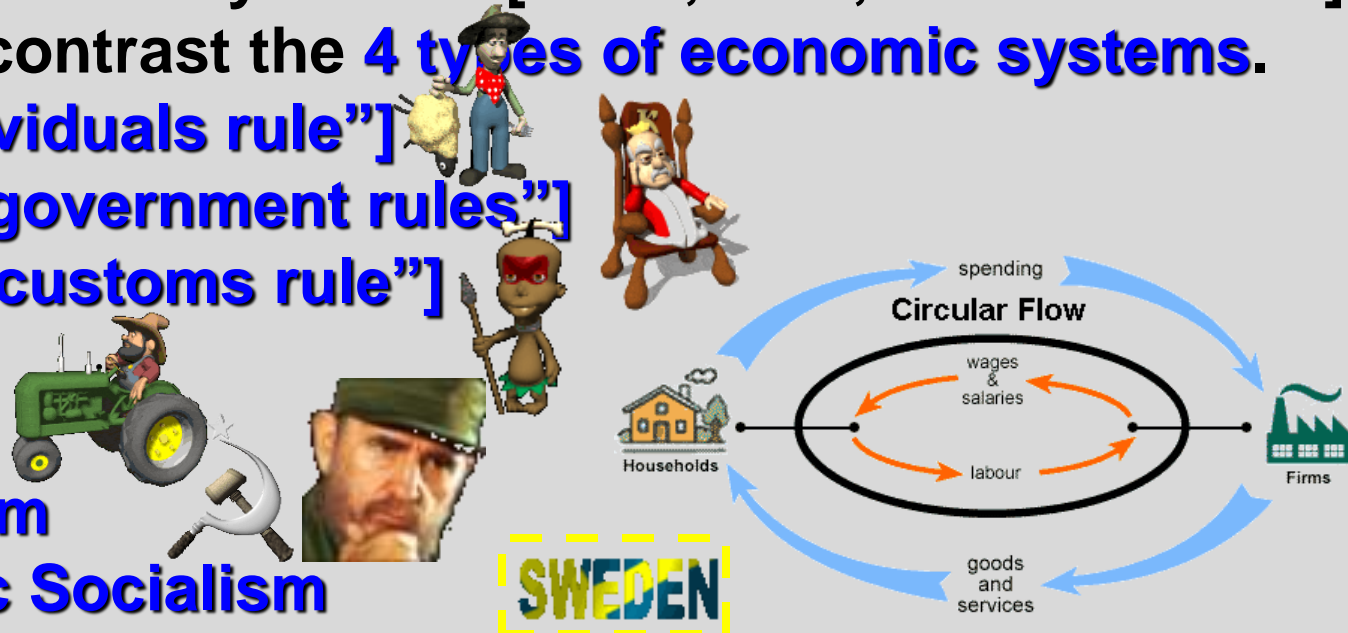
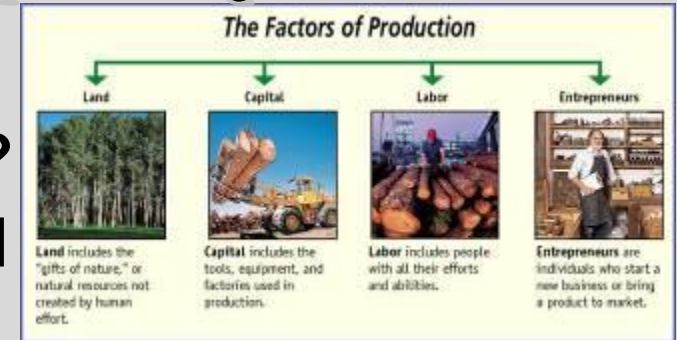
Chapter 1 and 2 Regular Economics

Definition of Economics

Basic Economic Concept Objectives

Chapter Objectives

1. What are the **4 factors of production**?
[land, labor, capital, & entrepreneurial ability]
2. What are the **3 basic questions** that determine economic systems? [What, How, and For Whom]
3. Compare and contrast the **4 types of economic systems**.
 - A. **Market** ["individuals rule"]
 - B. **Command** ["government rules"]
 - C. **Traditional** ["customs rule"]
 - D. **Mixed**
 - 1.) **Capitalism**
 - 2.) **Communism**
 - 3.) **Democratic Socialism**
4. Explain the **6 features of the free enterprise system**
5. Know the **eight goals of our economy**.
6. Explain the **Circular Flow & Production Possibilities Curve Models**.



The Hot Major For Undergrads is Economics

WSJ 2005

"Econ, Econ, I want to major in Econ."



- Universities awarded **16,141 economics degrees** last year at 272 colleges & universities which is **up 40% in five years**. There has been a **clear explosion of economics as a major**, particularly at the top colleges.
- At **New York University**, the **economics major has doubled in 10 years**. At **800**, it is now the **most popular major**. Economics is also the **number one major at Harvard** (964 students), **Columbia** (up 67% in 5 years), **Stanford, Penn, Princeton, Chicago** (24% of graduating class), & **2nd at Brown, Yale, and University of California at Berkeley**.
- The increase in the numbers is the result of many **students seeing economics as the best vehicle promising good pay & security**
- Students realize that **understanding economics has become a fundamental necessity of life**. Economics rising popularity is even **global**. Econ majors in **Poland have doubled in 6 years**.
- In **Russia**, econ majors have jumped from **18%** of students to **31%**. The chairman of the economics department at **London School of Economics** says economics popularity is at an **all high**.



Supply Side

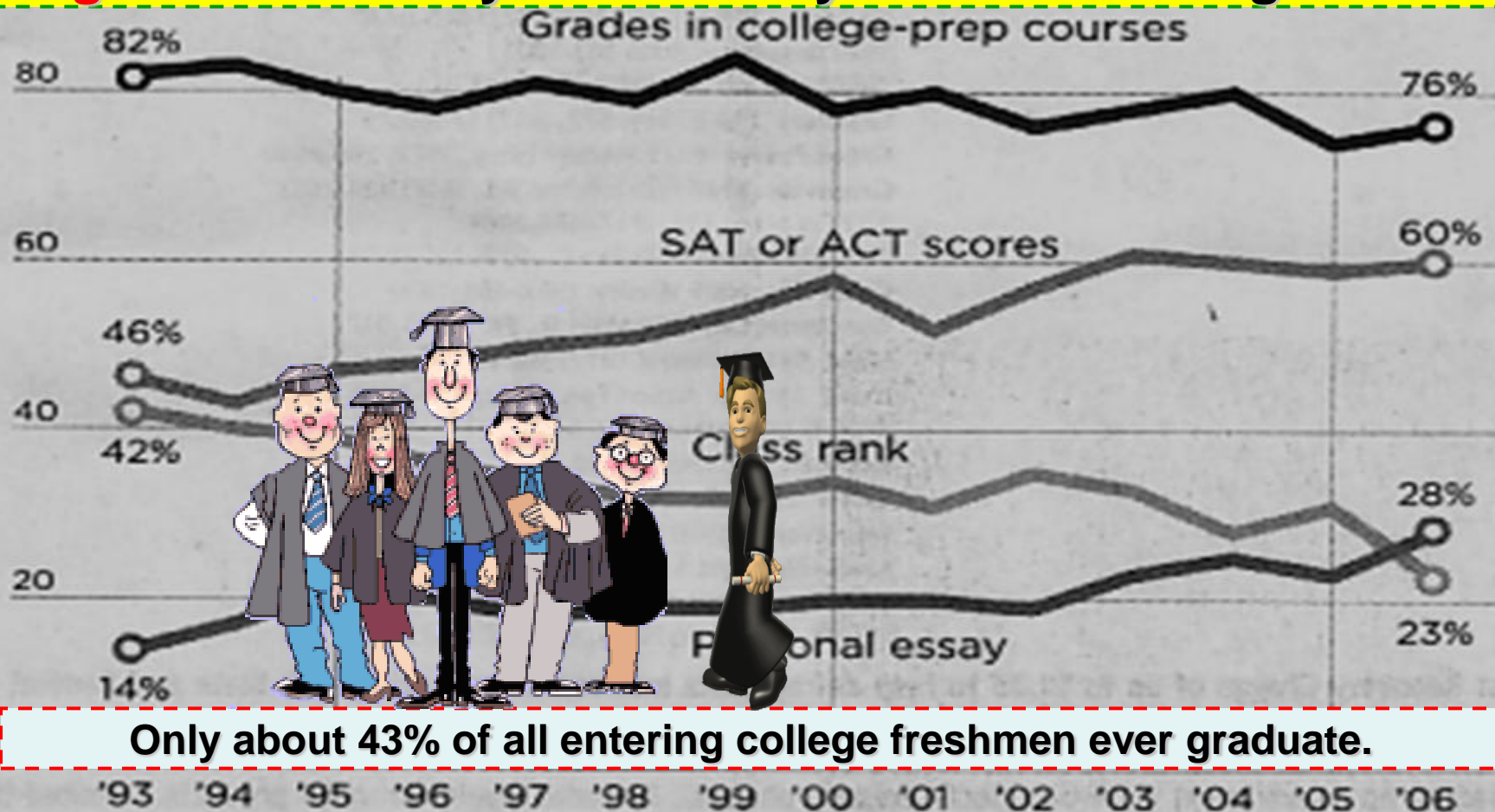
Number of bachelor's degrees in economics awarded at 272 U.S. colleges:



What Are The Most Important Factors In College Admission

Here's a look at the weight placed on four major college admission factors. Only **"class rank"** has shown a **steady decline**.

They would rather see a **"C" in AP Econ** than an **"A" in regular econ**. They then know you can do college work.



Only about 43% of all entering college freshmen ever graduate.

ECONOMICS - "science of scarcity"

Scarcity

Choices

Opportunity Cost

What is given up

In other words

"THIS is not the case".

"No horn of plenty"

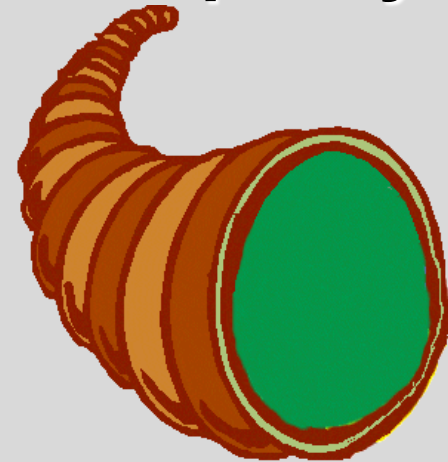
Choices



**Unlimited Needs
and Wants
Demand**



**Limited Resources
Supply**



Or, "the study of how people make choices to get what they want"



ECONOMICS - “science of scarcity”

-the study of the **choices** people make in an effort to satisfy their **unlimited needs** and **wants** from **limited resources**.

The science of “Scarcity”

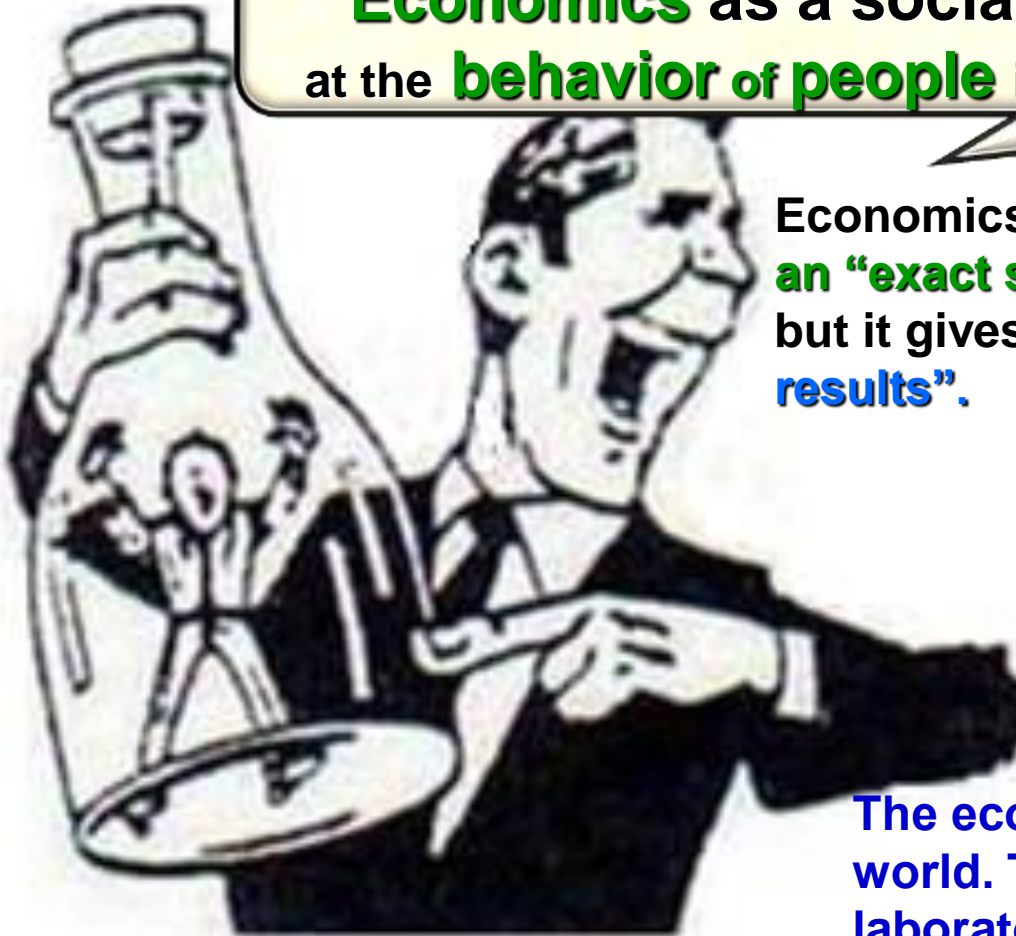


What does he mean by that?

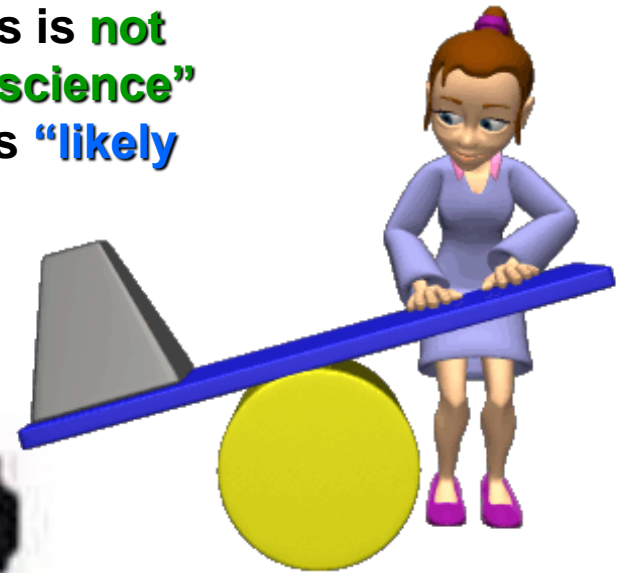


Economics is “common sense made as difficult as possible”.

Physicists explore the **physical world**.
Economics as a social science looks
at the **behavior of people** in the marketplace.



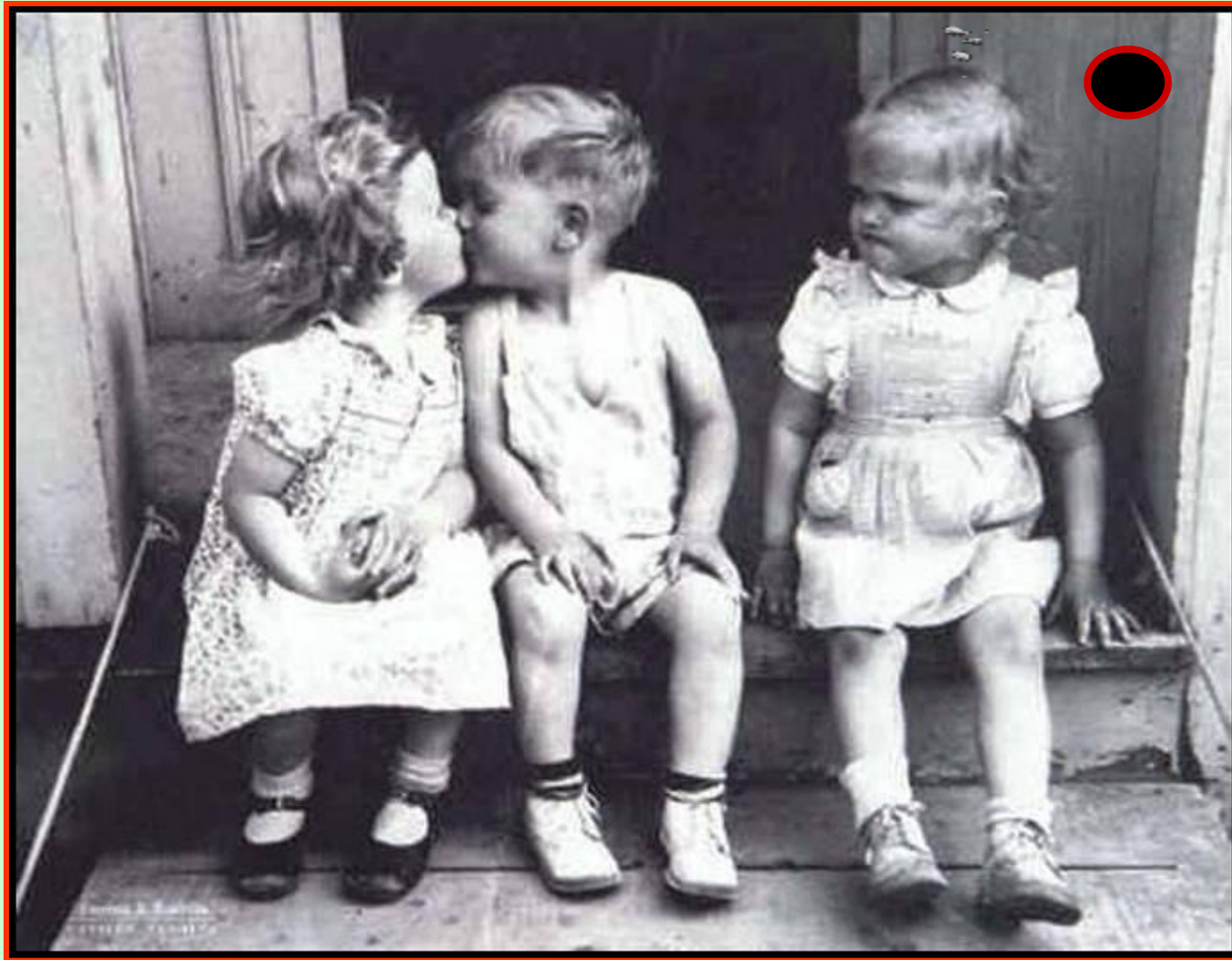
Economics is **not**
an “**exact science**”
but it gives “**likely**
results”.



The economist's lab is the real
world. They don't conduct controlled
laboratory experiments. They
are predicting human behavior.

Economics is the academic discipline **most discussed** by the general public.
It is also one of the **least understood**. [“**Language of graphs**”]

Dealing With Scarcity - When There Is Not Enough For Everyone - Someone Suffers





THE FOUNDATION OF ECONOMICS

SOCIETY HAS VIRTUALLY UNLIMITED WANTS...

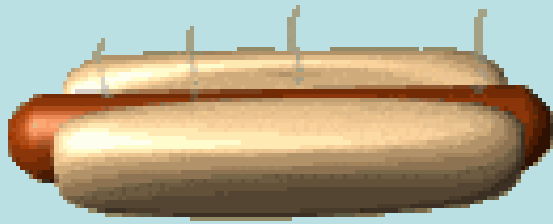


Luxuries



v.

NECESSITIES



Food



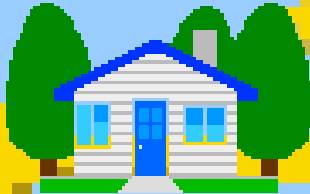
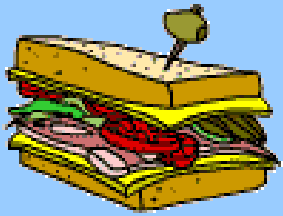
Clothing

Gump Household



Shelter

Scarcity Problem



Food, clothing, shelter,

Chrysler 300, mansion, Nintendo DSI,
jewelry, iPod, projector, digital camera,
good health, children, camcorder, laptop
warmth, indoor plumbing, rollerblades,
a sense of personal worth, Plasma TV,
literacy, higher economics grade,
iPhone 3GS, Flip video, Wii
iPad

Unlimited Human Wants

“Need” those first
three to survive.



Land, Labor, Capital, Entrepreneur
Rent, Wages, Interest, Profits

Limited Resources



Scarcity Imposes



Basic Economic Choices

What to produce

How to produce

Who receives



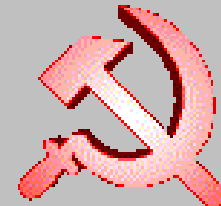
**Answers Determine The
Type of Economic System**



Market

Traditional

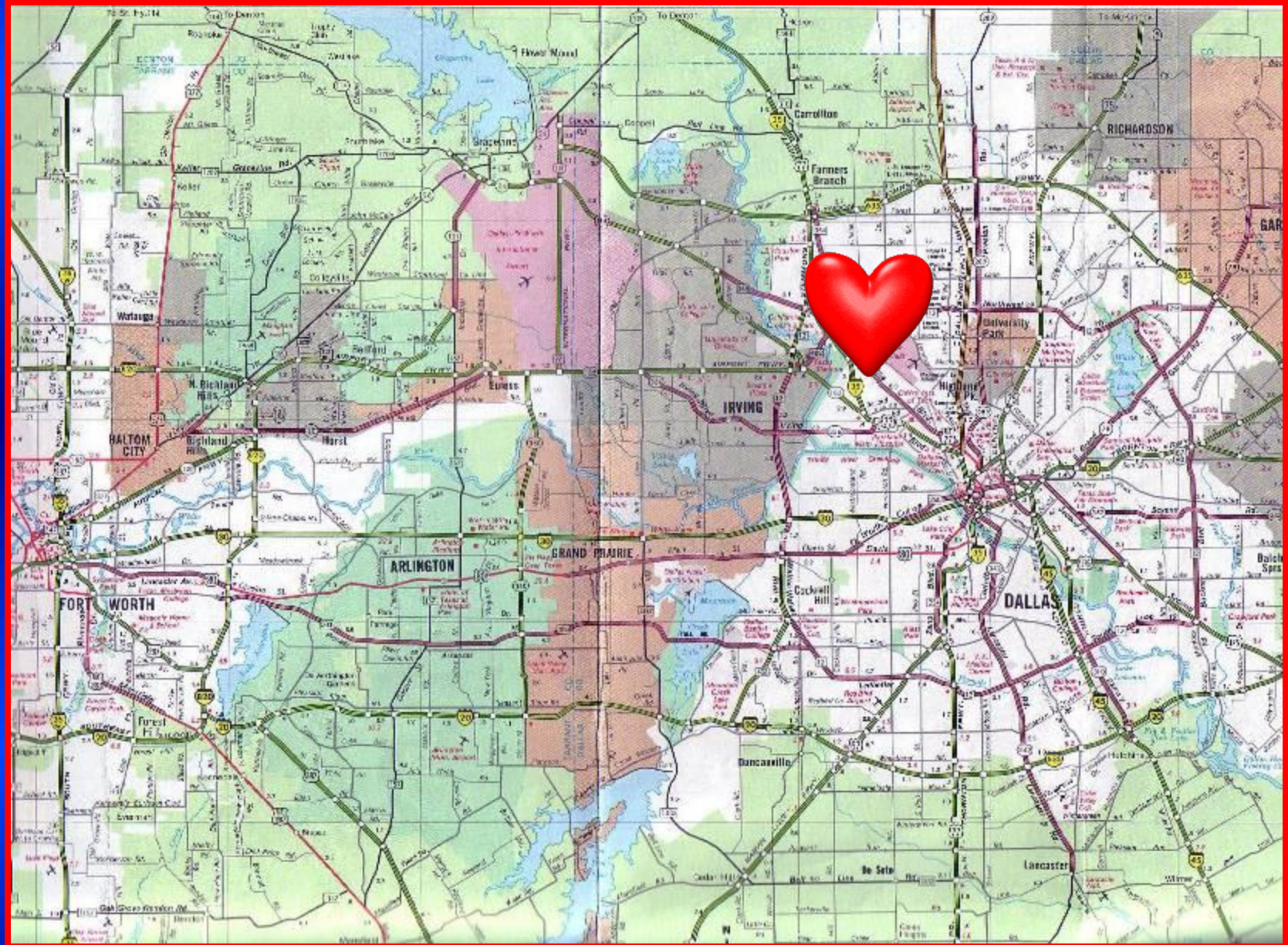
Command



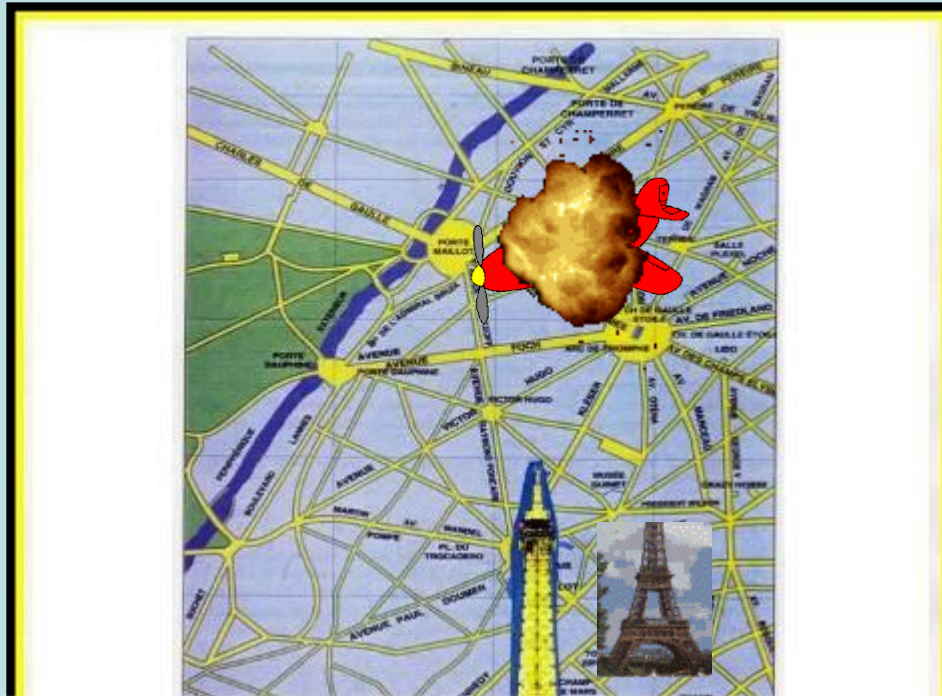
What, how, &
for whom.



What Do You Not See On This D-FW Map That You Would See From An Airplane Landing At Love Field?

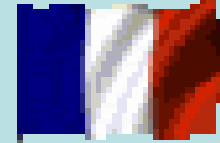


ABSTRACTION – ignoring most details in order to focus on the most important ones.



The map of **Paris** is a **model** because it is an **abstraction** from the actual beauty of the city. A key assumption is that one can rationally interpret this model.

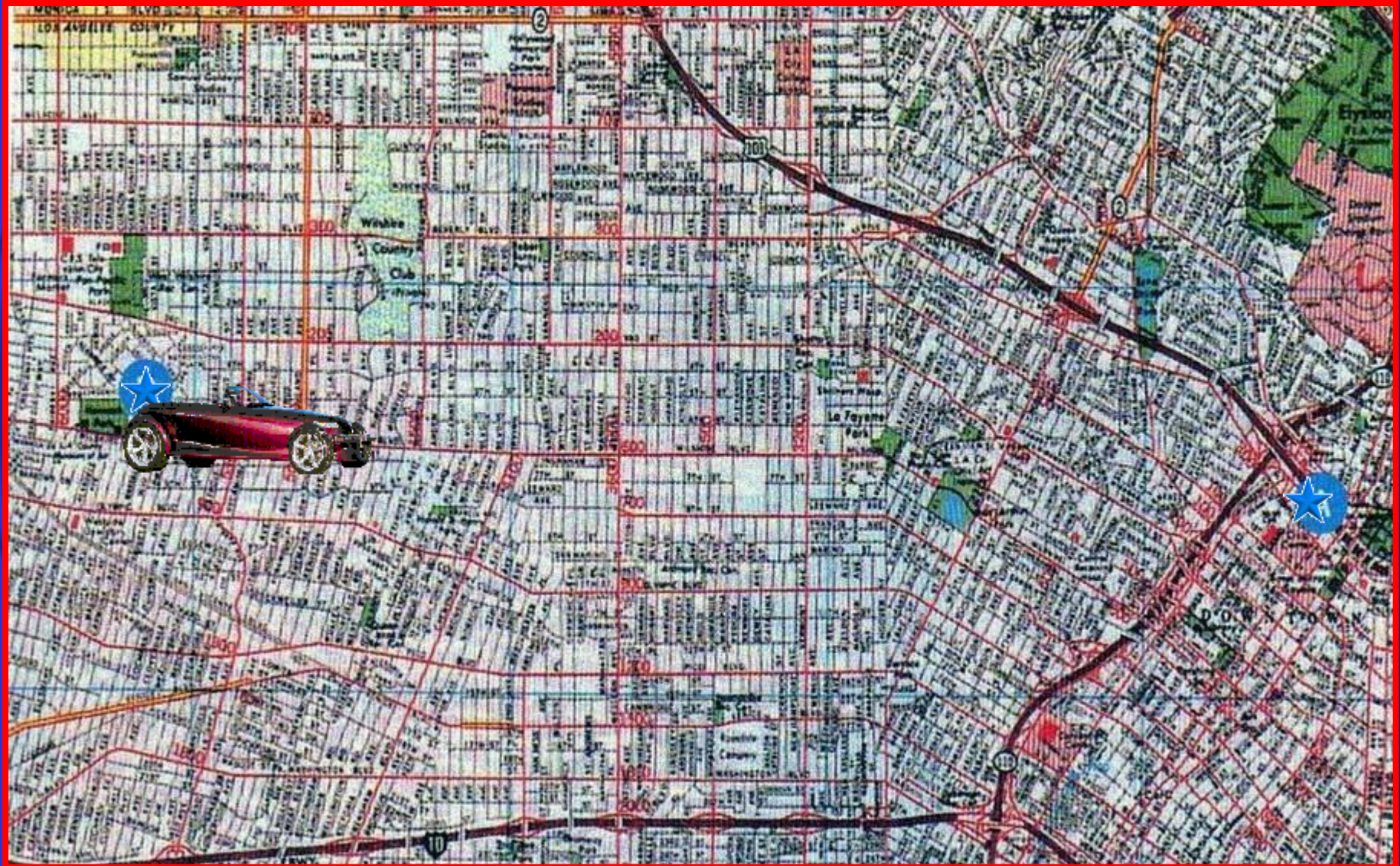
[99% is removed]



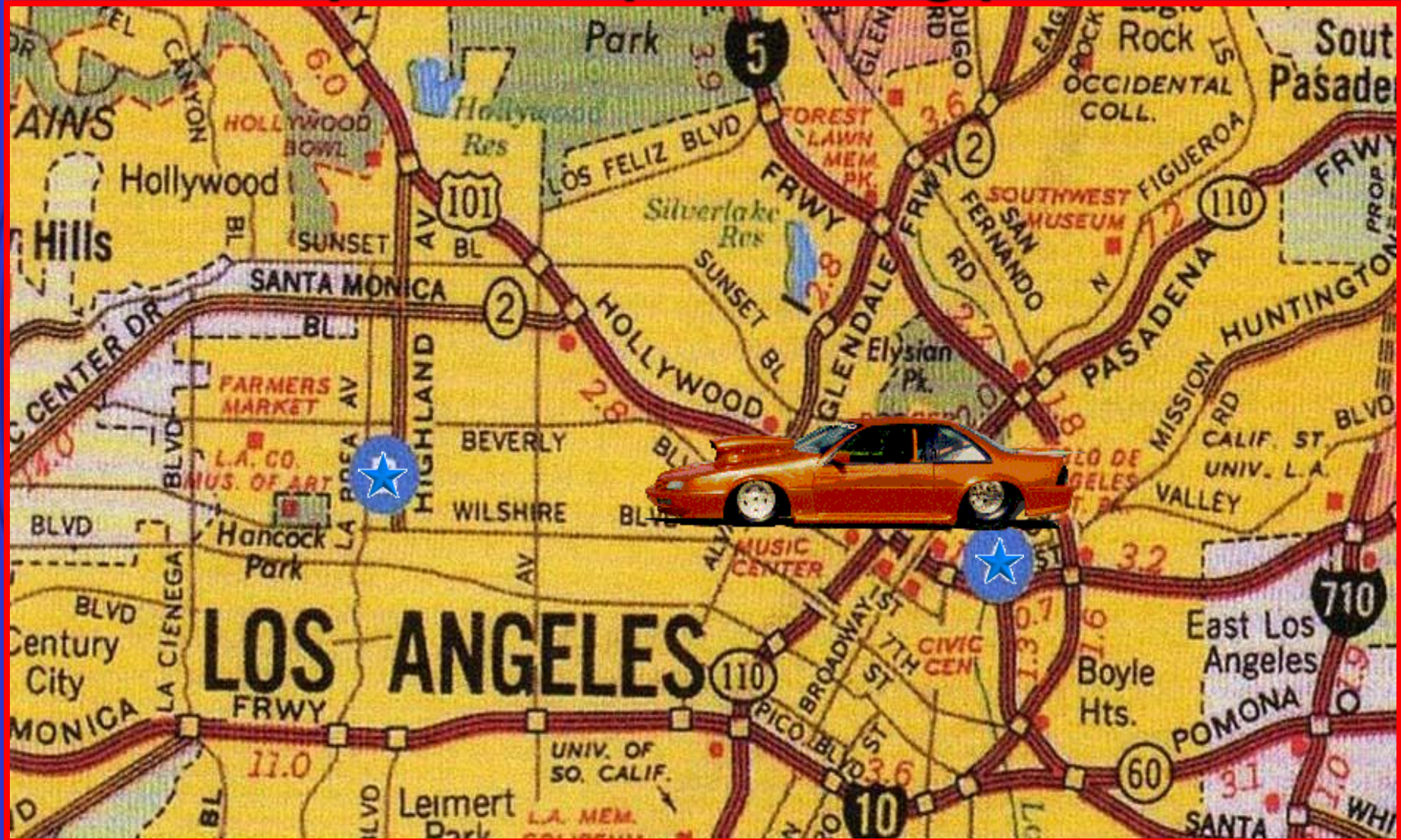
When President Bush saw the Eiffel Tower, he said, "That is a heck of an oil derrick you have there."



Going from L.A. Museum of Arts (B) to the L.A. Civic Center (A) [omits minor details]



Map B shows only the major freeways
A map is a simplified “big picture.”



When you pick Mr. or Ms. Right, you have 3.5 billion to pick from.

What characteristics are you not going to want (abstract) in picking Mr. or Ms. Right.

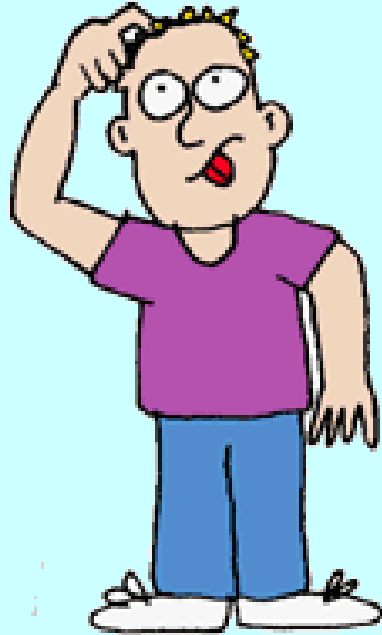


"There is the woman I want. She doesn't even have to like sports."

"We're looking for the perfect man."



Subjectivity - personal perception.



As we become **econ gurus** we must
look at economic issues **objectively**
- not **subjectively**.





Is this a leftward-looking **bird**?
rightward-looking **antelope**? Or a **rabbit**?

Do You Change Your Mind?



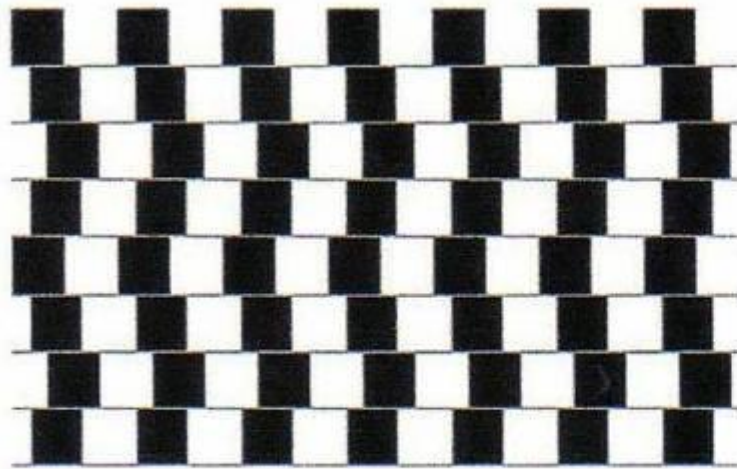
Do You Change Your Mind Again?



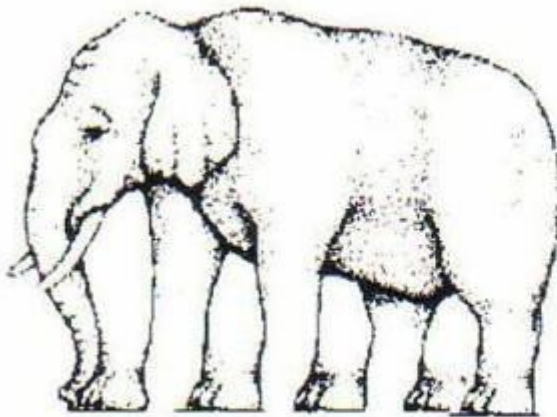
Do you see an “old lady” or “young girl” ?



Hint: The old woman's nose is the young girl's chin.



Are the **horizontal lines parallel** or do they **slope**.



How many legs does this elephant have?

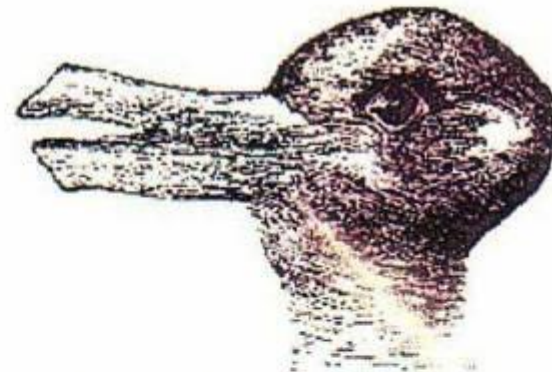


Man Playing Horn...

or

Woman silhouette?

(Hint: woman's right eye is the black speck in front of horn handle)



A Rabbit... or a Duck?

(Hint: the duck is looking left, the rabbit is looking right.)

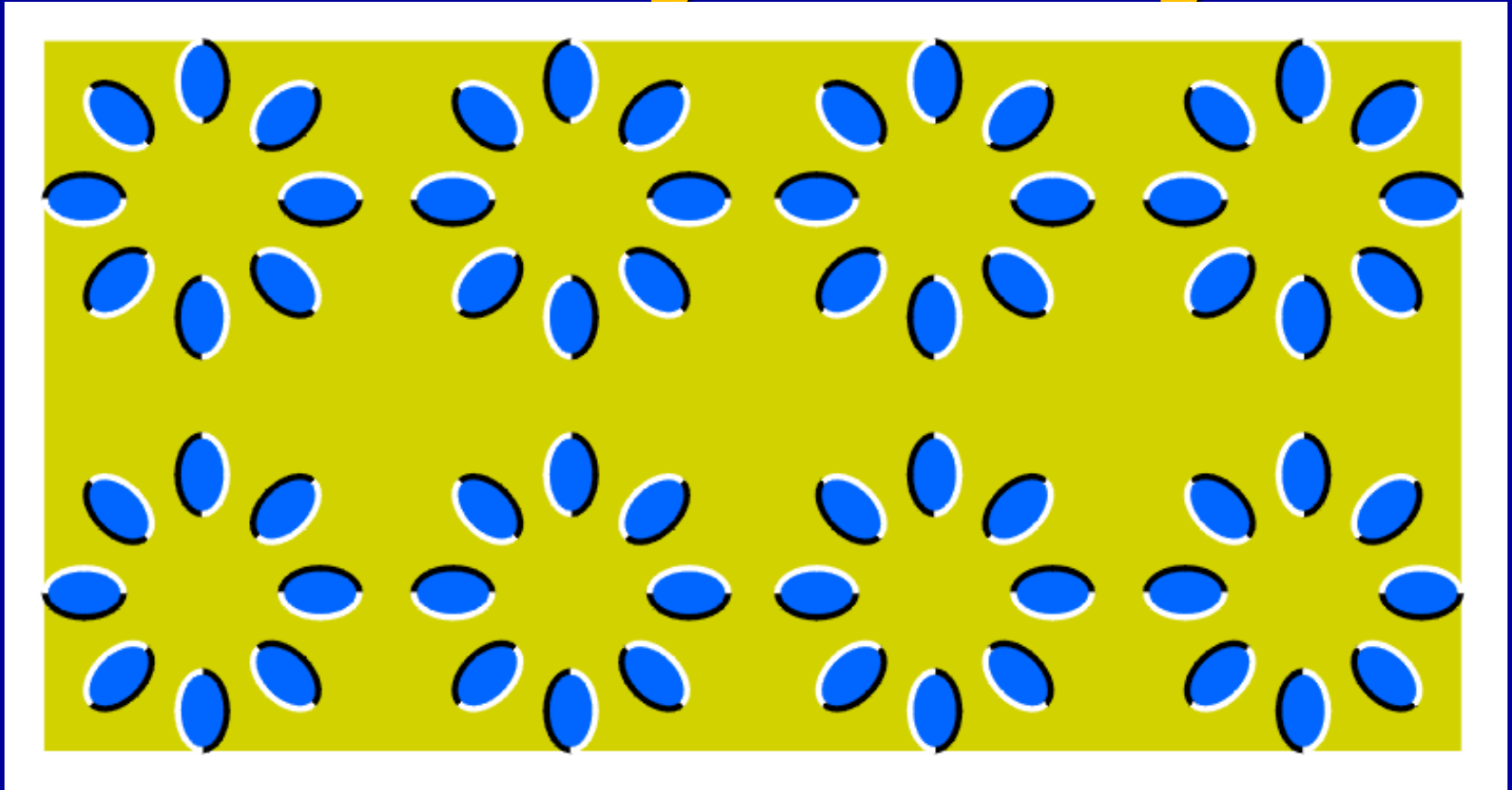
Optical Illusion. Stare at the picture & see if it doesn't look like you are looking at a giraffe - and yet there is really no giraffe. Oh!



Are There One or Two Shelves?

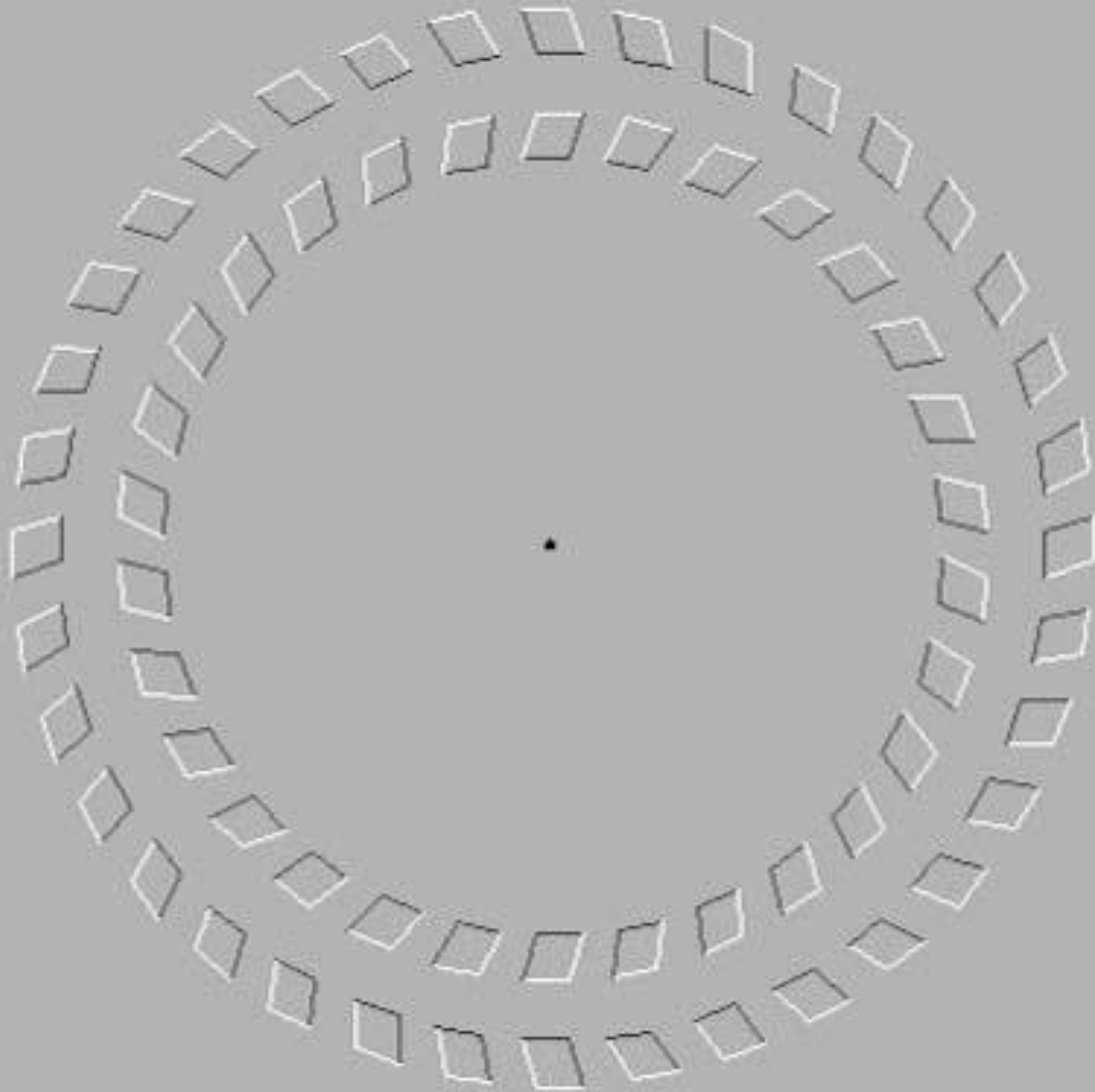


Are These items Moving? Or – Are They Perfectly Still?

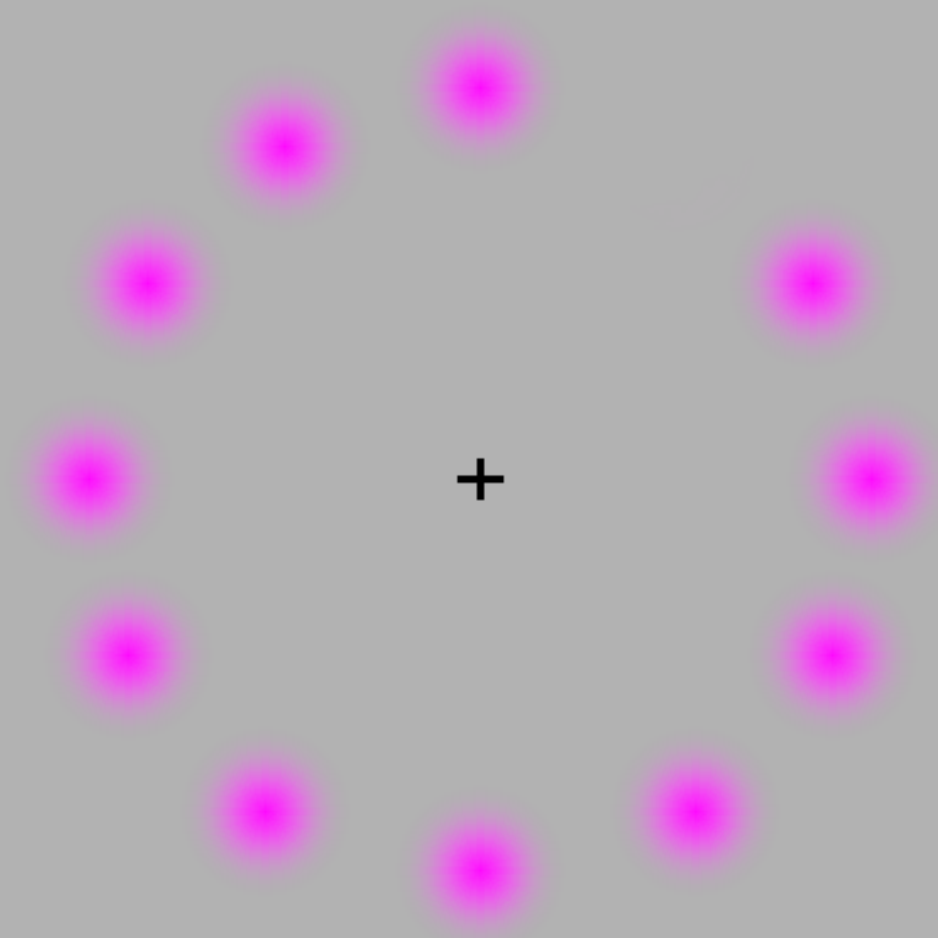


The pictures are used to test the level of stress a person can handle. The slower the pictures move, the better your ability of handling stress. **Alleged criminals** that were tested see them **spinning around madly**; however, **senior citizens** and kids see them **standing still**. None of these images are animated - they are perfectly still.

**Focus on the Dot in the center & move
your head backward and forwards.**



1. Follow the moving **pink dot** and notice it doesn't change color.
2. Concentrate on the cross in the middle, after a while you will notice that this moving **pink dot** will turn **green!**

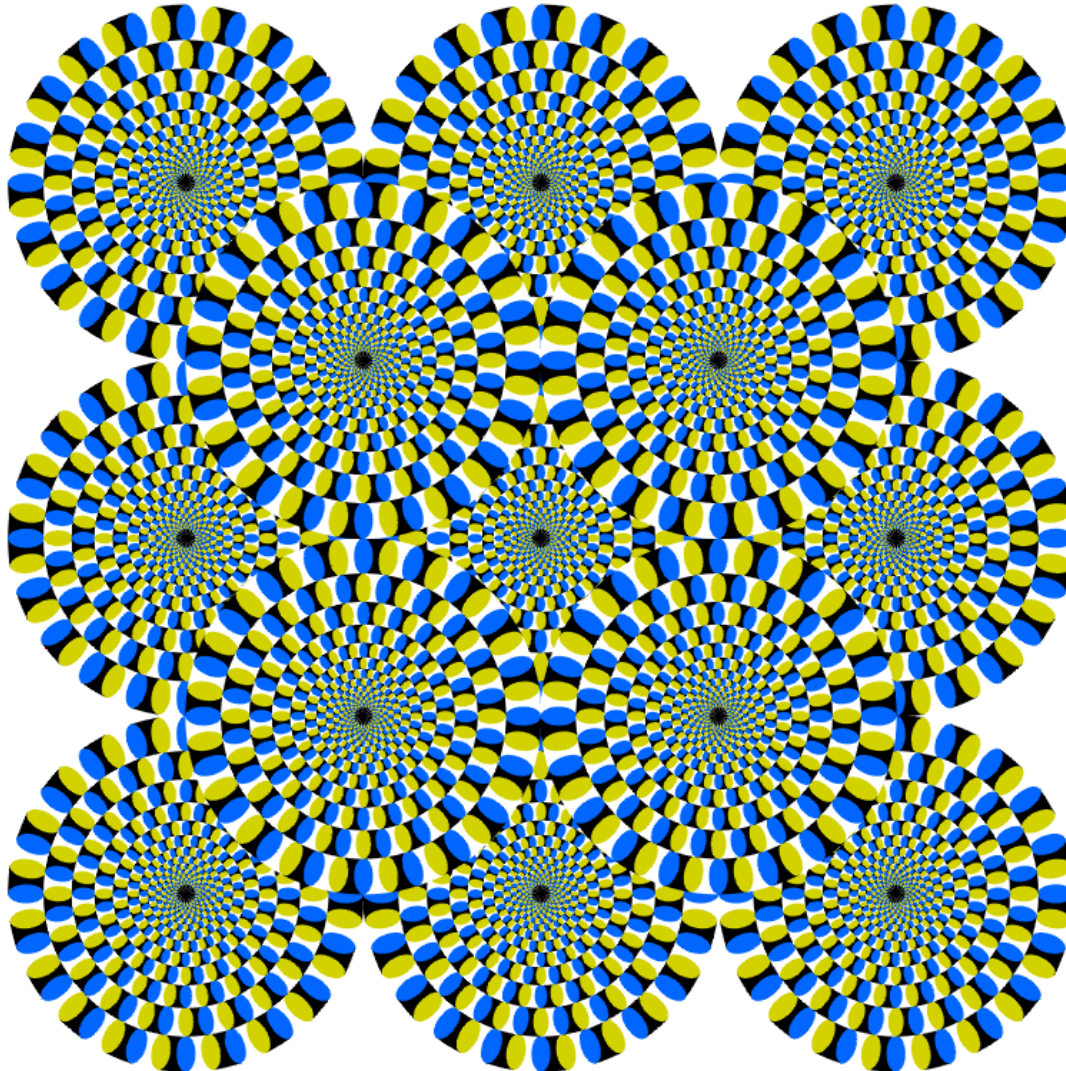


3. Look at the cross a bit longer and you'll notice that all dots except the **green one** will disappear.

Rotating Snakes

Concentrate on the dot in the middle of the picture.

If you see any rotation in the others, you are going to be a criminal.



Is this a Frog or a Horse?

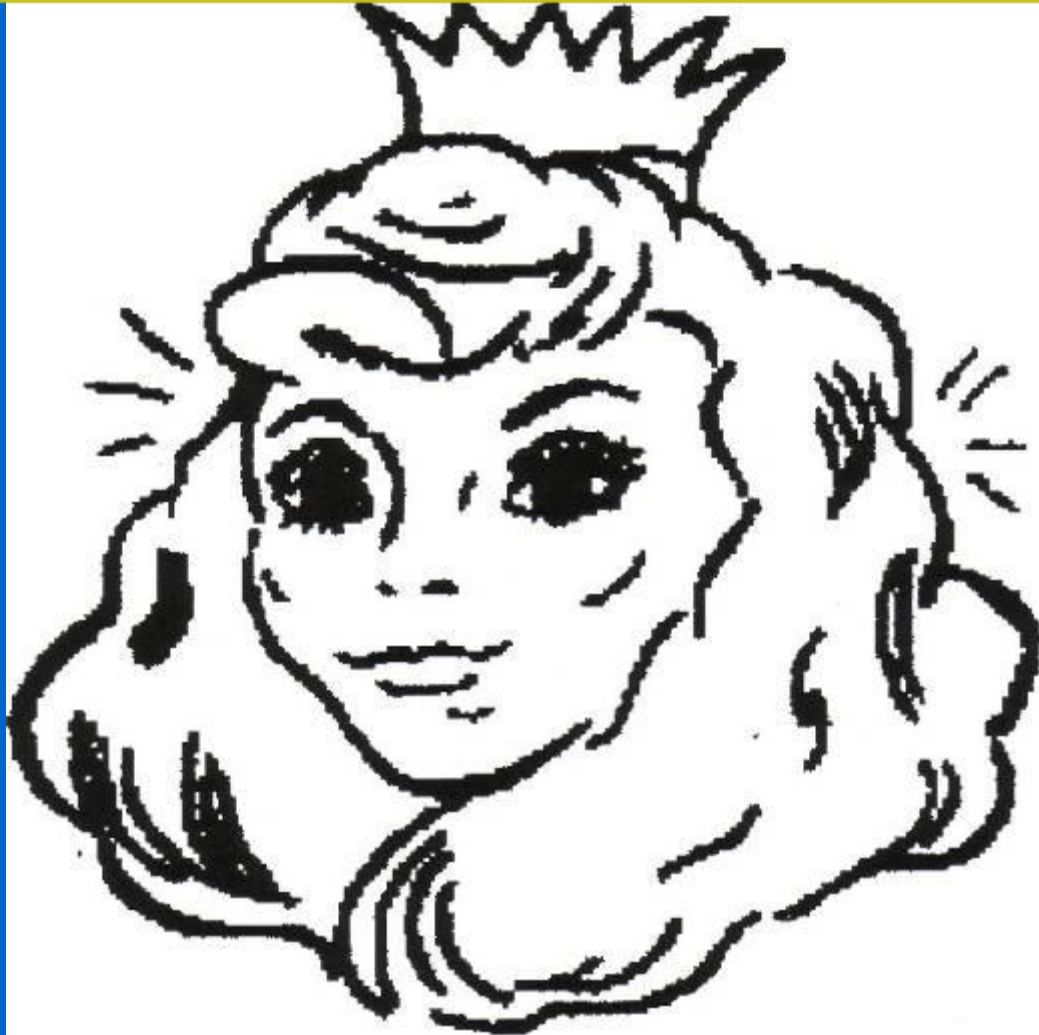


BEFORE 6 BEERS



AFTER 6 BEERS

Friends don't let friends drink & take home ugly women.



So Why Did I Show You All Of This?

- Economics is a little like optical illusions.

➤ Some times the economic concepts presented are easy to see & understand.

➤ Other times the concepts presented take more time to reveal themselves.

➤ Just like the illusions, you must be persistent and not give up until the concept **“appears”** to you.




➤ Then and only then will you become an **econ guru**, and look like one of these!



Econ Gurus

So, this is your goal, look like one of these!

1 **Economics** – the study of the choices people make in an effort to satisfy their unlimited needs & wants from limited (scarce) resources.

2 **Product** { **Good** is a physical object (**tangible**) that can be purchased.
[These can be **seen and felt** – car,  book ]
Service is **useful labor**  done for a fee (**intangible**).

[These are activities, not items – lawyer or doctor service]



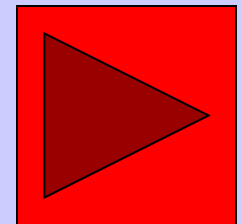
Good or Service?

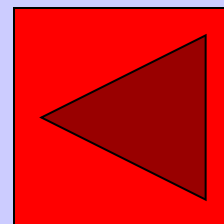


Mechanic giving car a tune-up

Good

Service





Good or Service?

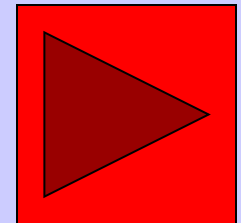


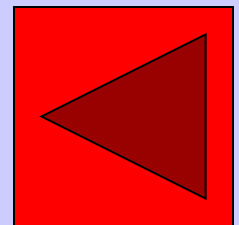
Watch

Good

Service







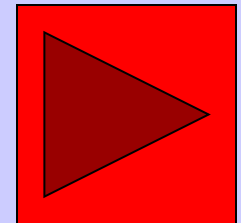
Good or Service?

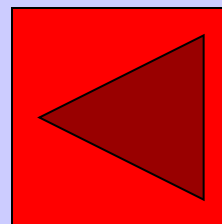


Watch Repair

Good

Service





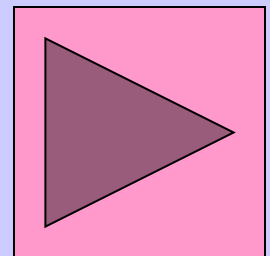
Good or Service?

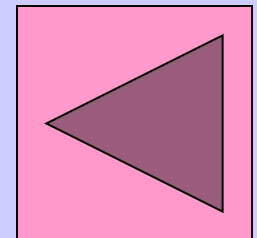


Hamburger

Good

Service





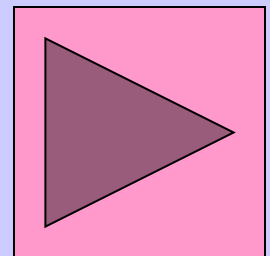
Good or Service?

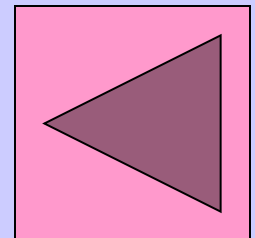


Basketball

Good

Service





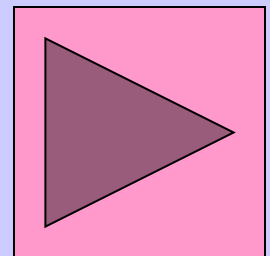
Good or Service?

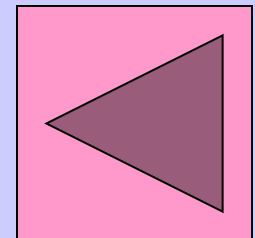


Bicycle

Good

Service





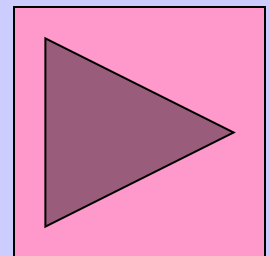
Good or Service?

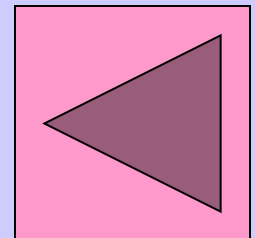


Hair Cut

Good

Service





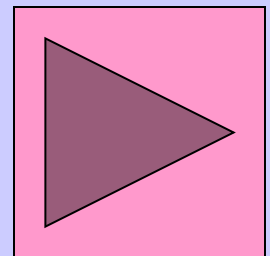
Good or Service?

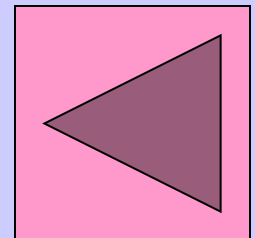


Garbage Pickup

Good

Service





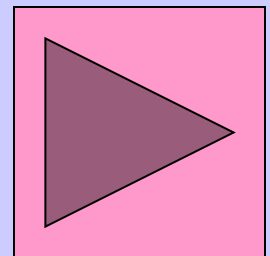
Good or Service?

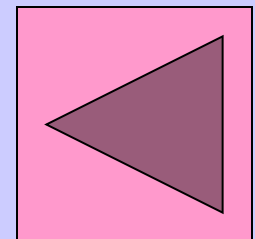





Laptop Computer

Good

Service





5 Needs – necessities for survival.
[food,  clothing,  and shelter ]

6 Wants – simply something we want but not necessary for survival. [car,  soccer ball ]

Scarcity – when resources do not satisfy wants and needs.

[Wants are greater than resources.]

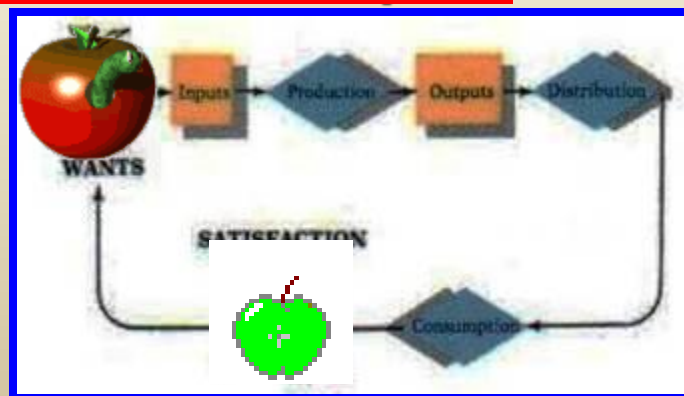
[Scarcity makes decisions necessary & opportunity costs unavoidable.]

Resources – anything used to satisfy wants or needs. [inputs]

7 **Factors of production** – building blocks (resources/inputs) used to produce products.

They are inputs used when something is going to be made. There are thousands of inputs or factors of production, all of which can be

8 grouped under land, labor, or capital.



Scarcity

“The first lesson of economics is **scarcity**: There is never enough of anything to satisfy all those who want it.

The first lesson of politics is to **disregard the first lesson of economics**”. --Thomas Sowell

Resources or “Factors of Production”

Land – Natural Resources

Acreage, rivers, lakes, ports, (oil, precious metals, minerals)

Labor – Human Resources

Physical and mental talents that produce goods and services

Capital – “stuff used to make other stuff”

All manufactured goods & services used in producing consumer goods. Examples: Tools, machinery, equipment, trucks to carry goods, airplanes, etc.

Entrepreneurship – the “boss”

1. Someone who takes the initiative in using or combining land, labor & capital to produce a good or service.

2. Someone who is innovative, a risk taker, and makes basic business decisions.



Remember -- ALL THESE RESOURCES ARE IN LIMITED SUPPLY. They are scarce!!!

The Four Factors of Production

Resources beget **production**, which beget **income**, which beget **wealth**.

1. **9** Land [natural resources] – Nature's items ["gifts of nature"]

A. **In the earth** - coal, oil, fossil fuels, etc.

B. **On the earth** – vegetation and water

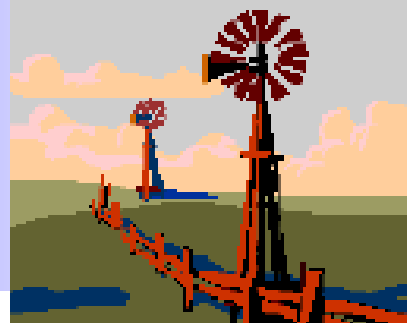
C. **In the atmosphere** – sun, wind, and rain

[Land is the **starting point**  of all production.]

"Stuff" from which everything is made.



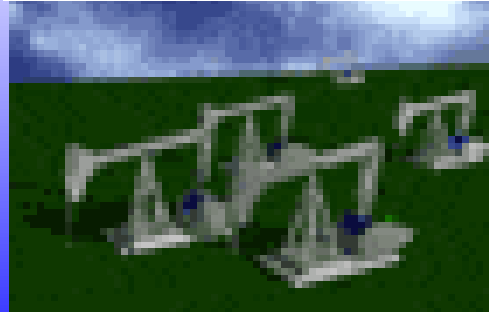
Water



Wind



Sun

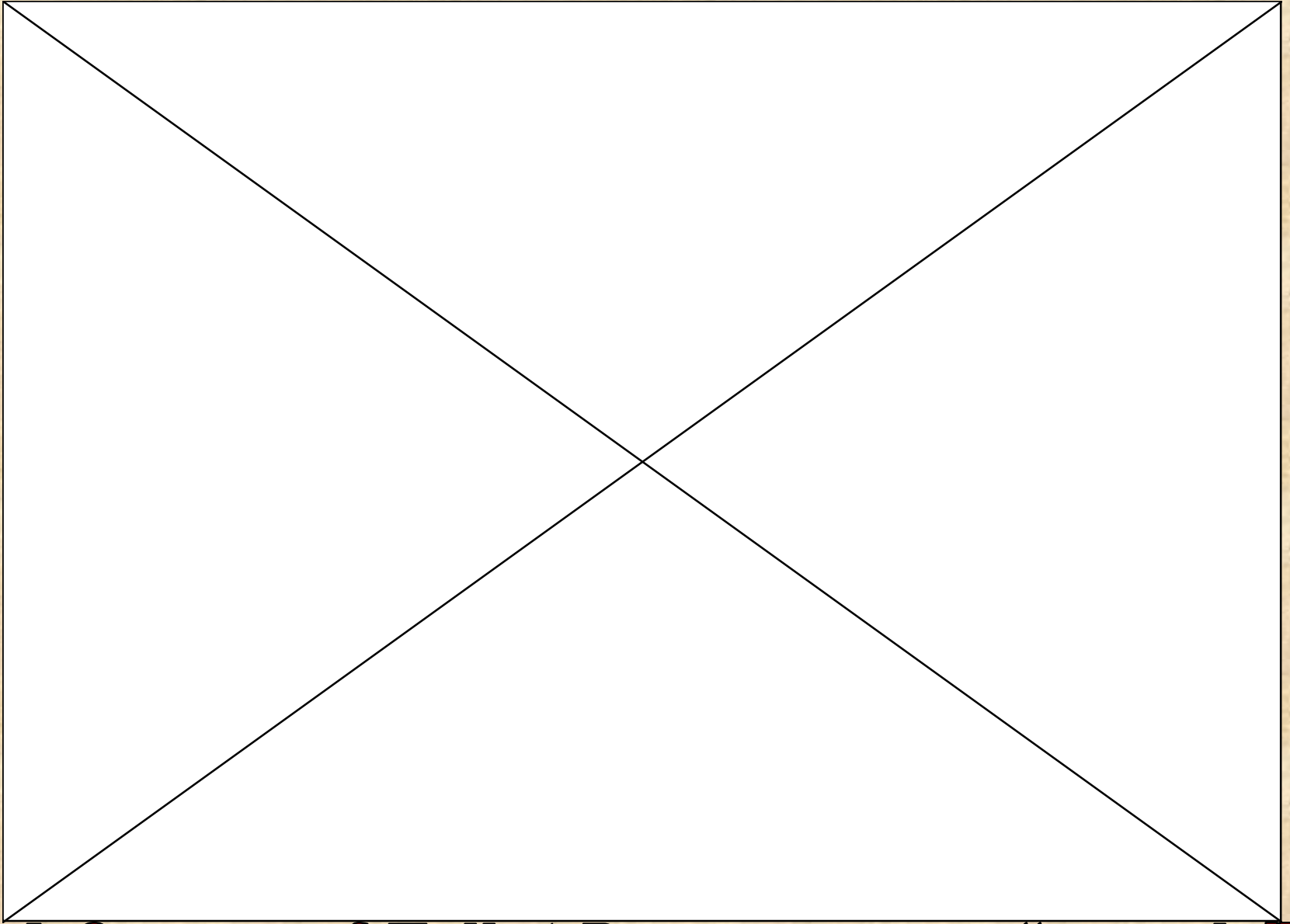


Fossil fuels



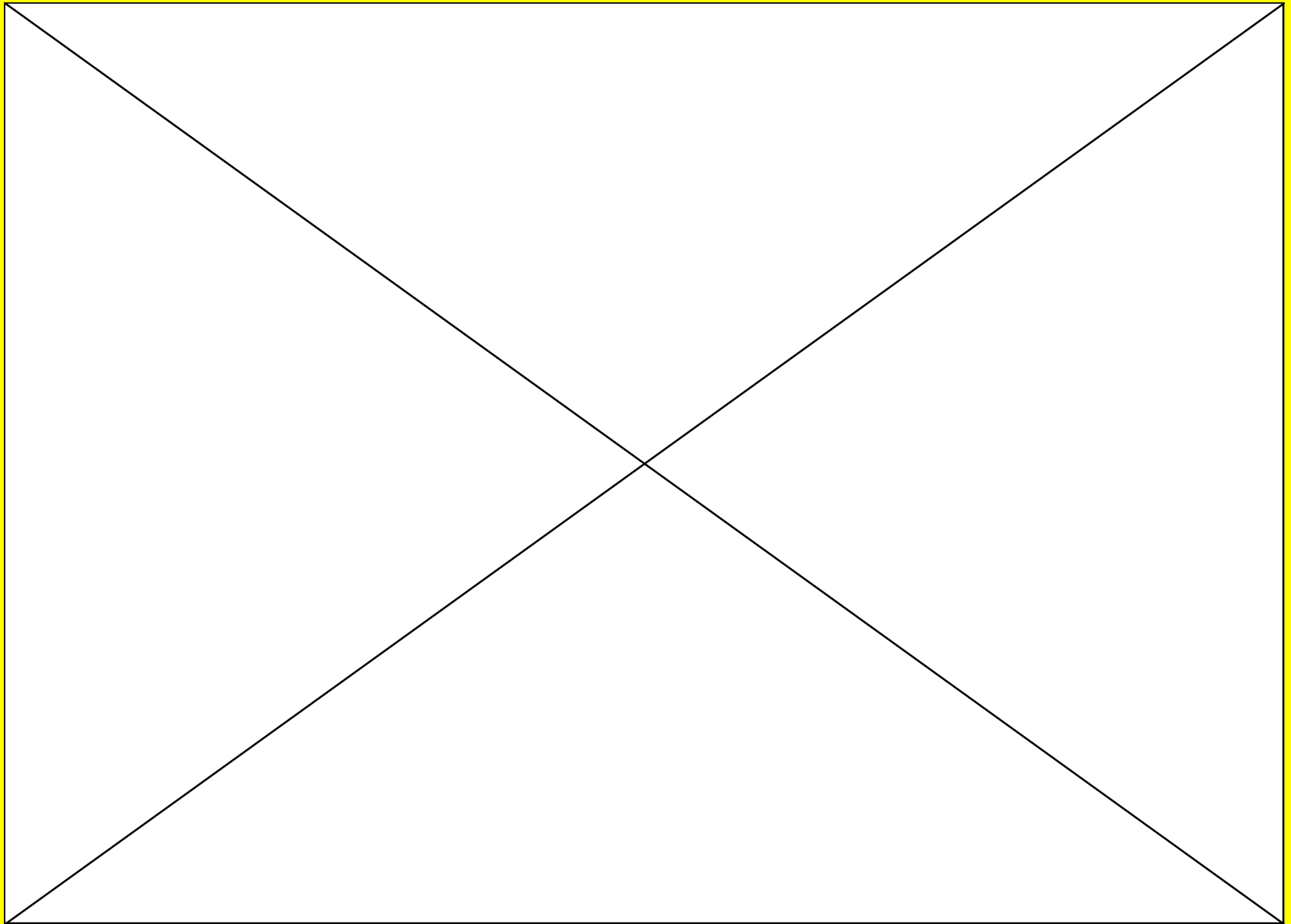
"Gifts of Nature"

Scarcity – “Spare A Square”



A Square of Toilet Paper or even “one ply”

Scarcity – “Elaine’s Revenge”

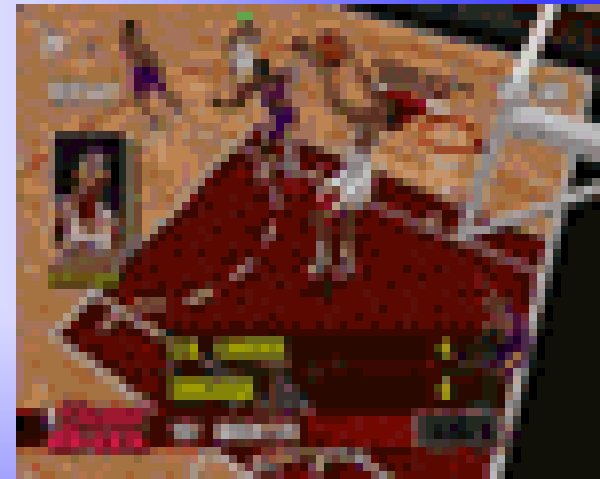


Elaine “Creates Scarcity of Squares”

2. **10** Labor [human resources] {"effort"}
anyone who works ["paid work"]
[Labor is the "brain-power" and
"muscle-power" of human beings]
A. **Physical** – pro athletes & lumberjacks
B. **Intellectual** – ministers, doctors & lawyers
*Most important resource – 70% of input cost



"Hired Help"



UNDER
CONSTRUCTION

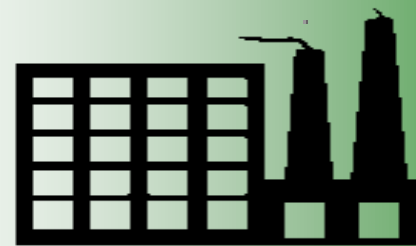
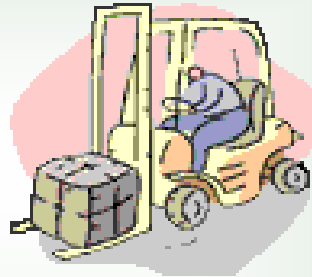


Real Capital v. Financial Capital



Can produce something directly with these

REAL [Economic] CAPITAL
[tools, machinery, & factories]



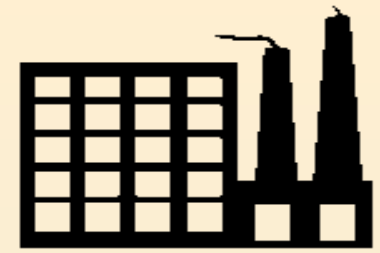
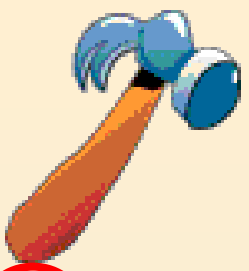
FINANCIAL CAPITAL
[stocks, bonds, and money]

Can't produce anything directly with these



When people “invest” in assets [stocks] hoping to receive a “financial” gain





3. **11 Capital Resources** – all “man-made inputs” used in the production process (tools, machinery, and physical plants).

A. **Capital goods** – produced goods [machinery, buildings, & tools] used to produce other goods. [crane, Ford plant, hammer]
[products meant for “future consumption”]

B. **Consumer goods** – products meant for “immediate consumption”.

12 A product can be both a consumer good and a capital good –depends on use.

13 Ex: Jet aircraft used by a movie star [like Jim Carey] to visit friends (consumer good).

The same aircraft used by a business manager to serve customers [capital good].

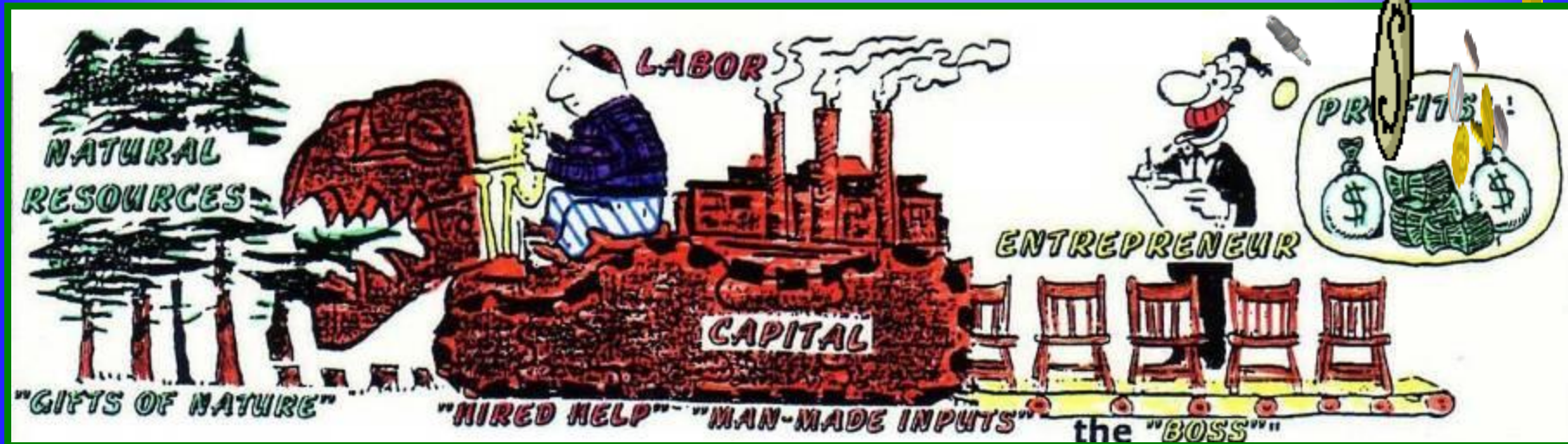
Ex: F150 pick-up to deliver produce [capital good] or take family to church [consumer good]



“man-made inputs”



Rent \$	Wages \$	Interest \$	Profits \$
Land	Labor	Capital	Entrepreneur



4.

14

Entrepreneurship – starting a **new business** or bringing a **new product** to market. “Sparkplugs” who introduce the product or start the new business. He combines land, labor, and capital to **produce products**.

15

Resource payments. The resource owners receive **rent** [for the use of their land; **wages** [for their labor]; **interest** [payment for financial capital], and **profits** [for their entrepreneurial ability].



Opportunity Cost is the Opportunity Lost



The Opportunity Cost is the "Opportunity Lost"

Opportunity Cost

Opportunity Benefit

Opportunity Set
["what is possible for \$10,000"]



Scarcity 

Choices 

Opportunity Costs 

Trade-offs—decision (**choice**). A trade-off is the act of giving up one thing for another.

Opportunity Cost – 2nd Choice

(most important concept in economics)

[what you sacrifice when you make a choice]



Molly

“Oops, I made a mistake. I now want you, Molly!”



The Bachelor
Jason



Melissa



And - As 40 Million Watched, Joe Millionaire chose Zora [right] over Sarah [left]

And Why Didn't Joe Pick Sarah? This Is The Reason He Gave Her.



**Fox gave them \$1 million but they didn't stay together & split the money.
It was later discovered that Sarah had appeared in 50 "bondage" videos.**

Economic Way of Thinking

Do the Benefits outweigh the cost?

Scales of Economics



Choices are primarily marginal – not all or nothing.

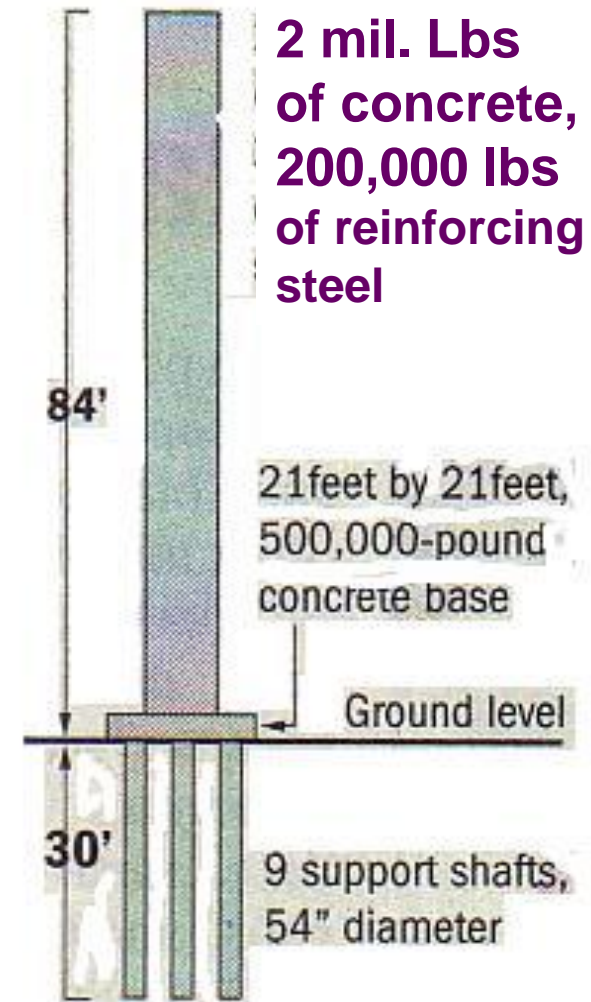
“High 5” cost \$261 m

A look at one of the tallest of the High 5 support structures

Non-economic Way Of Thinking

That was an expensive highway project and nothing less of anything else.

Cost twice as much as any other state transportation project. [500,000 cars daily]



Cowboys Stadium costs \$1.15 billion

Non-economic Way Of Thinking

There is one more stadium project and nothing less of anything else.

Cost more than any other Sports venue in history..

Economic Way Of Thinking

There is one more construction project and a lot less of many other things.



Cowboys Scoreboard costs \$40 million

[60 yards long and 71 feet tall – weighs 1.2 mil. lbs]

Non-economic Way Of Thinking

There is one very expensive \$40 M scoreboard and nothing less of anything else.

[90 feet up from 20 to 20]

[The scoreboard cost more than the original TX Stadium which cost \$35 million]



Economic Way Of Thinking

There is one more scoreboard and a lot higher ticket prices for the fans.

It would take 1,230 52-inch flat-screen TVs to equal the size of the screens.

Weighing 600 tons it has 30 million light bulbs in the displays.

OPPORTUNITY

Cost of

SMOKING

Your

Choice

SMOKING

“Your Choice”



Smoking Since The 1964 Warning

There have been over 25 million smoking deaths since this warning.

50%



For Men

40%

30%



For Women

20%

1965

'70

'75

'80

'85

'90

'95

'00

'07



Who Smokes?

<u>Group</u>	<u>Men</u>	<u>Women</u>
• Overall	21.0	19.5
• White	21.3	19.2
• Black	25.5	18.3
• Hispanic	22.1	10.3
• American Indian	42.0	37.3
• Asian-American	17.5	6.5
• 18-24	26.3	21.5
• 25-44	28.4	22.8
• 45-64	23.9	19.2
• 65+	10.1	8.3
• Didn't finish H.S.	32.4	21.2
• H.S. graduate	29.2	22.1
• College graduate	13.6	11.0
• Graduate degree	8.1	6.7

What Killed Americans in 2007

Tobacco use

2nd hand smoke



450,000

40,000

Alcohol-related 108,000

Auto accidents 44,757

Suicide 31,484

AIDS 30,000

Homicides 17,732

Drunk Driving 17,000

Radon (lung cancer) 13,600

Drug overdose 11,000

Food poisoning 9,000

Falls in the home 7,100

Drowning 6,335

Motor cycle accidents 3,676

Fires in home 3,200

Choking on object 3,004

X-rays 3,000

Falling down stairs 1,588

Choking on food 875

Bicycle accidents 762

Falling out of bed 594

Pool drowning 515

Falling off a ladder 365

Bathtub drowning 332

Hunting Accidents 140

Scuba diving 105

Slipping on ice/snow 103

Tornadoes 82

Bee/wasp sting 66

Snowmobiling 60

Lighting strike 47

Skiing 41

Water skiing 47

Dog attack 32

Sky diving 22

Commercial airline accidents 22

Football 13

Hang gliding 8

Playground equipment accident 3

Marine-animal attack 1



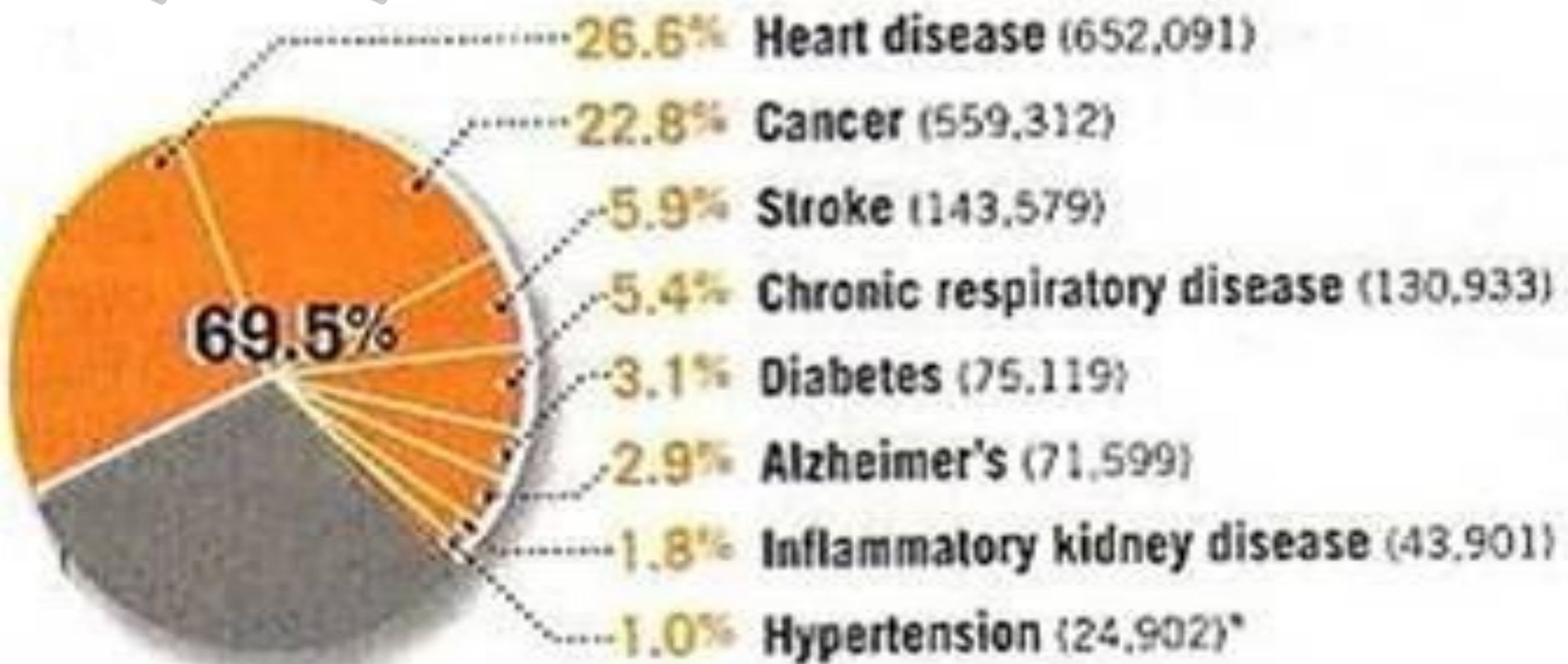
Other Killers of Americans in 2007

Chronic Killers

Of the 2.4 million Americans who died in 2007, 7 in 10 died from one of these chronic diseases, many brought on by smoking.

2,448,017

Number of Deaths





Bryan Lee Curtis, age 31, diagnosed w. lung & liver cancer from smoking.



Bryan, 6 weeks later, after chemo.



<http://projects.washingtonpost.com/fallen/>



6,025 have been killed since 2003
fighting terrorism in the last 8 yrs.
Dollars spent: \$3 trillion

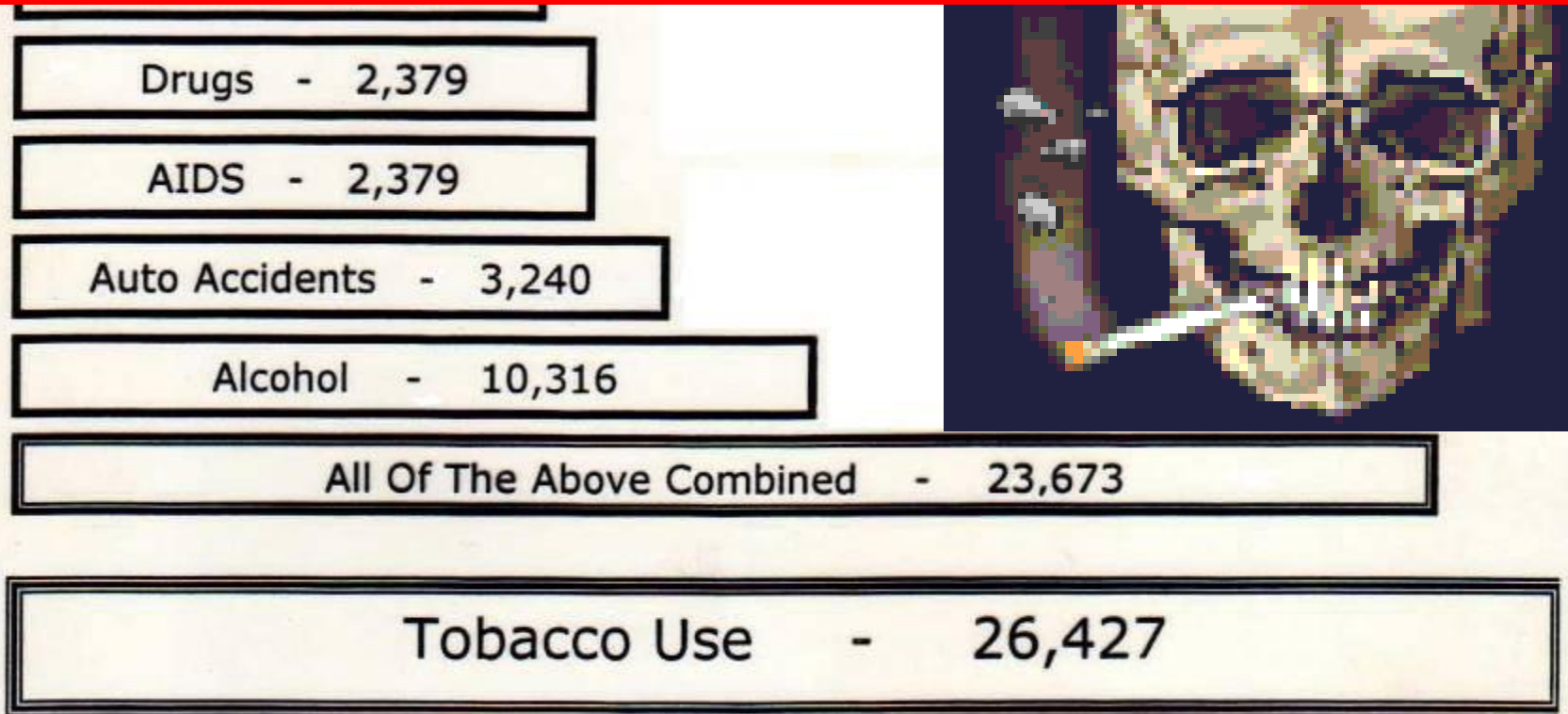


4 million have died from
smoking in 8 years in the U.S.
Dollars spent: \$0

Texas Yearly Preventable Deaths

France, with a population of 61 million, **loses 66,000** residents a year to **smoking related diseases**. [25% smoke]

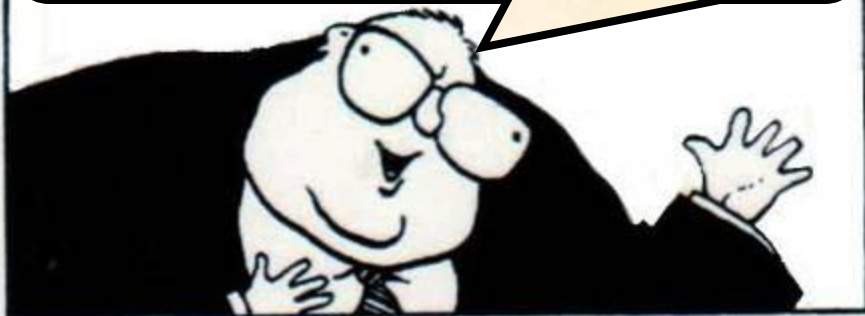
China, with a population of 1.3 billion, **loses 1 million** of its 320 mil. smokers to **smoking related diseases**. [53% smoke]



“The **good news** is that over 1,000 smokers will **quit smoking** today.”

“The **bad news** is that those over 1,000 ex-smokers **will be buried**.”

We should spend our money on heart disease, cancer, and emphysema!!!

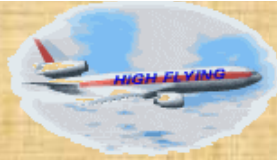


\$75 bil. a year in health care cost



1,000 cigarette deaths per day.

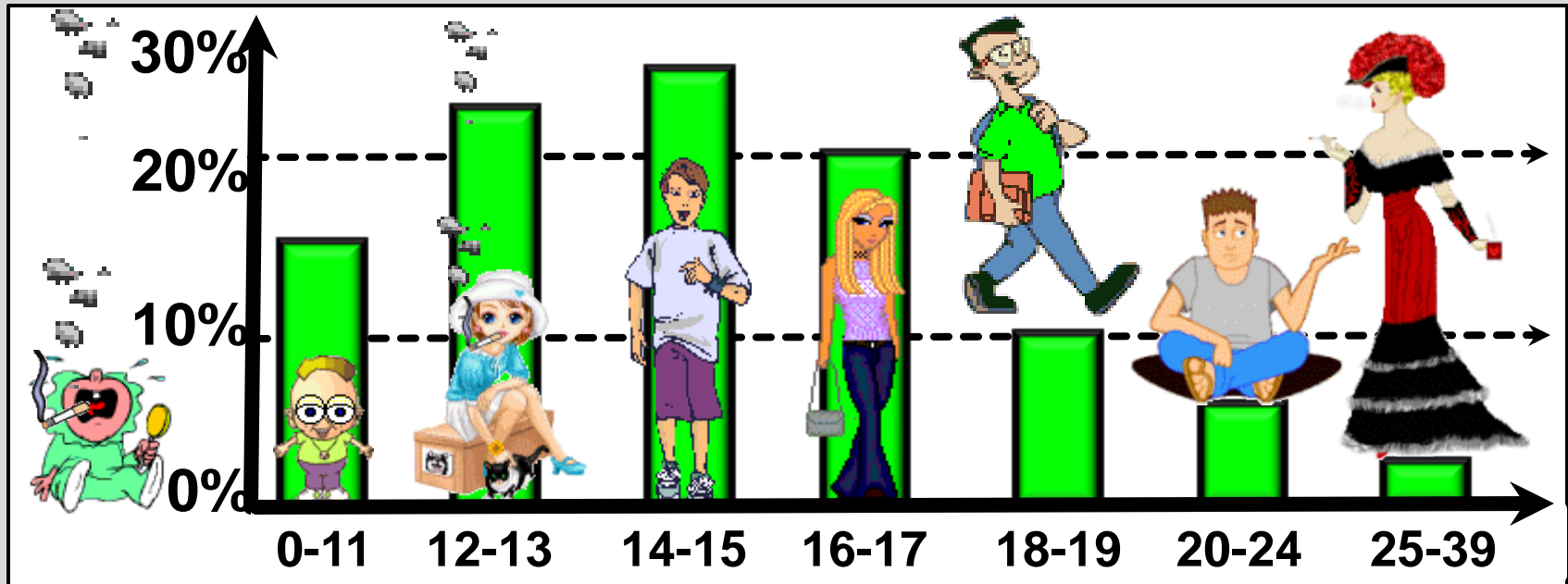
3,000 a day die from smoking in China.



This is like **3 jumbo jets** with 350 aboard each of them crashing each day. Those sitting in first class [75 total] would be the victims of 2nd hand smoke. If this were happening – would we ban jumbo jets?

When Smokers Start

Nearly every smoker began as a teenager. 4 out of 5 make it thru high school without becoming smokers.



Characteristics of Teen Smokers

1. Low socioeconomic status
2. Poor school achievement
3. Excessive rebelliousness and risk taking
4. Low self-esteem
5. Dropping out of school/not planning on college

Janet Sackman on Smoking

Janet, at age 17, was a successful model doing **soap, swimsuit, and cigarette ads**. She was on the cover of **Look** and **Life**. An executive for "**Lucky Strike**" told her, "It would be a good idea for you to learn how to smoke. **You'll look more authentic.**"

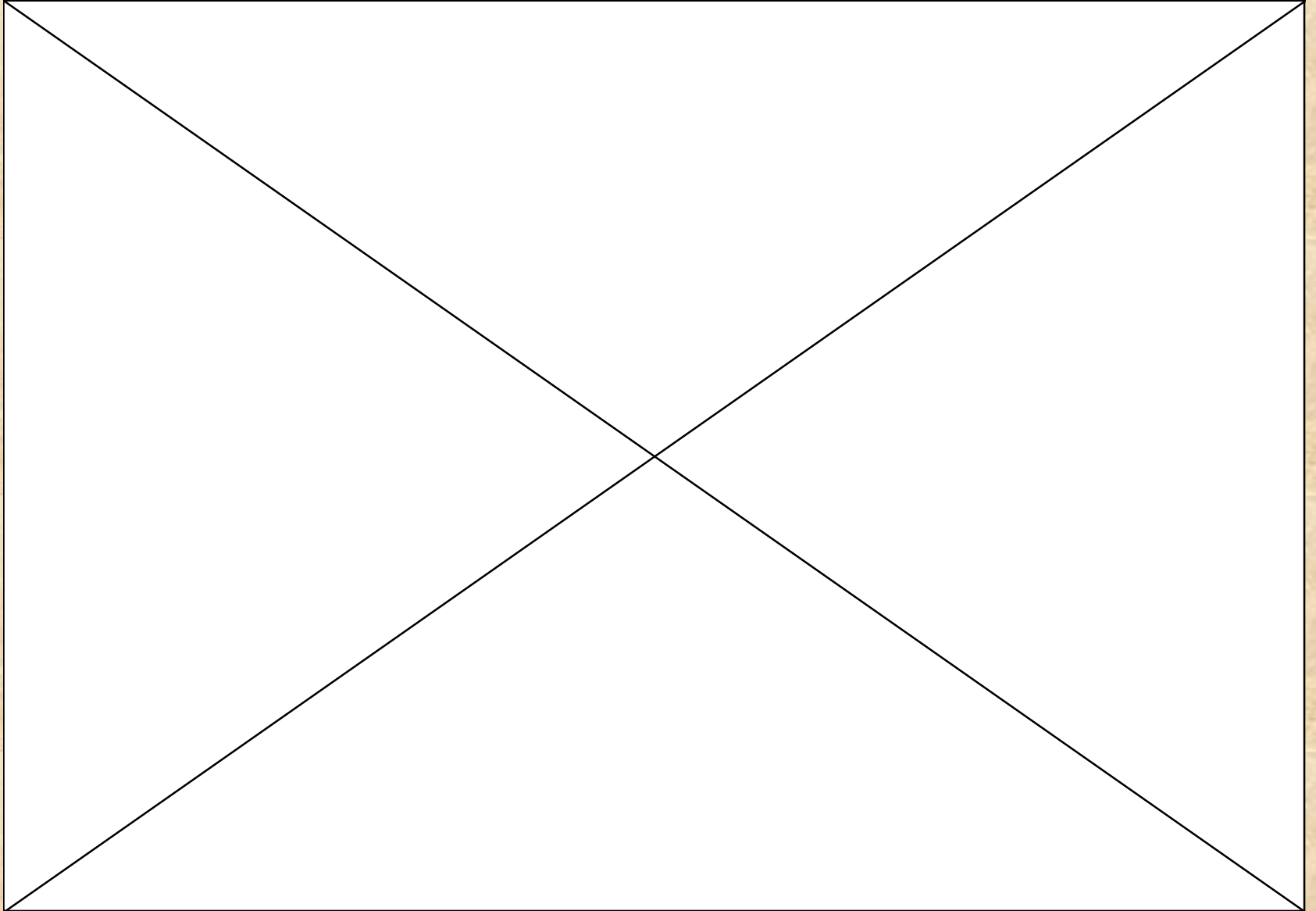


As she began smoking and **became addicted**, she later had to have her **larynx removed** and then had **part of a lung removed**. She still looks great, but she doesn't sound so good. Her voice box gone, she had to learn to talk all over again, **burping air through a hole in her esophagus** just above the collarbone. It took her **six months to say her first word**; & now she teaches other the technique.

"I cough through the hole, I sneeze through the hole, and I talk through the hole," she says in a mechanical croak. "I can't make any sound when I laugh or cry. I can't be sarcastic, and I can't tell a joke. I have the same monotone speech all the time."

"And I'm one of the fortunate ones, because I'm alive. I wish I had realized how important my life was when I was 17. The single most important thing to do for your looks and life is not to smoke."

Janet Sackman



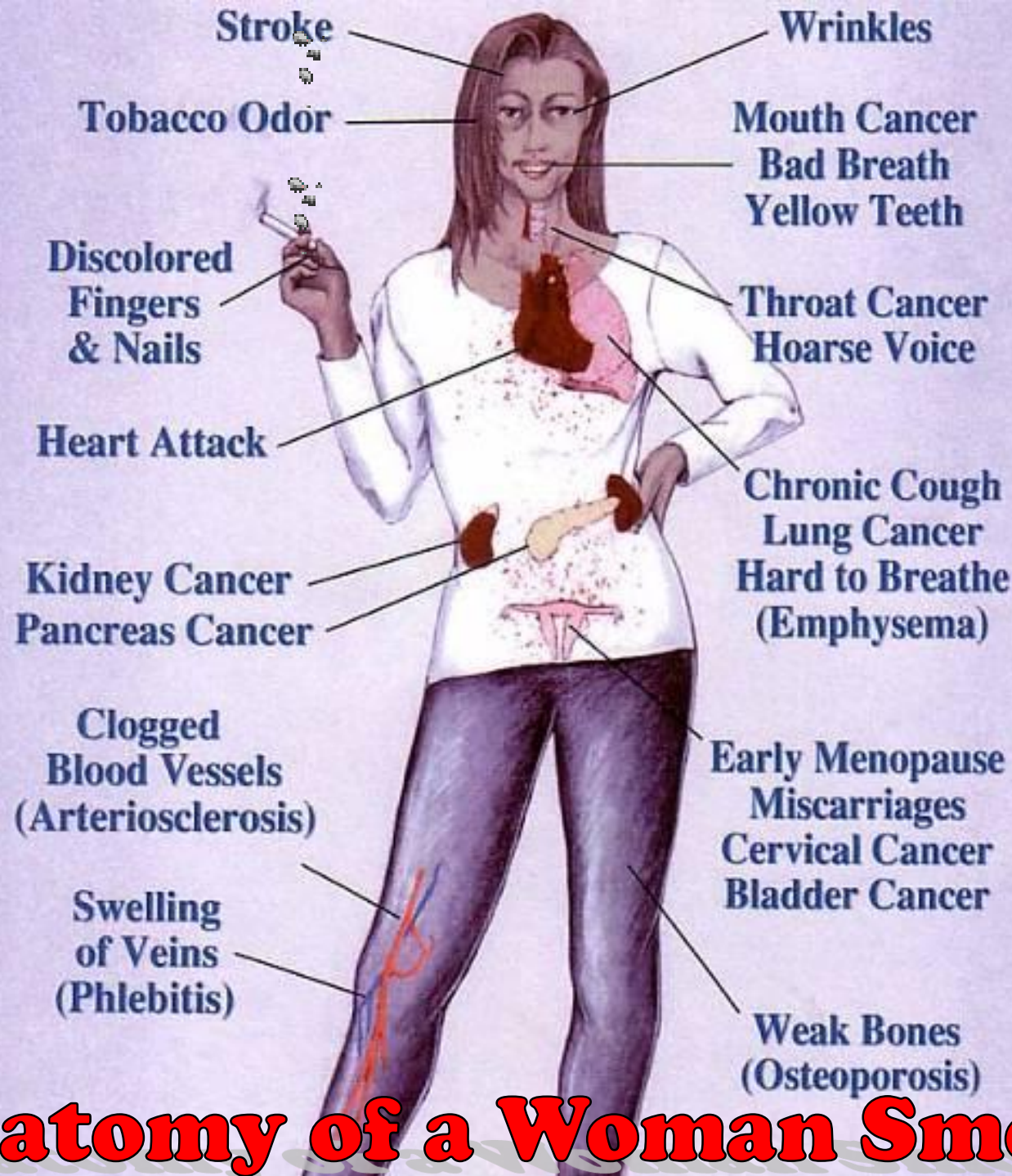
Pam Laffin – dead at 31



Pam started smoking when she was 11, got emphysema & had a lung transplant at age 24. Was influenced by the movie, grease, when Olivia Newton John [Sandy] smoked.

Overnight, she looked like this because of the medicine she had to take for the rest of her life [fat face and hump on her back]. Pam died at age 31 while awaiting a 2nd lung transplant. She died in her driveway holding the hands of her two young daughters, Amanda and Krystell.





Anatomy of a Woman Smoker

Anatomy of a Pregnant Woman Smoker



**When It comes to Smoking, Don't Let Your
Peers Knock You Down To Their Level**



**Don't smoke,
Don't smoke.**

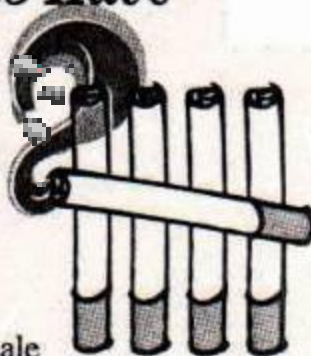


Bring Your Peers Up To Your Level



2nd Hand Smoke

How Many Cigarettes Have You Smoked Today Without Knowing It



You don't always see it or smell it, but even if you're a nonsmoker you probably inhale a significant amount of cigarette smoke every day. And it's not only nicotine you're breathing; just one cigarette emits about 4,000 chemicals, some of which are known to cause cancer.

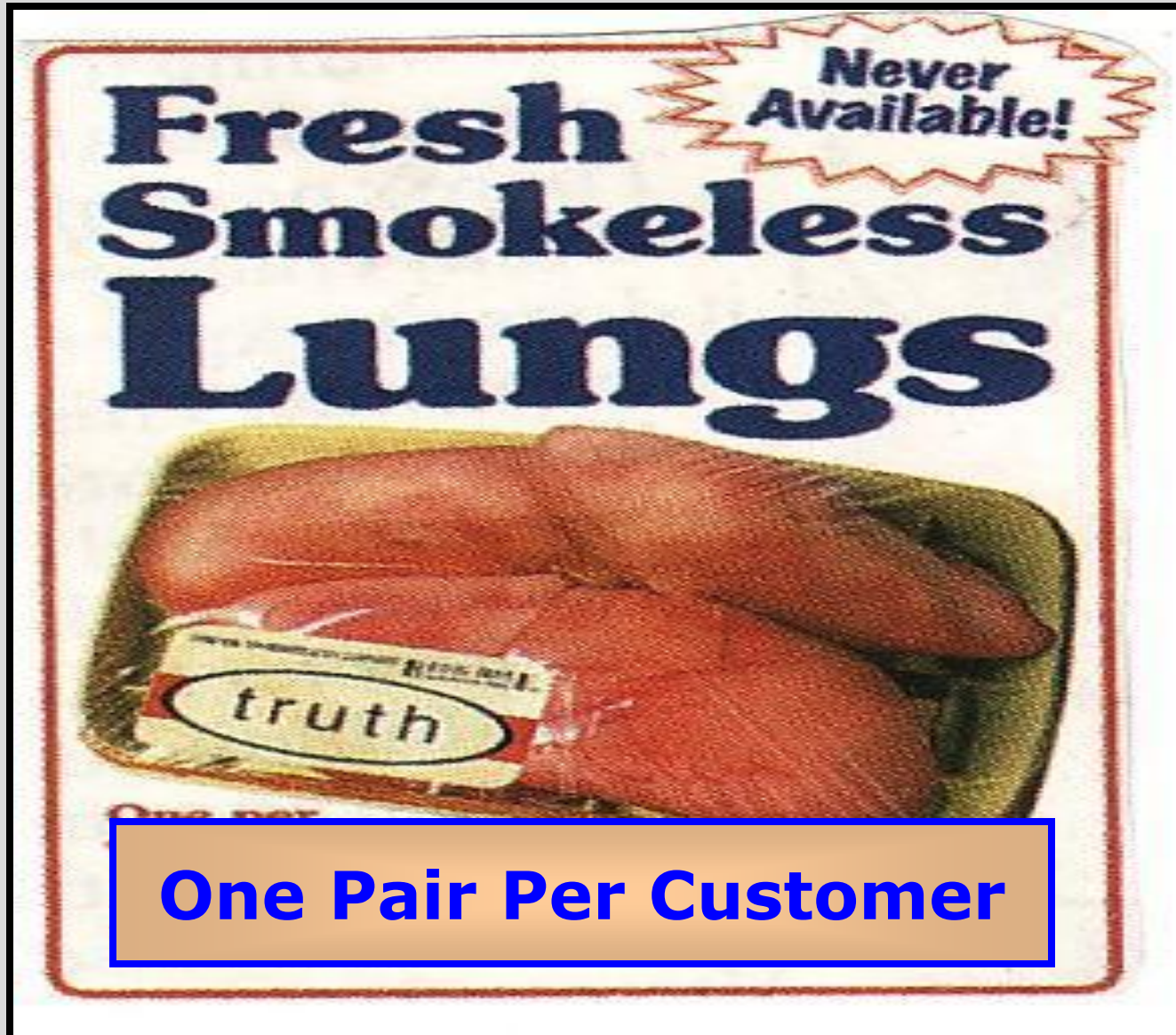
How much are you inhaling? We asked Katharine Hammond, Ph.D., associate professor of environmental health sciences at the University of California, Berkeley, School of Public Health and one of the world's foremost authorities on measuring secondhand smoke. Hammond has taken thousands of samples of air in homes, offices, bars, casinos, and trains. She measured smoke levels in various locations for just one of the most dangerous chemicals in cigarette smoke—N-nitrosodimethylamine (NDMA)—to determine how much a nonsmoker might inhale. Here are her findings:

*Cigarette equivalencies are approximate; the amount of secondhand smoke inhaled could be half or three times as much, depending on the number of smokers present, proximity to an active smoker, number of cigarettes smoked, size of space, and ventilation.

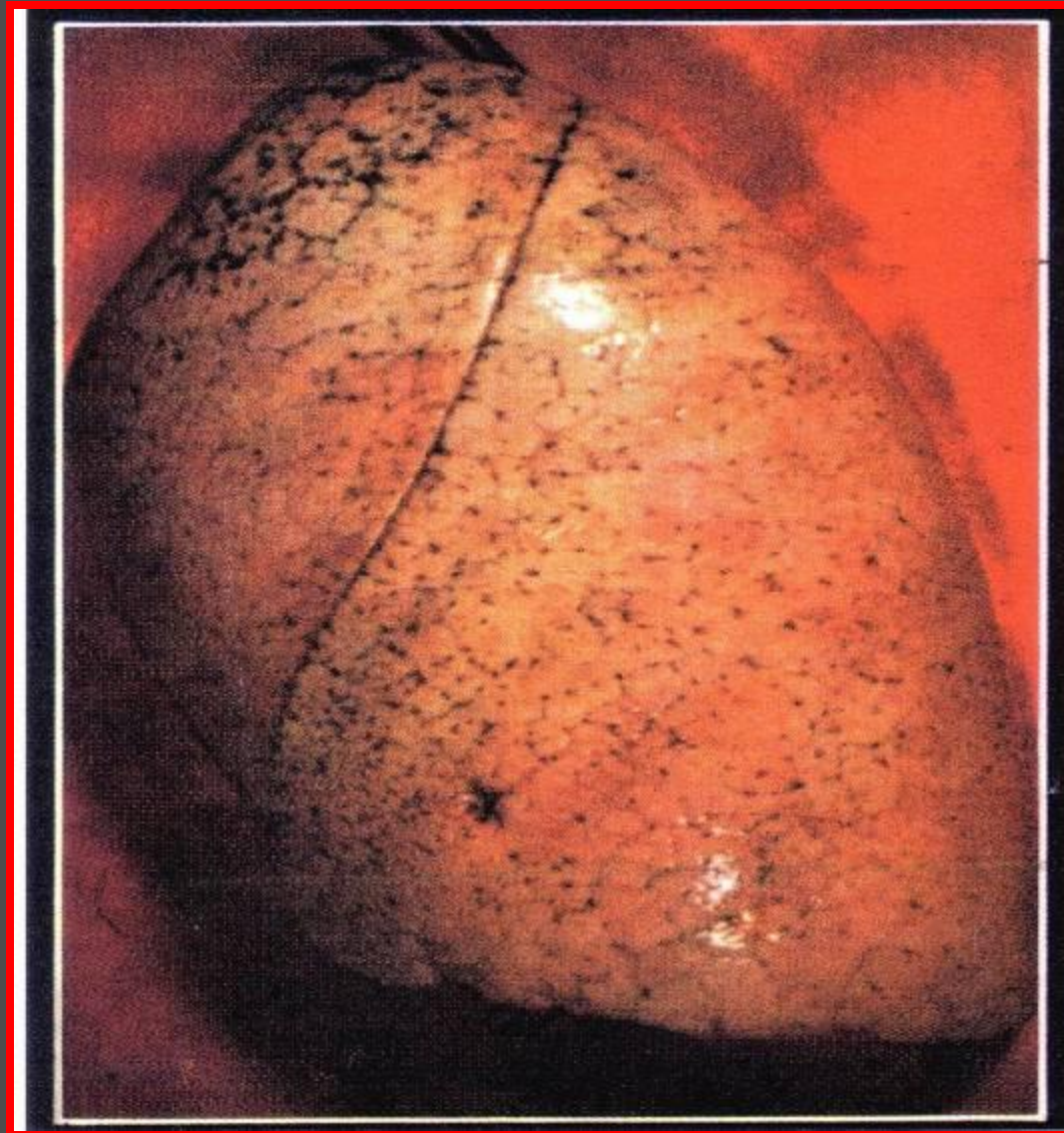
IF YOU'RE IN THIS LOCATION...	FOR THIS LONG...	IT'S AS IF YOU'VE SMOKED THIS MANY CIGARETTES...*
Smoky bar	2 hours	
Restaurant (typical non-smoking section)	2 hours	
Office (that allows smoking)	8 hours	
Pack-a-day smoker's home	24 hours	
Fenway Park, Boston (sitting behind someone who is smoking)	3 hours	
Car (when someone's smoking and the windows are closed)	1 hour	

This Is What We Are Born With.

[nice, smokeless lungs; not barbecued yet]



Smoking can eat your lungs alive.
[This is a healthy lung]



Good Lungs



Like a new sponge
that can absorb easily



Smoker's Lungs

[This is a barbecued lung]

This is a
choice you make



**Rotting
Inside
Out**

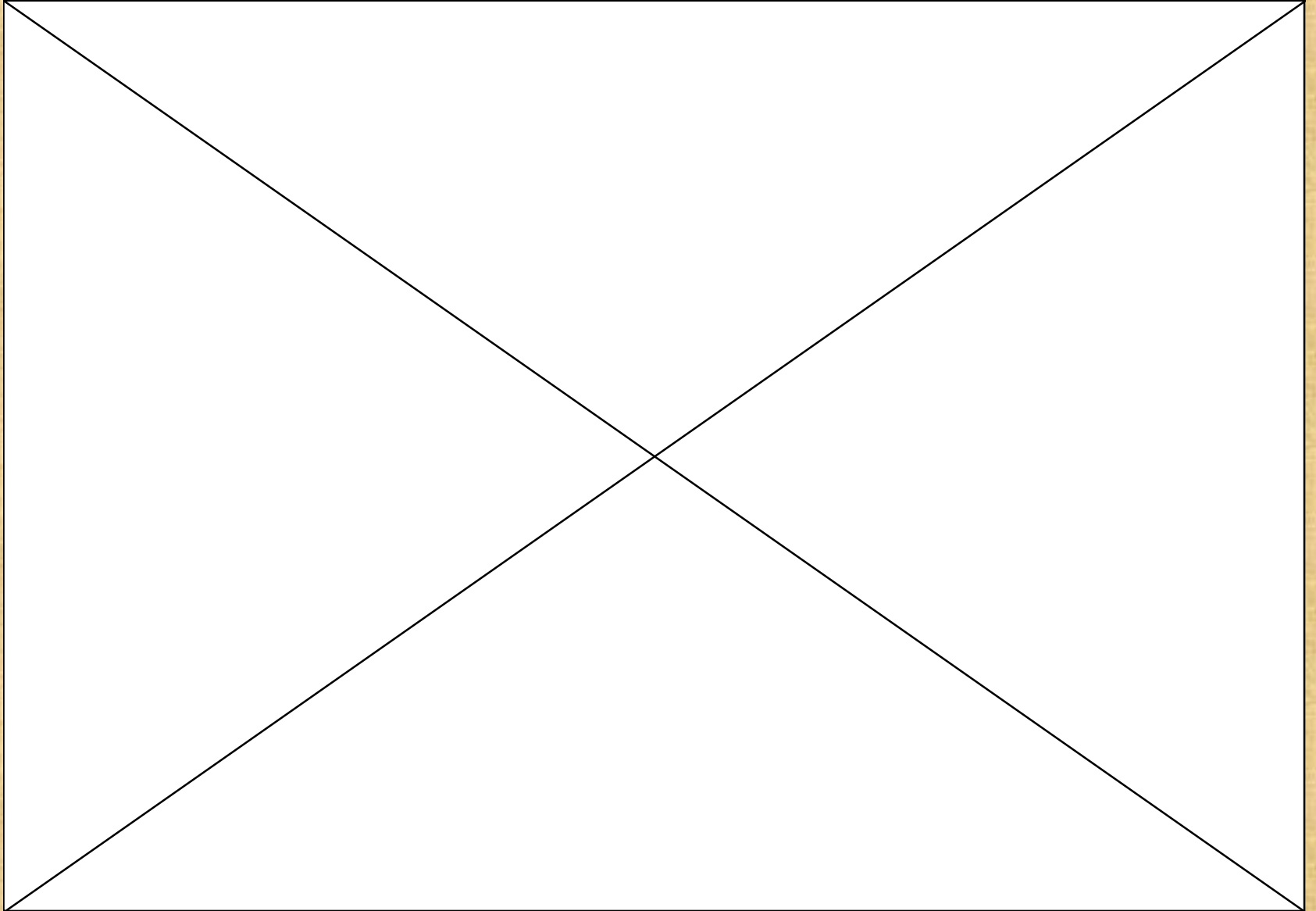
Like a sponge that has rotted
away & can't absorb any more.



Smoker's lung v. Non-smoker's Lung



Smoking and Emphysema

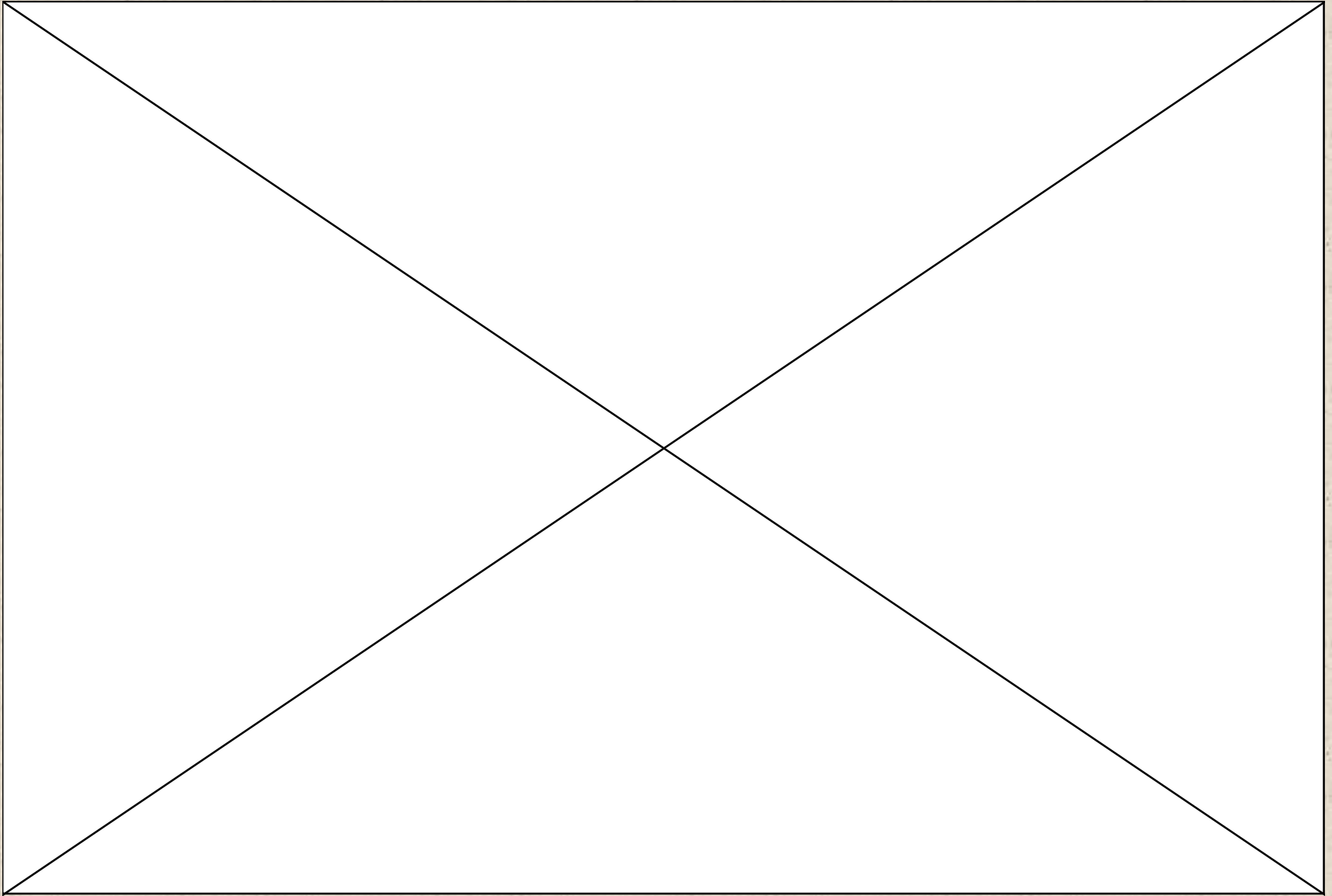


Six Months To Learn To Talk Again



(California Anti-Smoking
Ad)

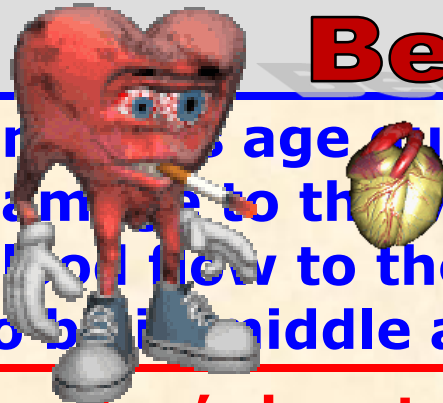
Smoking From The Neck



What's In A Cigarette



Benefits of Smoking?

Smokers age quicker because damage to the vessels restrict blood flow to the skin. You get to be middle age as a teen.

Smoker's heart doubles in size.
Smoking kills one person every 10 sec.

Impotency-50% more likely [1/2 of all men over 40 are impotent caused by smoking or diabetes.]

4,000 chemicals and 200 poisons that cause cancer
[Three times more likely to go blind]

RJR Executive: [when asked why RJR executives don't smoke cigs.]
"We don't smoke that s----; we just sell it to the young & stupid."

2nd hand smoke will cause 50,000 deaths & 150,000 non-fatal heart attacks. *Can cause arteries in the brain to clog and cause strokes.

Cancer-causing tars are deposited in your mouth, throat, and lungs. Your blood picks up the poisons from your lungs and transports them throughout your body.

Cigs kill more than the combined deaths from homicides, suicide, car accidents, AIDS, alcohol & drug abuse.

You do lose weight because you cough up part of your lungs.

The last two "Marlboro Men" died of lung and brain cancer, the last at age 51.

Quadruples breast cancer
50% more likely to get Alzheimer's

90% of smokers have serious dental problems.

When a family member smokes they are performing pulmonary rape on you.



And What About Cigars?

[What Health Risks Do They Pose?]

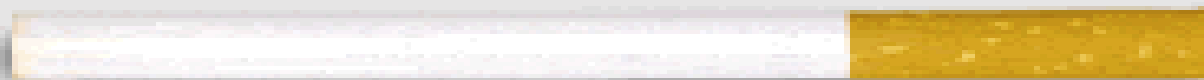


Warning: Cigar smoking may lead to cancer, heart attacks, and impeachment.



Smoking is an **addictive**, **carcinogenic**, **heart-attack-** and **stroke-promoting**, skin-wrinkling, **teeth-rotting**, **breath-and life-destroying** scourge.

Smoking



Start

▶ 0% loaded



These Shar-Pei dogs started life as a normal-skinned dogs.



I wish my owner had not smoked.
Now, when he picks me up by holding
me behind the neck, I'm still on the
ground.

Aging - before our time!!!
Thanks to our smoking owner.



**Darn our owner. We are 6 months old
but we have the skin of 14 year olds.**



 **No, this is not a bath towel.**

Let's Take A Look At What Cigarettes Did to the Dog Owner's Teeth



Do Cigarettes Really Cause Premature Aging?

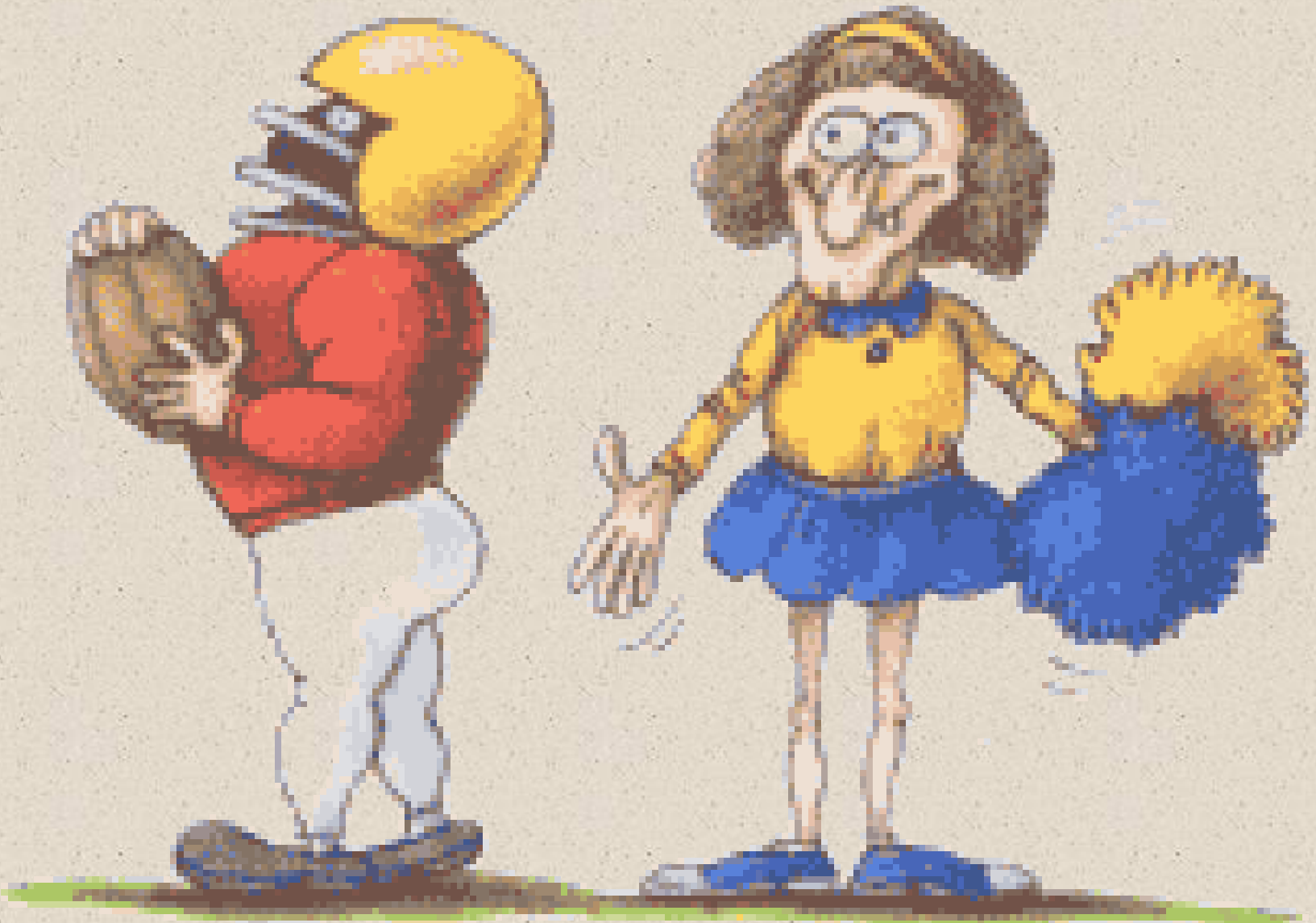
[This 18 year old female was 13 when she started smoking]



And – this 18 year old cheerleader never smoked.

And - Now Let's Look At the Smoker at 20

[Remember - 90% have serious dental problems]

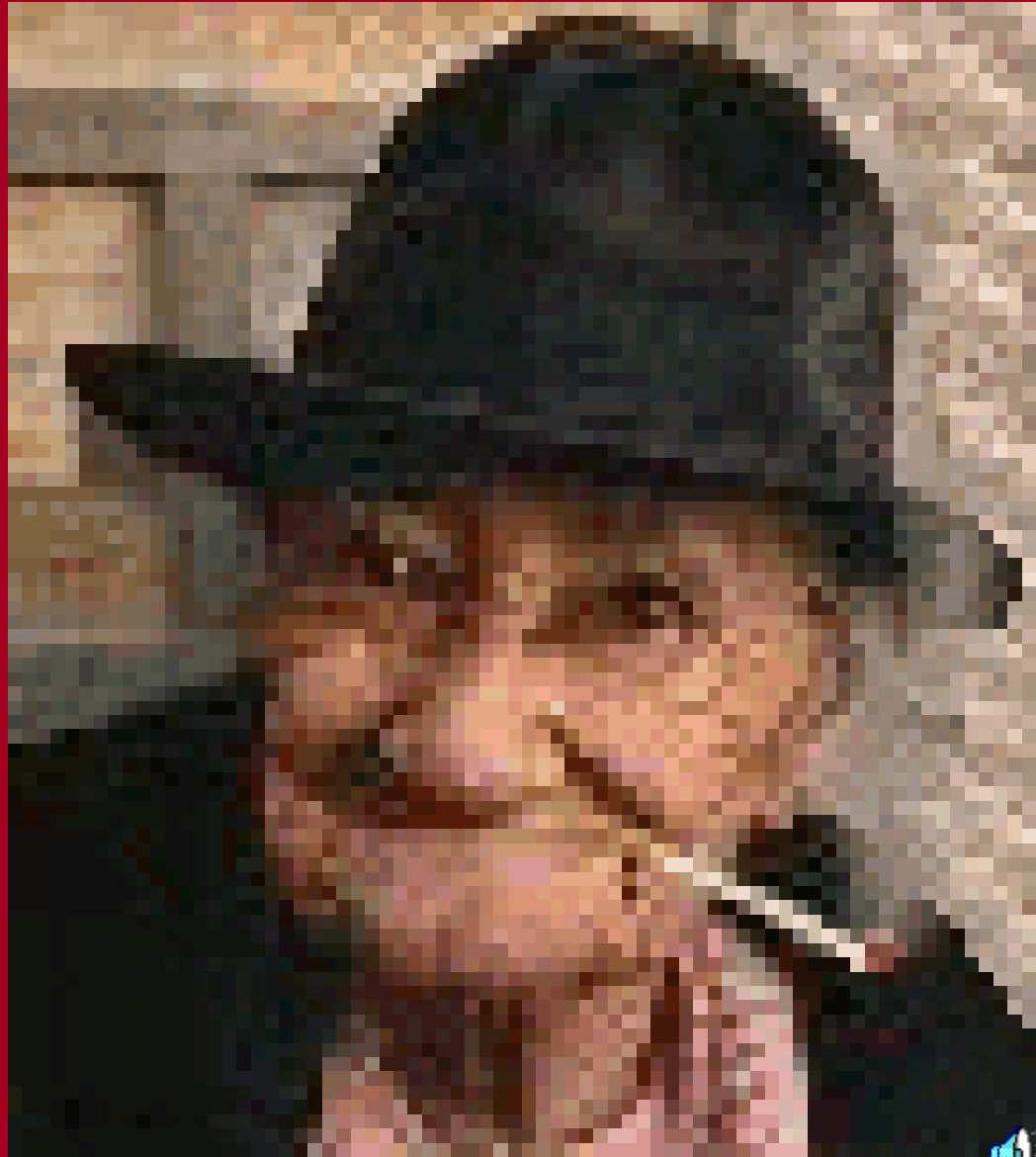


And - Now Let's Look At the Smoker at 22



NOW LET'S LOOK AT THE SAME SMOKER AT 28 AT HER 10-YEAR HIGH SCHOOL REUNION

Yes, these girls are only 28.



Can You Pick The Smoking Twin?



Of All These Butts, Cigarettes Are The Worst

Butts Are Gross.TM

Happy tails to you!



Some Contents Of Cigarettes

Cigarette smoke has **4,000 chemicals** and **200 poisons**.
50 of the poisons cause cancer.

They include:

1. **Ammonia** – the **toilet bowl cleaner**
2. **Carbon monoxide** – in **car exhaust fumes**
3. **Arsenic and cyanide** – favored **poisons** of murder mysteries
4. **Acetone** – in **nail polish remover**
5. **Methane** – swamp gas
6. **Formaldehyde** – the **dead body preservative**

The Five Leading Causes of Lung Cancer Are:

1. **Smoking**
 2. **Smoking**
 3. **Smoking**
 4. **Smoking**
 5. **Smoking**
- In the past 3 years, more people have died from smoking than all the soldiers who died in the Revolutionary War, Civil War, W.W.I, W.W.II, Vietnam War, and the Gulf War COMBINED.

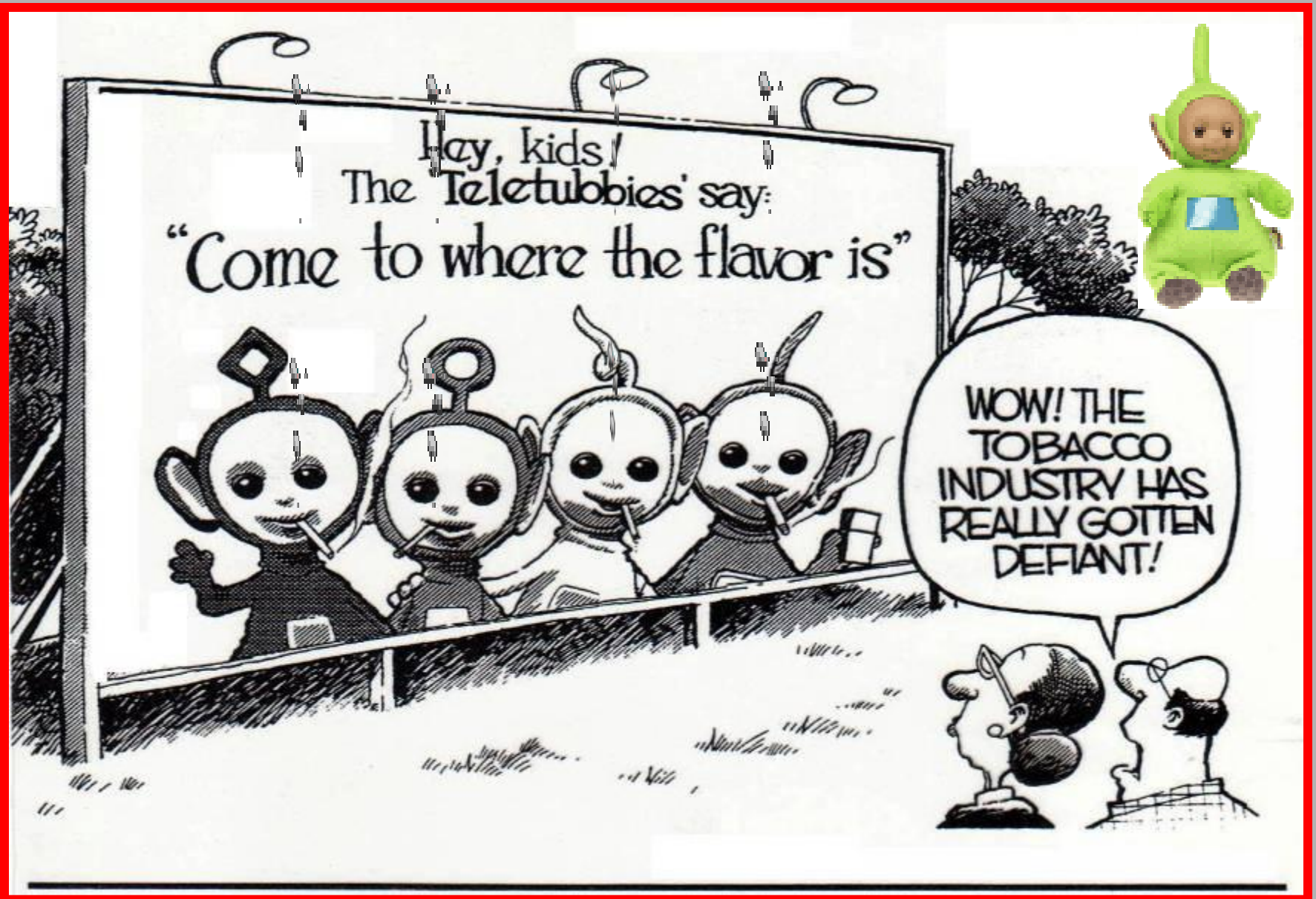
“And – What Has Happened To
Joe Camel? He Has Become?”



Does A Smoking Mother Affect the Baby?



Do Tobacco Companies Target The Young



Diseases Tied To Smoking

- **Abdominal aortic aneurysms**
- **Acute myeloid leukemia**
- **Cancer of the bladder, cervix, esophagus, kidney, larynx, lung, mouth, pancreas, stomach**
- **Cataracts**
- **Chronic bronchitis**
- **Chronic cardiovascular disease**
- **Chronic heart disease**
- **Chronic lung disease**
- **Osteoporosis, peptic ulcers, periodontitis, pneumonia, and reproductive problems**

Buying Cancer Sticks in Canada



WARNING
CIGARETTES ARE HIGHLY ADDICTIVE

Studies have shown that tobacco can be harder to quit than heroin or cocaine.

Health Canada



WARNING
CHILDREN SEE CHILDREN DO

Your children are twice as likely to smoke if you do. Half of all premature deaths among life-long smokers result from tobacco use.

Health Canada



WARNING
CIGARETTES HURT BABIES

Tobacco use during pregnancy reduces the growth of babies during pregnancy. These smaller babies may not catch up in growth after birth and the risks of infant illness, disability and death are increased.

Health Canada



DON'T POISON US

WARNING: Second-hand smoke contains carbon monoxide, ammonia, formaldehyde, benzo(a)pyrene and nitrosamines. These chemicals can harm your children.

Health Canada



WARNING
CIGARETTES CAUSE MOUTH DISEASES

Cigarette smoke causes oral cancer, gum diseases and tooth loss.

Health Canada



WARNING
CIGARETTES CAUSE STROKES

Tobacco smoke can cause the arteries in your brain to clog. This can block the blood vessels and cause a stroke. A stroke can cause disability and death.

Health Canada




WARNING
TOBACCO USE CAN MAKE YOU IMPOTENT

Cigarettes may cause sexual impotence due to decreased blood flow to the penis. This can prevent you from having an erection.

Health Canada



WARNING
CIGARETTES ARE A HEARTBREAKER

Tobacco use can result in the clogging of arteries in your heart. Clogged arteries cause heart attacks and can cause death.

Health Canada



WARNING
CIGARETTES CAUSE LUNG CANCER

Every cigarette you smoke increases your chance of getting lung cancer.

Health Canada



WARNING
CIGARETTES CAUSE LUNG CANCER

85% of lung cancers are caused by smoking. 80% of lung cancer victims die within 3 years.

Health Canada



WARNING
IDLE BUT DEADLY

Smoke from a lit cigarette contains toxic substances like hydrogen cyanide, formaldehyde and benzene. Second-hand smoke can cause death from lung cancer and other diseases.

Health Canada



WARNING
WHERE THERE'S SMOKE THERE'S HYDROGEN CYANIDE

Tobacco smoke contains hydrogen cyanide. It can cause headaches, dizziness, weakness, nausea, vertigo and stomach aches in smokers and non-smokers.

Health Canada



WARNING
YOU'RE NOT THE ONLY ONE SMOKING THIS CIGARETTE

The smoke from a cigarette is not just inhaled by the smoker. It becomes second-hand smoke, which contains more than 50 cancer-causing agents.

Health Canada



WARNING
CIGARETTES LEAVE YOU BREATHLESS

Tobacco use causes crippling, often fatal lung diseases such as emphysema.

Health Canada

The last Marlboro Man, Wayne McLaren, who died of lung and brain cancer



THE MARLBORO MAN ON HIS DEATHBED

And it is on to “Horse Heaven” in the skies

This is the reason you don’t see any more Marlboro Men.

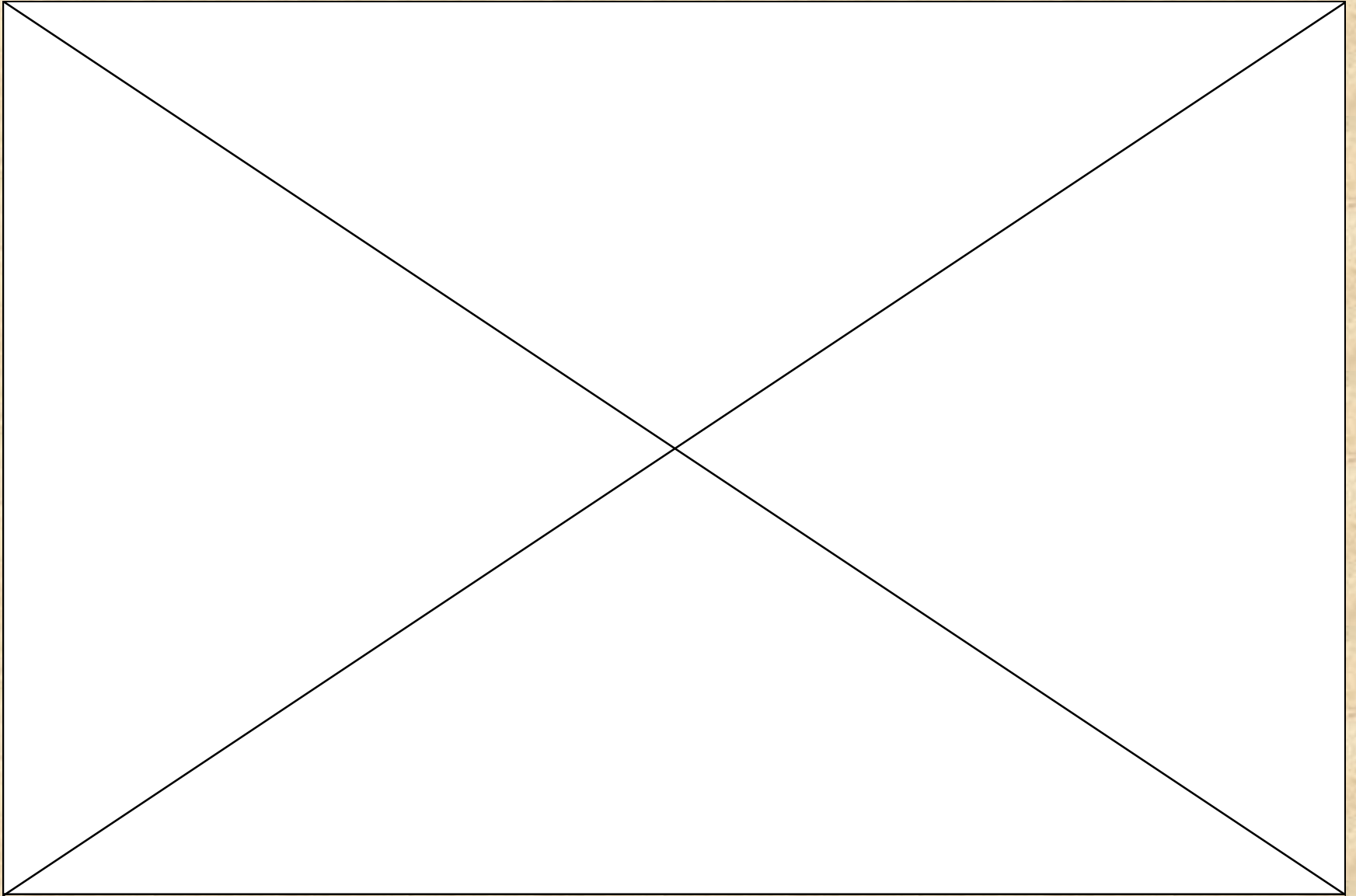


And due to this 2nd hand smoke here are the last seconds of life for the Marlboro Man’s horse.

5 of the last 6 Marlboro Men died of smoking related cancers. And a few months later, their horses died of 2nd hand smoke, oh!

**His last words, after spending his last month in an incubator:
“Tobacco will kill you. I’m dying proof of it.”**

Smoking Commercials



Here Is What Is Left Of The Marlboro Man

Opportunity cost – the last Marlboro Man [died at age 51] gained cigarettes but gave up about 30 years of his life.



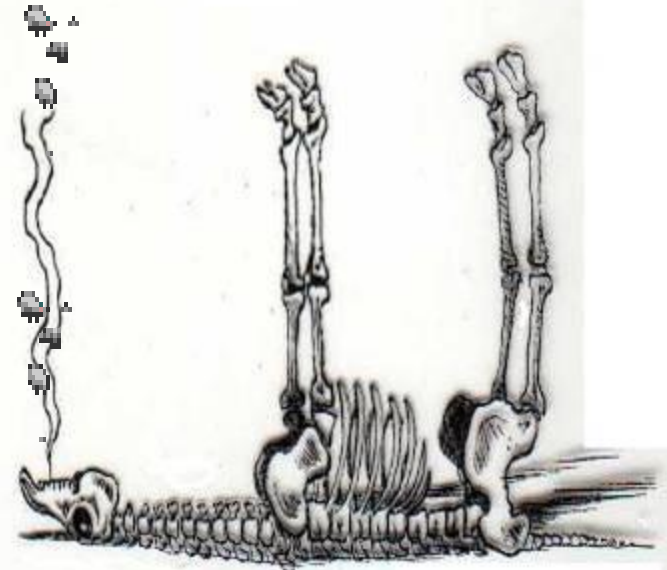
Given prevailing trends, **more than a billion people** around the world **will die of smoking-related illnesses** in the 21st century.

5 million on this planet **will die this year** from smoking.

Impotent



Smoke But **No Fire**



Warning: Smoking causes **impotence**.

Celebrities Who Died From Smoking



Clark Gable 59 Errol Flynn 50 Nat King Cole 45 Steve McQueen 50 Roger Maris 51 Babe Ruth 53



Betty Grable 56 Humphrey Bogart 57 Jerry Garcia 53 Michael Landon 56 Edward R. Murrow 57

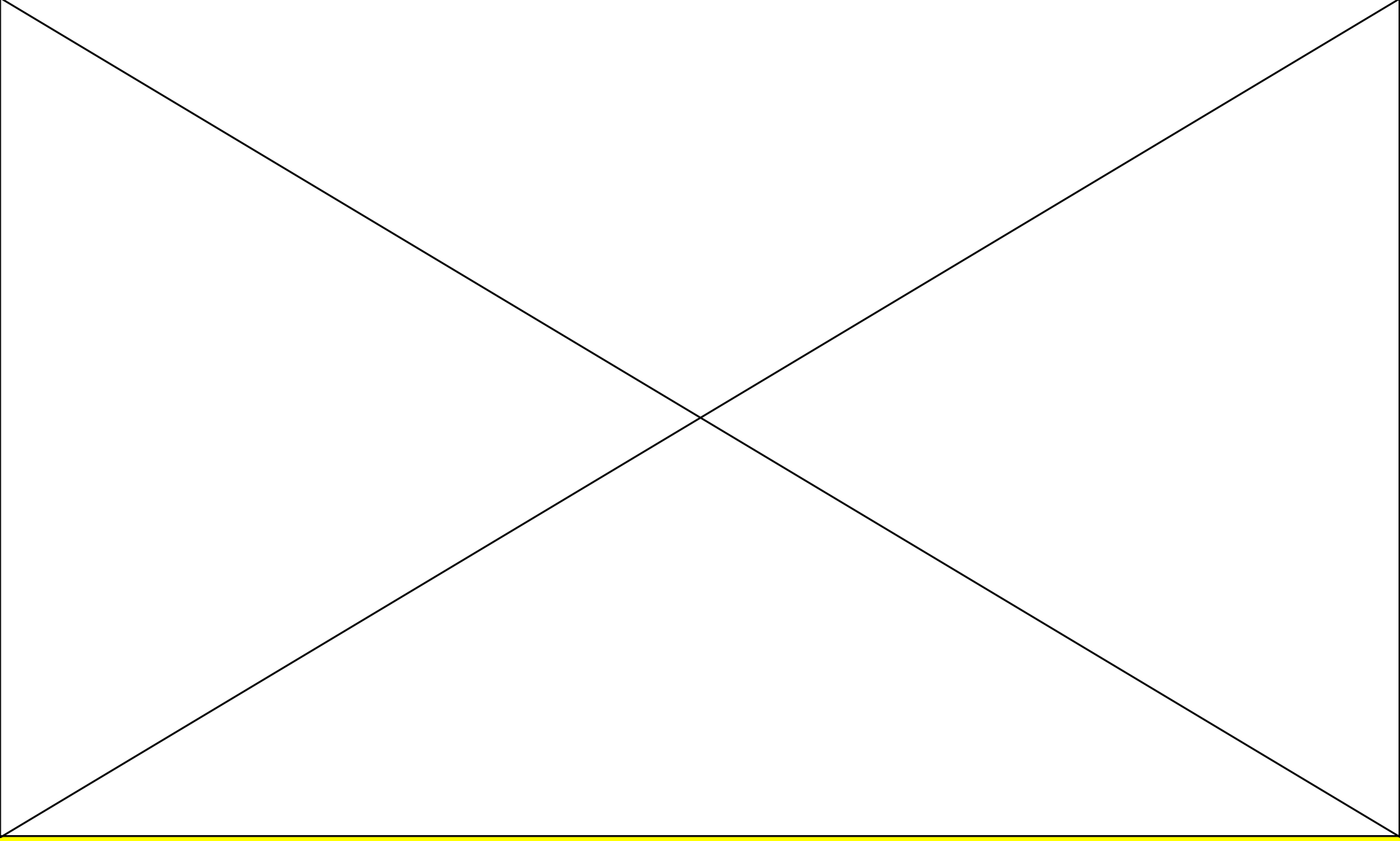


Peter Jennings 66 George Harrison 58 Johnny Carson Sammy Davis Gary Cooper 61



Yul Brenner 59 Duke Ellington John Wayne Desi Arnaz 59 Lucille Ball Walt Disney 65

Yul Brenner's Anti-Smoking Commercial

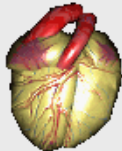


A year before lung cancer took the Babe, he visited Dallas in 1947 to promote American Legion baseball. Here he greets fans near Dealy Plaza.



- Here is the Dallas Morning News description of the **Babe in 1947**. It isn't easy for Babe Ruth to get around the country and see his boys. He is tired and the long fight to live left **sad marks** on **Mr. Baseball**.
- The **eyes** that once picked out home run pitches are deep pools.
- The **bull shoulders** that rocketed **714 home runs** out of major league parks are bent and sloped. The **massive frame** is slender and stooped and the **hair** is grey. The **voice** is raspy and the **coughs** are frequent.

But the heart!



Bigger than ever



Quitting smoking Is Hard; Not Quitting Is Harder



**So - We Must Know What We Are
Doing Before We Jump Into Things**



Every 6 seconds, someone dies from smoking cigarettes

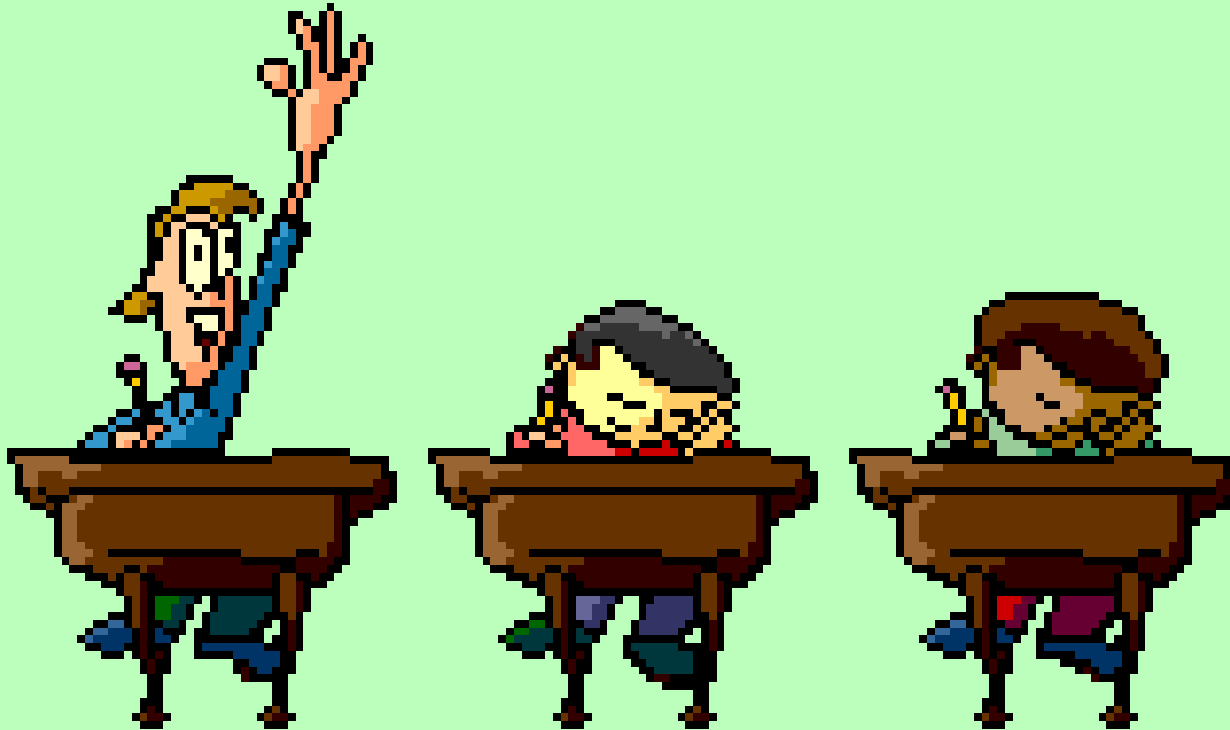
Or, to look at it another way...



Or, maybe another way...

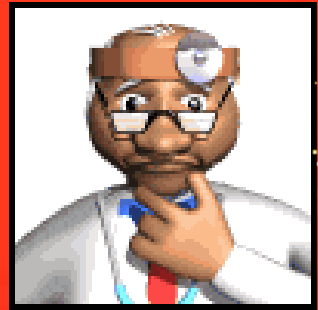


The Opportunity Cost Of A Good Education



Opportunity Cost of Doing Your Best In School


Better Job
Better chance in college



Better chance at the best colleges
A&M 24 – TX 17

Cheerleaders doing flips to get your attention

Better chance to be the boss

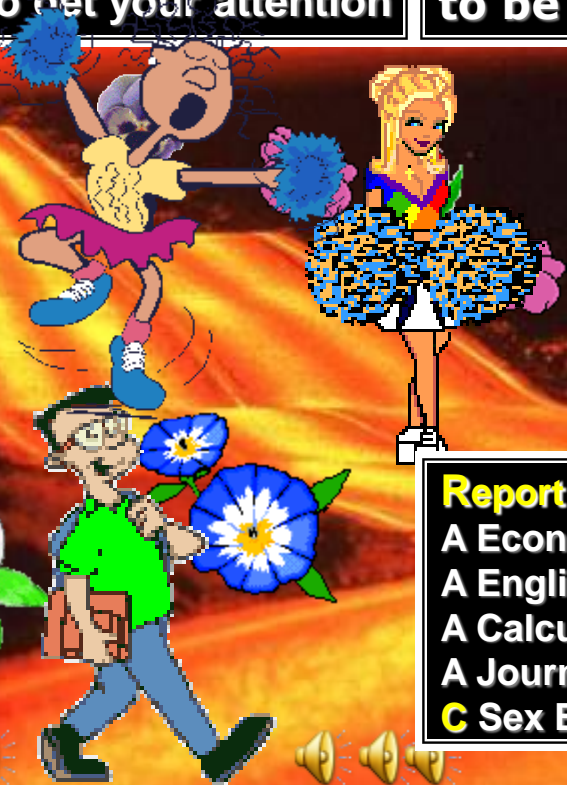
Beautiful Spouse

Always get a prom date or 2 And – They ask you!

Learn Responsibility

Better Self-esteem

You always do your homework



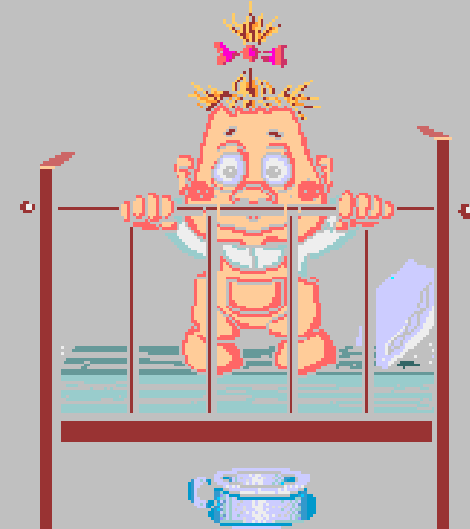
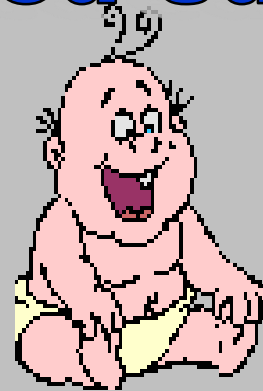
Fewer problems at home

Report Card
A Econ
A English
A Calculus
A Journalism
C Sex Ed



Beautiful Spouse & Great Kids [comes from a good education]

And what kind of kids
does the educated worker
end up with?

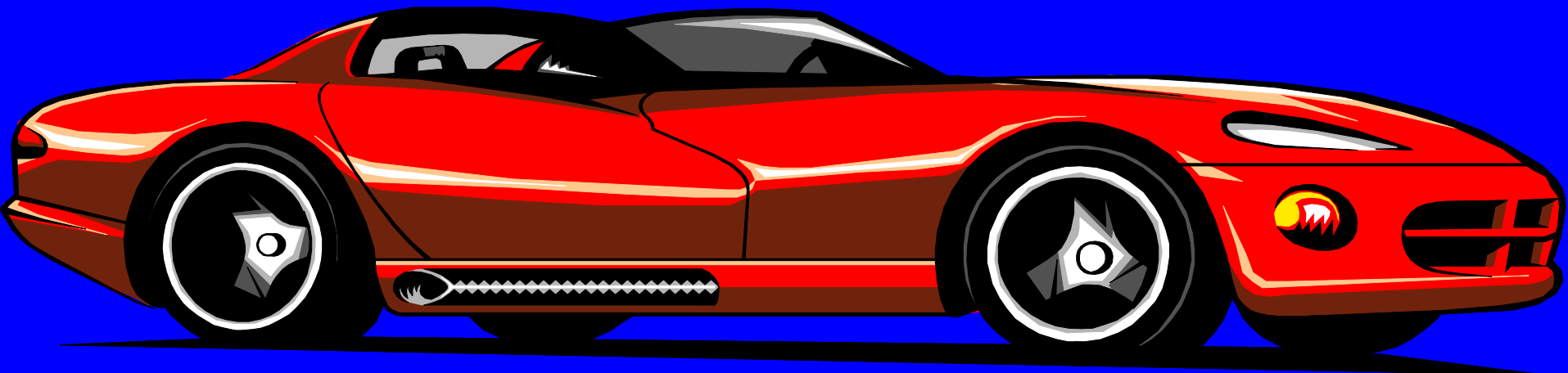


SIZZLING



 **What Kind Of A Sports Car Do You Drive**
[because of a good education]

Your Choice



Opportunity Cost of NOT Doing Your Best

[Poor self-esteem]

He will have a difficult path

More problems at home



Report Card
F Econ
F English
F Calculus
F Journalism
C Sex Ed.



"No, I will not go to the prom with you. You are a loser."



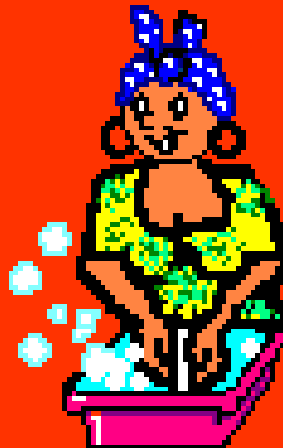
You don't do your best

Opportunity Cost

[of **NOT** doing your best in school]

Worse Job

“Paper or Plastic?”
“Do You want fries
with that?”



But You Could Have Had This Job!!



And you thought your job sucked

Look out below!!!!



And Your Spouse

[due to a bad education]



Men have these 4 choices

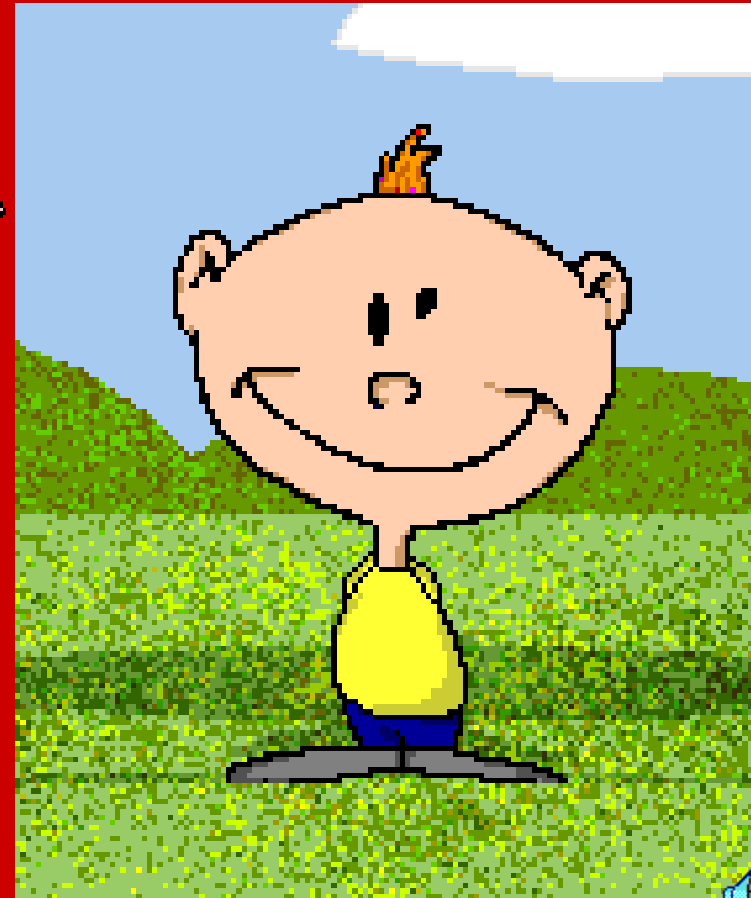
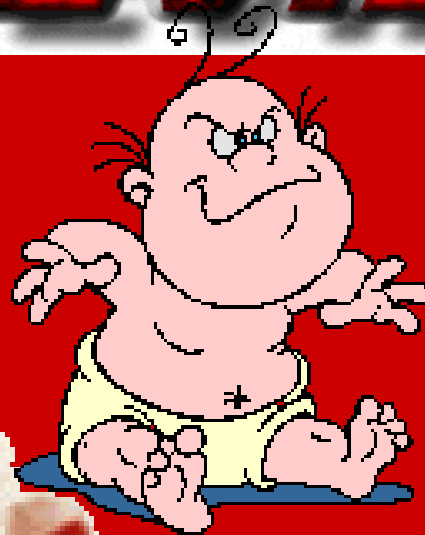
Women also have 4 choices.



And Your Kids

“Sorry” – because of a bad education

EVIL



And finally – the real opportunity cost of a bad education is that you have to drive a ?



YUGO



Only way to get up a hill

Which would begin to rust while still in the show room,

Would shake when it hit 35 mph,

Would break in half going over RR tracks,

And would never be stolen even if you left the keys in it with the motor running.

Would go from 0 – 60 in 4 ½ months.



The Yugo on the inside or under the hood



Anytime you filled the Yugo with gas, you doubled its value.
Putting seats in tripled the value of the car.



**So, go to school determined
to get a good education.**

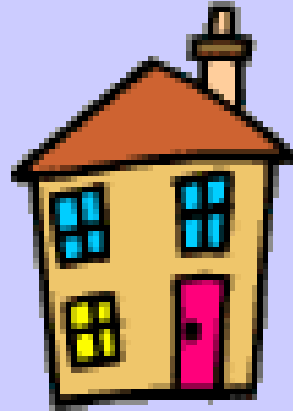


THE MARKET SYSTEM AT WORK

20. The Three Basic Questions...

What, how, & for whom

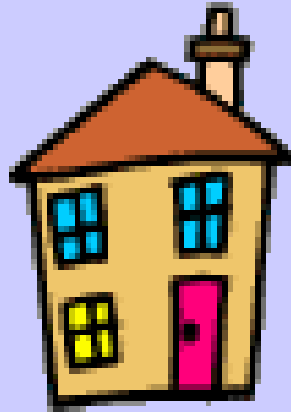
1. What will be produced?



THE MARKET SYSTEM AT WORK

The Three Basic Questions...

1. What will be produced?



2. How will the goods be produced?



THE MARKET SYSTEM AT WORK

The Three Basic Questions...

1. What will be produced?
2. How will the goods be produced?
3. Who [For whom?] will get the goods & services?





Competition and the Invisible hand

Smith is saying that participants in the economy are motivated by **self-interest** & that the “**invisible hand**” of the marketplace guides this self-interest into **promoting general economic well-being**.



The Case for the Market System

Adam Smith said the “**invisible hand**” determines what gets produced, how, & for whom. It is the invisible hand that **moves us along the PPC**. The invisible hand is now called the **market mechanism**. Its essential feature is the **price signal**.



Unlimited
Wants

Scarcity

Limited
Resources

Choices



**WHAT G/S
to produce?**



**HOW will the
G/S be produced?**



**WHO will receive
the G/S produced?**



Most needy or most money

**3 BASIC
ECONOMIC
QUESTIONS**

Answers to the above determine:

ECONOMIC SYSTEMS

[Eskimo/pygmy]



TRADITIONAL



COMMAND



FREE MARKET

Economic Systems – how a society produces products 📢

A. Traditional, B. Pure Command, C. Market, and D. Mixed

- 1). Capitalism[**28.** closest to pure market but has some pure command]
- 2). Democratic Socialism[**29.** Government owns some of resources]
- 3). Authoritarian Socialism [Communism]

The way the 3 basic questions are answered determine an economic system.



I. Traditional - [where "CUSTOM RULES"]

21. looks to past

- A. What, how, and for whom are answered by tradition
- B. Change is resisted, no technology [clashes with tradition]
- C. Heredity and caste system limit the economic role of individuals.
- D. 35,000 Pygmies in the Ituri Forest are an example.
- E. Men hunt & women/children gather/prepare food.
- F. Wear loincloths from bark of fig trees ["PYGLER" or "PYBUGLE Boy"]
- G. Eat mushrooms, berries, roasted grasshoppers, monkeys, & plantain
- H. Eat bone marrow & everything else in an elephant.

I. Used to be **"PYGACHE"**, big Pygmies, had to wear **"LARDACHE."** 📢

1. Traditional Economy

- Economic activity is based on ritual, habit and custom.



Strengths

- Everyone knows their role.
- Little uncertainty over what to produce or how to produce.
- The question of For Whom to produce is answered by custom.
- Life is generally stable, predictable, and continuous.

Weaknesses

- Tends to discourage new ideas.
- Lack of progress leads to lower standard of living.



2. Command Economy



- Government “rules”.
- Economic decisions are made at the top and the people are expected to go along with choices their leaders make.

Strengths

- Change direction drastically in a relatively short time (The USSR went from an agrarian to industrial nation in a very short time).



Fidel Castro

Weaknesses

- Not designed to meet the wants and needs of individuals.
- Lack of incentives to work hard leads to unexpected results.
- Large bureaucracy for economic planning.
- Not flexible in dealing with minor day to day problems.
- People with new or unique ideas are stifled.



Karl Marx

2. Pure Command – where the “Government Rules”

22. The government controls all resources. What, How, and For Whom answered by the government.

3. Pure Market – where “Individuals Rule”

23. Individuals and firms control all resources. The government has no say. **WHAT, HOW and FOR WHOM** are decided by individuals.



24 Adam Smith
1723-1790

30. Authoritarian Socialism (communism)-closest to pure command. The G owns most of the factors of production. Communism was born in Russia. Father was Karl Marx. Marx called owners bourgeoisie and he called workers proletariat.



Karl Marx

4. MIXED – all countries have mixed economic systems

27. Mixed combines elements of market & command.
How are these words used in everyday life?

1. Traditional

2. Command

3. Market



3. Market Economy



- People and firms act in their own best interest to answer economic questions.
- Markets allow buyers and sellers to come together in order to exchange goods and services.

Strengths

- Markets can adjust over time.
- Freedom exists for everyone involved.
- Relatively small degree of governmental influence.
- Decision making is decentralized.
- Variety of goods and services are produced.
- High degree of consumer satisfaction.



Adam Smith



“Invisible” hand

Weaknesses Of A Market Economy

- The primary weakness is deciding for whom to produce.
- The young, sick, old, and lazy would have difficulty in a pure market environment.
- Markets sometimes fail.
 - Competition
(monopolies may develop)
 - Resource mobility
(resources are sometimes hindered from moving about)
 - Availability of information
(producers often have more information than do consumers, which gives them an advantage)



ADAM SMITH

WEALTH OF NATIONS – 1776

[explained the free market concept]



(25) The **"INVISIBLE HAND"** – when individual consumers/producers **compete** to achieve their own private **self-interest**. The **"role of government"** (26) [**"LAISSEZ-FAIRE"** – **"HANDS OFF"**] is limited to **national defense**, **public education**, **maintaining the infrastructure**, and **enforcing contracts**. Smith said the market system was best because it encouraged **specialization**, resulting in **increased output & more economic growth**.



No "G"

Government was like an **"INVISIBLE FOOT"** – **government action** to benefit particular groups. **Keynes** will say the **G** can act as a **pressure gauge**, letting off excess steam or building it up as needed. [**active**-not all inclusive role]

In loving memory of mercantilism

My name is mercantilism.



So mercantilism died as economic theory.
attack on mercantilism.



Mercantilism

Smith's book was an
Wealth doesn't come from an **accumulation of gold and silver** but from **more productive people**. A nation is wealthier if its citizens are more productive. It is the ability of people to **produce products** and **trade in free markets that creates a nation's wealth.**





Self Interest [Profit Motive] & the “Invisible Hand”

Smith said that we constantly try to make ourselves better off. It is self interest that makes us work hard, take risks, & in the end benefit others thru our activities. If people want to serve their own self interest, they had to serve others first.

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to our own interest.

In other words, the butcher, brewer, and baker do not give us our dinner because they love us or because they want to assist us. They give us our dinner because they cannot get what they want from us until they first give us what we want. Smith said we are led by an “invisible hand” to do good for others. In the most famous passage in *The Wealth of Nations*, he says:

Every individual...neither intends to promote the public interest, nor knows how much he is promoting it...he intends only his own gain, and he is in this, as in many other cases, led by an “invisible hand” to promote an end which was no part of his intention.



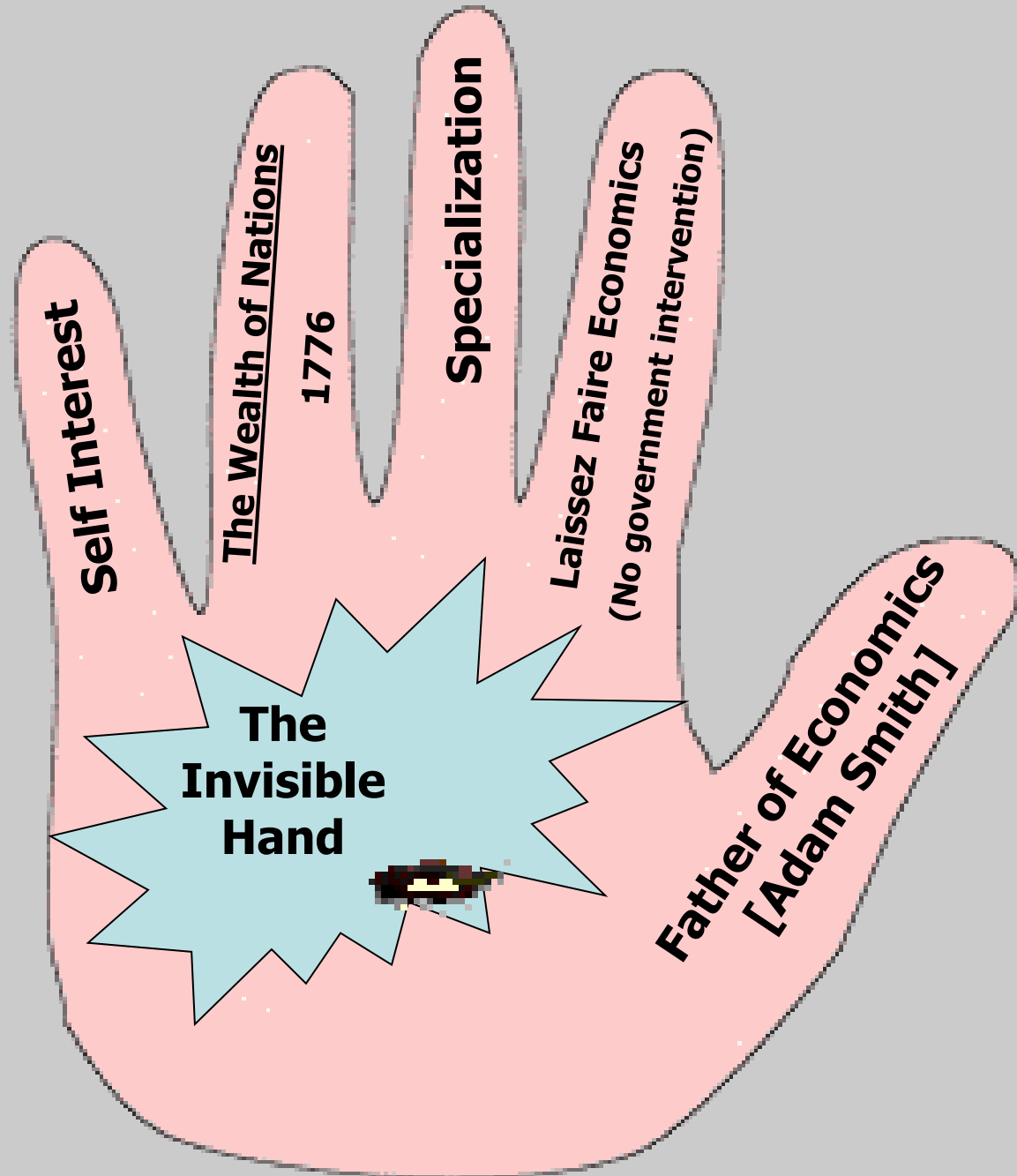
Of course, **Karl Marx** saw **self interest as hurting others**. He believed **capitalists exploited the workers** by paying them far less what they were worth.



**Adam
Smith**

Scotland

1723-1790



Adam Smith's Famous Pin Factory Example

One man could do maybe **10 pin per day** [1 man = 10 pins]

Now if there is **specialization**

1 man draws the wire out

1 man straightens the wire

1 man cuts the wire

1 man sharpens the point

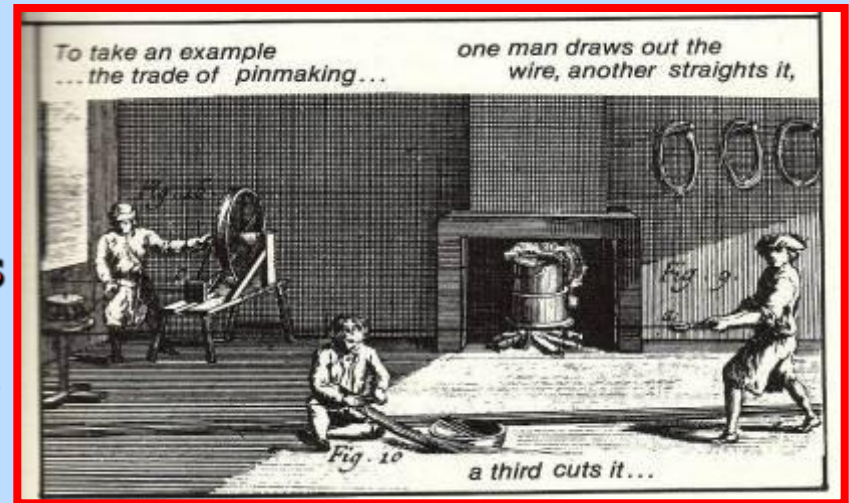
1 man flattens the head

There are **18 distinct operations**

- some perform 2 or 3 operations

10 people do **48,000** pins per **day**

1 man = 4,800 pins per day



Three circumstances come from this specialization.

1. Increased **dexterity** (learning by doing)
2. **Saving time** (lose time when you move to different operations)
3. Invention of machines (fosters **inventiveness**)



Types of Economic Systems

Traditional

- Economic decisions are based on customs and beliefs.
- Change is discouraged and sometimes even punished.
- Methods of production are often inefficient.
- Family and community ties are strong.

Market

- Economic decisions are made by individuals.
- Individuals own the factors of production and choose what to produce based on the information provided by market prices.
- Consumer choice is large.
- There is little incentive to engage in unprofitable ventures like caring for the sick.

Command

- Economic decisions are made by government leaders.
- The government owns the factors of production.
- Prices are set by the government.
- Consumer choice is often limited.
- Resources can be quickly rerouted.
- Income distribution can be controlled by the government.

8 Economic Goals



1. Economic Growth

2. Full Employment

3. Economic Efficiency

4. Price Level stability

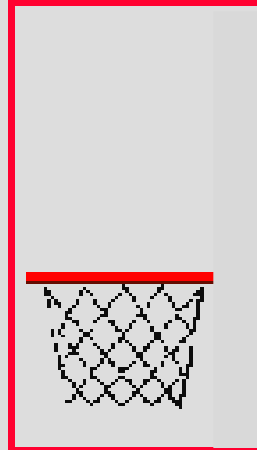
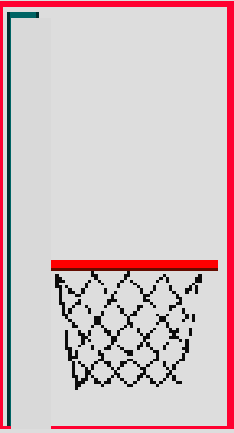
5. Equal Distribution Of Income

6. Economic Freedom

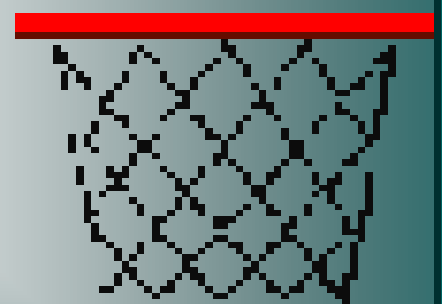
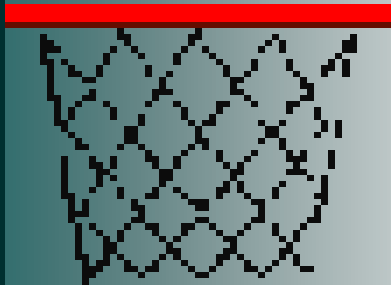
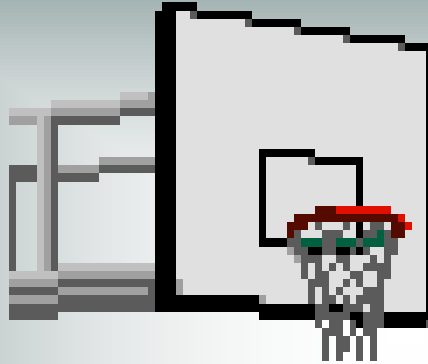
7. Economic Security

8. Favorable Balance Of Trade

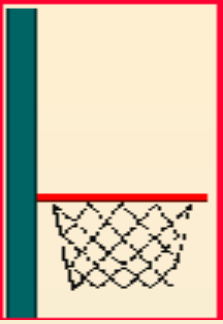
Eight Economic Goals



8 Economic Goals



8 Economic Goals



1. **Economic Growth** [Increase in GDP or per capita GDP]
3% annual growth will increase our standard of living.
1929-Per capita=\$792; 1933-Per capita=\$430; 2009-per capita= \$48,000
2. **Full Employment** – about **95-96%** employment is full employment. In **1982**, unemployment was **10.8%** [12 M unempl.]
3. **Economic Efficiency** – resources are scarce so they must be used wisely. Wasting resources means fewer goods and services can be produced.



“Doing the best with the resources we have.”



8 Economic Goals



Reasonable inflation of 1-2% is OK.

4. **Price Level Stability** – sizable inflation or deflation should be avoided. We had over 10% in 73, 79, & 80. Inflation was **2% in the 1950s**, **2.3% in 1960s** and **7.4% in 80s**. A person making \$25,000 a year at age 30 would need (with average inflation of 5%) \$125,000 a year at age 65 to have the same standard of living.

1972 -----82;



1982-----2011



In 1982, it took \$2.31 to buy what \$1 bought in 1972.

In 2011, it took \$2.37 to buy what \$1 bought in 1982.

In 1945, \$1.50 bought what \$1.00 did in 1860.
Today, it takes \$11 to buy what \$1 bought in 1945.



HYPERINFLATION in Brazil 1988-1994

1988 – 1,300%

1991 – 1,000%

1989 – 2,900%

1992 – 1,260%

1990 – 44%

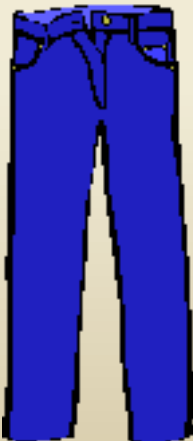
1993 – 1,740%

Prices in **1994** were **4 million** times higher than in **1988**.

If we had Brazil's inflation from 1988 to 1994:

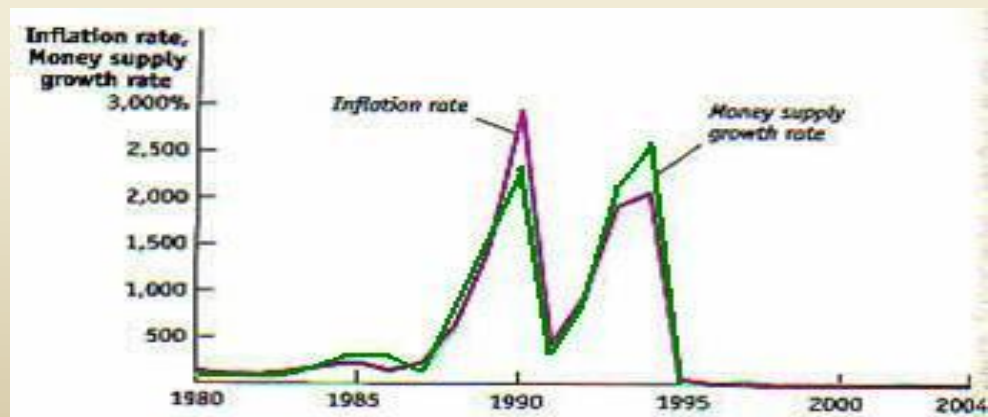
1. **\$35 Blue jeans** would increase to **\$140 million per pair**.
2. **Gas** would increase from **\$2.00** to **\$5 million per gallon**.
3. **\$20** for a **pizza** and **movie** would increase to **\$80 million**.
4. **One new real** was exchanged for **2,750** of the old reals.

SALE



Why did Brazil's
Inflation increase
so much?

Only \$140 million per pair



8 Economic Goals

8

5. An **Equitable Distribution of Income**. One group shouldn't have extreme luxury while another is in stark poverty.

The richest 1%(3 mil.) have as much total income after taxes [average \$400,000 a year as the bottom 40% [100 million people]. The richest 1% have greater wealth than the bottom 90% of the population.



Have not's

Haves



HOUSEHOLDS AS INCOME RECEIVERS

Personal Income (%)

Only 1 in 7 within this group even works.

3.4%

Lowest 20% Y Group [up to \$16,358]

[only 3% graduate from college]

8.6%

2nd 20% Income Group [\$16,359-\$32,188]

[only 4.6% graduate from college]

14.5%

Middle 20% Income Group [\$32,189-\$57,212]

[only 12% graduate college]

22.9%

4th 20% Group [\$57,213-\$97,298]

[25% graduate from college]

50.5% Highest 20% [over \$97,298] [51% graduate col.]

Income differences are caused by differences in IQ, energy, health, social skills, character, ambition, physical attractiveness, talent, and luck.



6. Economic Freedom

- **You are free to:**

- Choose your occupation
- Choose where and when you work
- Work for yourself or someone else
- Leave your job and to move to another job

- **Businesses are free to:**

- Choose which workers they want
- Choose where and how they produce



7. **Economic Security** – provision should be made for those not able to take care of themselves – **handicapped, disabled, old age, chronically ill, orphans**. Protection from lay-offs [unemployment insurance]. Also no discrimination.

43 million Americans have some type of disability.

A. Hearing impaired: 22 million (including 2 million deaf)

B. Totally blind: 120,000 (Legally blind: 60,000)

C. Epileptic: 2 million

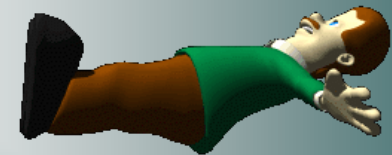
D. Paralyzed: 1.2 million

E. Developmentally disabled; 9.2 million

F. Speech impaired: 2.1 million

G. Mentally retarded: up to 2.5 million

H. HIV infected: 900,000



Social Security and **Medicare** provide security for older people.

8. **Balance of Trade**. Over **\$400 billion a year** the last few years.

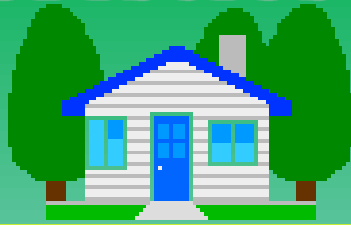
Some of these goals are **31. complementary** [**economic growth** & **F.E.**] and some **32. conflict** [**F.E.** and **price level stability**].



Our Latest Efforts To Sell Cars To The Japanese Who Drive On The Left Side



Characteristics of Market Systems



**PRIVATE
PROPERTY**



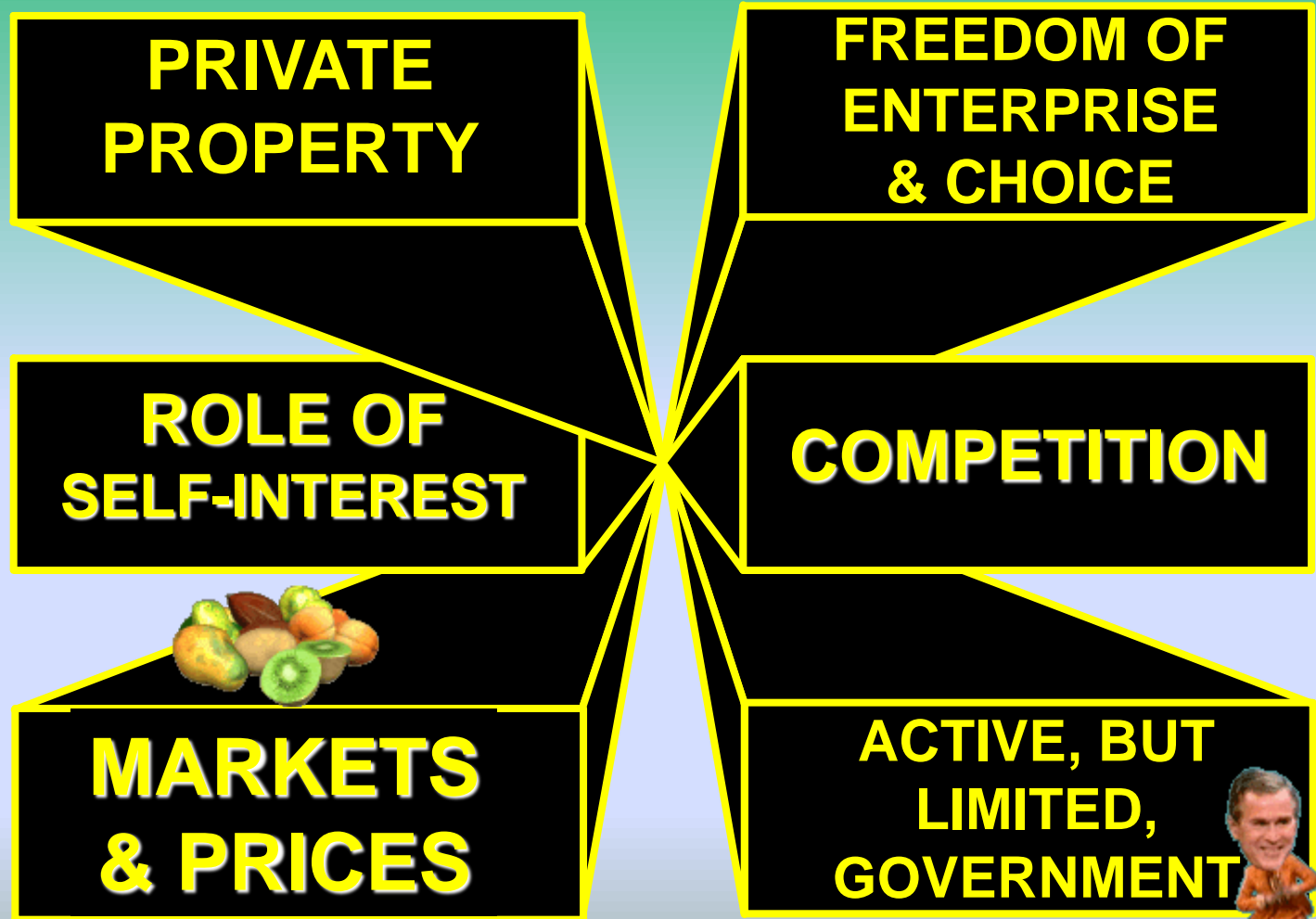
**FREEDOM OF
ENTERPRISE
& CHOICE**

**ROLE OF
SELF-INTEREST**

COMPETITION



Characteristics of Market Systems



1. **Private Property** – the right of individuals to exercise control over things owned. Freedom to negotiate binding legal contracts.



34 Contracts are **legally binding** in **oral or written** form.

[A verbal agreement is binding only if it involves a small sum of money over a short period of time and does not involve real estate purchases.]

2. **Freedom of Enterprise** **33** **(business)** & Choice. Can move within the economy to any job, to buy or sell property, or start a business. The **consumer is “sovereign” (king)** in the economy. His dollars vote as it is he who decides what gets produced. The U.S. has over **100,000 business failures** each year.



3. **Role of Self-Interest**—each producer or consumer tries to do what is **best for themselves**. Self interest-**profit motive** is the main force driving the economy. **Producers** aim for **maximum profits**. **Consumers** seek the **lowest prices & highest quality**.



Pure Capitalism (No G) and the Circular Flow

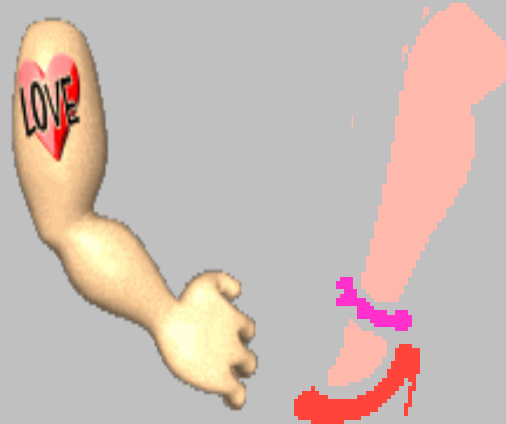
[Capitalism – “private ownership of capital”]

4. **Competition** – economic rivalry of a large number of buyers & sellers. [central mechanism of market economy]

Monopolies become fat & unresponsive to consumers (**higher prices & fewer choices**). Competition prevents one seller from controlling the market. Monopolies are “**price makers**”. It is better to have “**price takers**” who are at the “**mercy of the market.**”

A monopoly’s attitude is

“We don’t care
We don’t have to
We’re a monopoly!”



And – an appendage
to be named later,
like a -



Monopolies can charge
an **arm** and a **leg**.

“**Competition**” and
“**self-interest**” are like
an “**invisible hand**”.

So, the “**invisible hand**” refers to the way a market economy manages to harness the **power of self-interest** for the good of society.



5. **Markets & prices.** Markets bring the buyers and sellers into contact.

**We have “Market Inventors”
like AL GORE!!!**

Prices send signals.  **High prices** send signals to **increase production** and for other producers to **enter the market**.



Low prices send signals  to **decrease production** and for producers to **exit the market**.



6. **Limited Government Intervention** in the economy.

The role of government was one of “**laissez faire.**” [“hands off”]



In the words of Adam Smith, the **government should not interfere with the operation of the economy except serve as an arbitrator in settling disputes.**

The **government's role:**

(according to Smith)

- a. provide defense,
- b. administer justice, and
- c. maintain certain public institutions.



Arbitrator

The **government controls about 1/3 of all economic activity.** [settling disputes]

Developed and Developing Nations

36 Developed Nations – they have access to advanced technology, natural resources & a way of life based on **large industries**. 1.7 of the world's 6.7 billion live in developed nations.

These 23 nations include the U.S, Canada, Australia, Switzerland, Denmark, Hong Kong, Sweden, Singapore, Germany and Britain.

37 Developing Nations (Third World Countries) – **poorer, less industrially** nations of the world. They are just beginning to develop industrially and are **extremely poor**. They have very high rates of illiteracy, higher unemployment rates, extensive underemployment, hyperinflations, primitive shelter, high infant mortality rate [200 per 1,000 compared to 5 per 1,000 in developed countries], chronic food shortages, And explosive population growth. Over half still work in agriculture. In Pakistan, 85% of the population live on less than \$2 a day. About 5 billion of the world's 6.7 billion live in developing nations.

There are more than **150 developing nations**, most located in Africa, Latin America, and Southeast Asia.

21% of the worlds 6.7 billion people live on less than \$2 a day.

Index of Economic Freedom

[Ranking of 157 countries for 2008]



FREE

1. Hong Kong

3. Ireland

5. United States

**MOSTLY
FREE**

20. Belgium

31. Spain

48. France

**MOSTLY
UNFREE**

101. Brazil

126. China

134. Russia

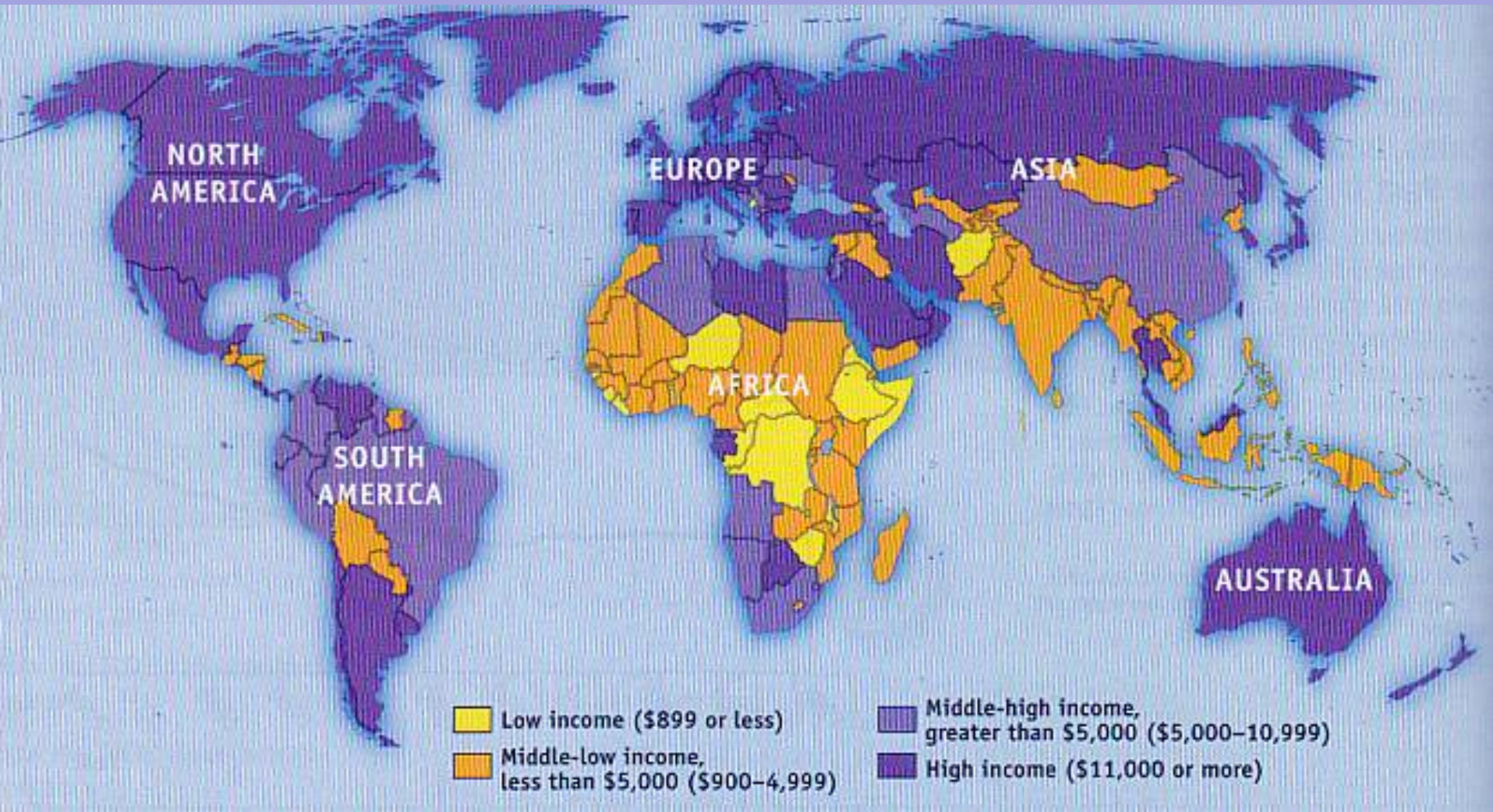
REPRESSED

148. Venezuela

156. Cuba

157. North Korea

Developed and Developing [3rd World] Countries



Developed and Developing [3rd World] Countries

Developing Countries Have No Money For Investment



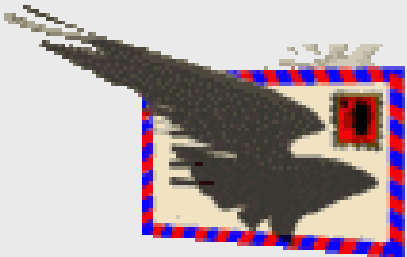
75% of the African population get by on less than \$2 a day.

Private and Public Sectors

Private Sector – economic activities of private individuals and private businesses (owned by individuals or groups of individuals).



Public Sector – economic activities under the control of the federal government, the 50 state governments, or the 88,000 local governments.



U.S. Mail



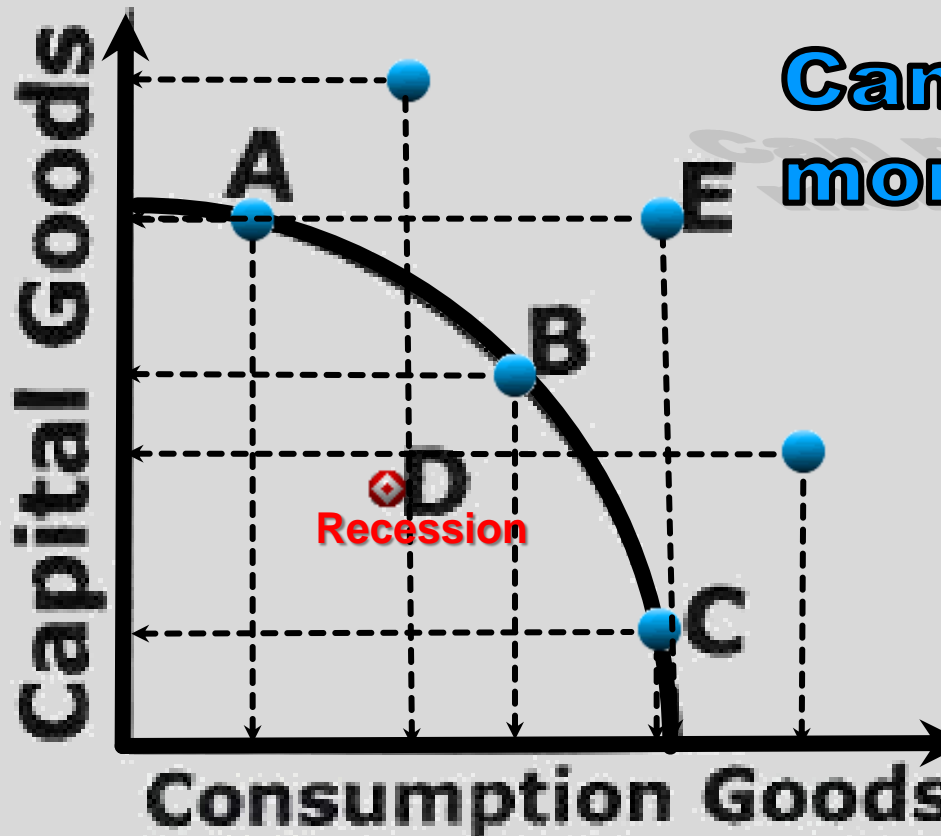
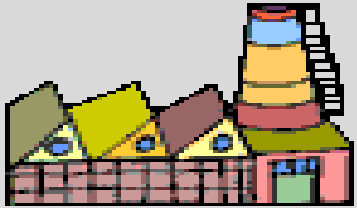
Production Possibilities Curve

[better known as the “PPC”]

Production Possibilities Curve [PPC]

Let's demonstrate economic growth

[result of more/better resources or better technology]



Can produce more of both.



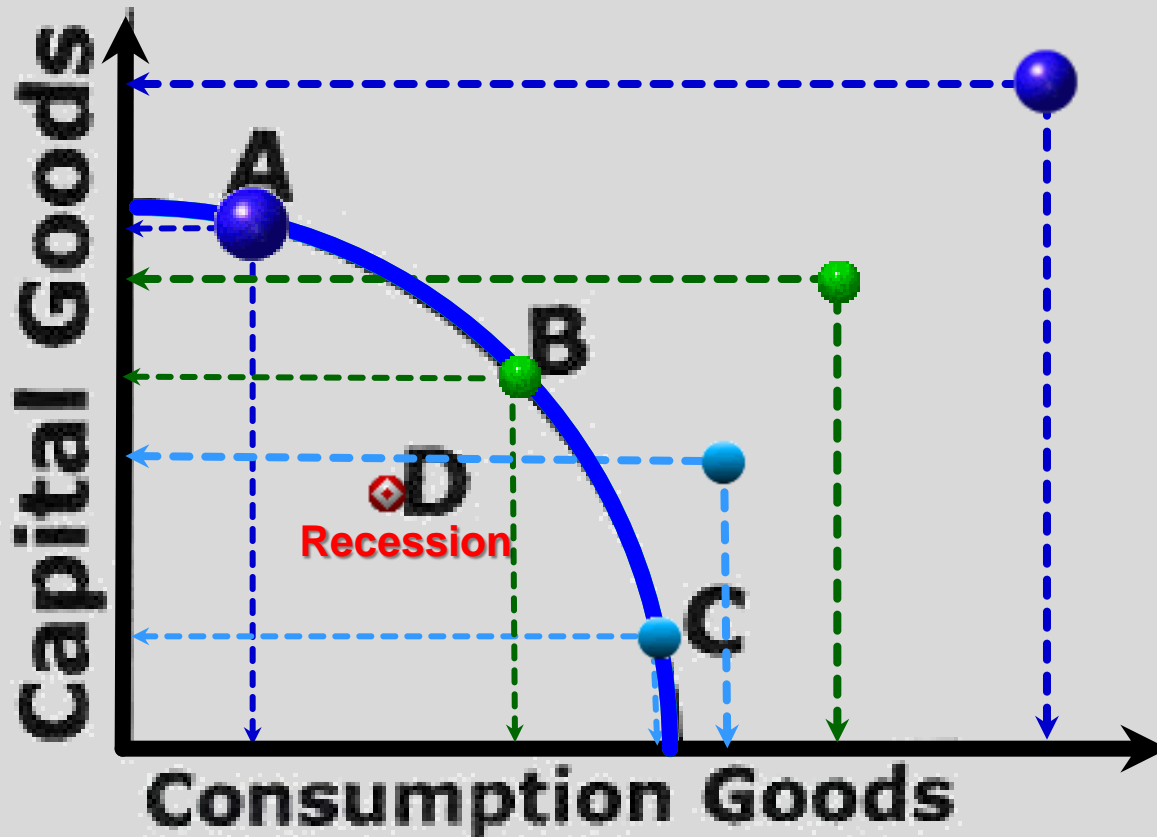
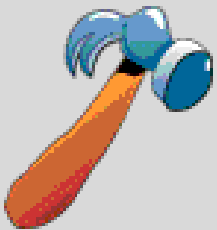
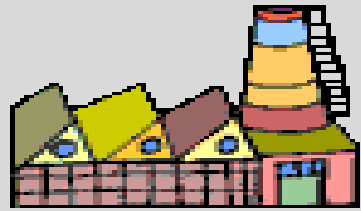
PPC [Economic Growth]

Where a country produces today determines where they can produce tomorrow.

Growth after combo C

After combo B

After combo A



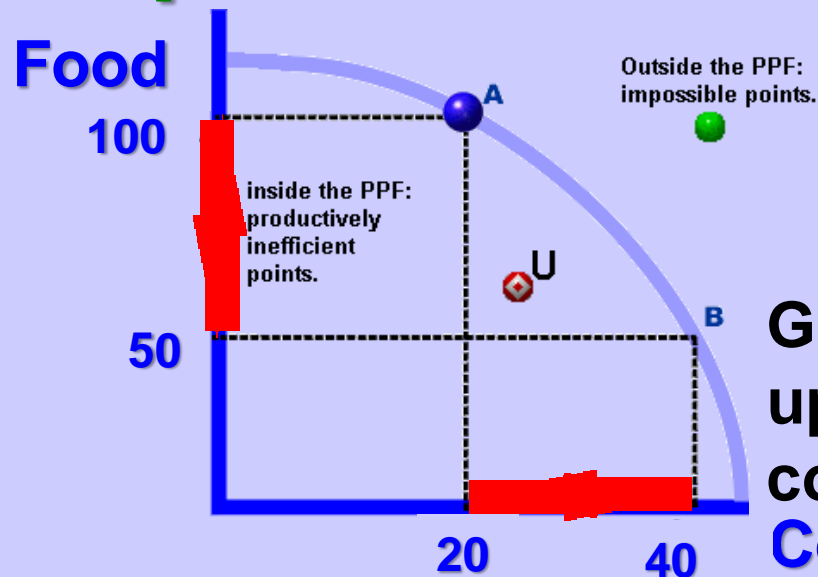
TINSTAAFL

There Is No Such thing
As A Free Lunch.



Everything has a cost.

This cost [opportunity cost] is one of the most important concepts of the PPC.



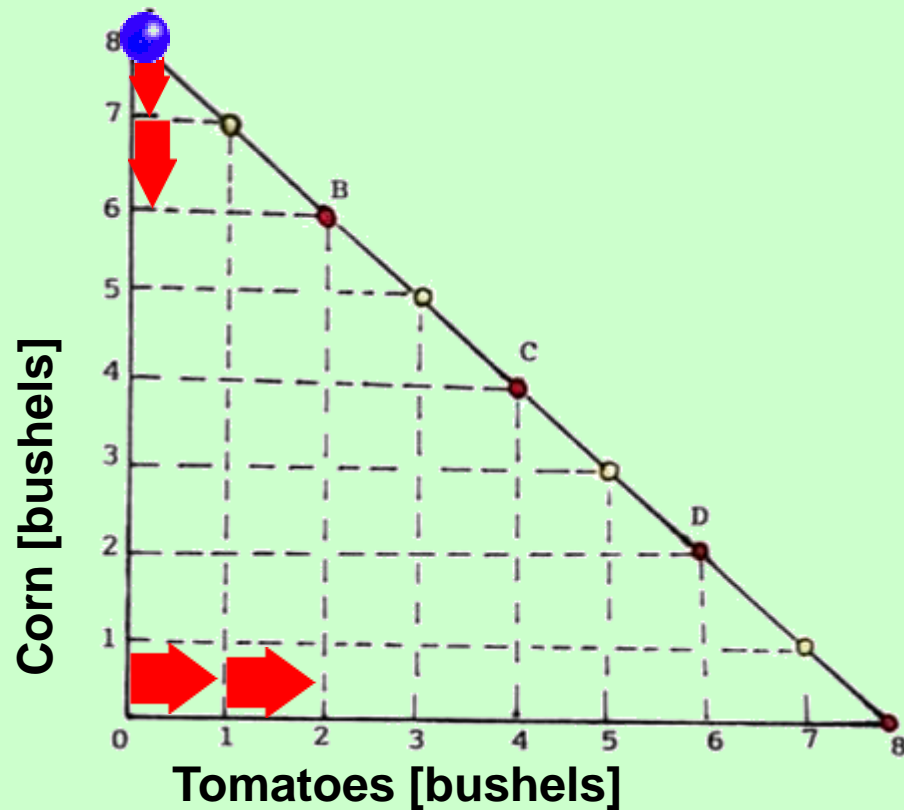
Gained food, gave up computers, opportunity cost was computers.

Gained computers, gave up food, so opportunity cost was food.

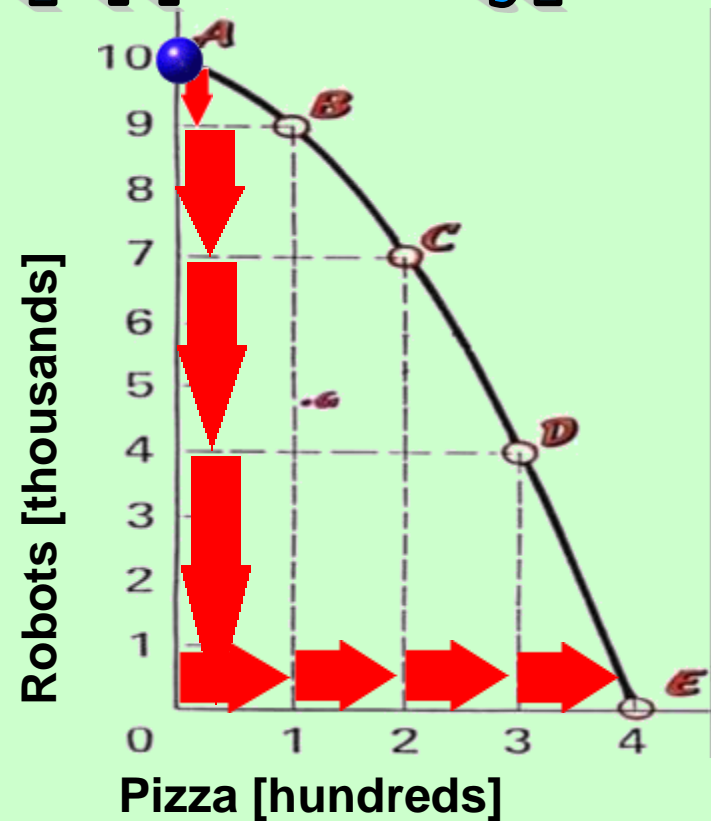
Computers

Production Possibilities Curve [PPC]

Let's look at the difference between constant and increasing [opportunity] cost.



Constant [opportunity] Cost



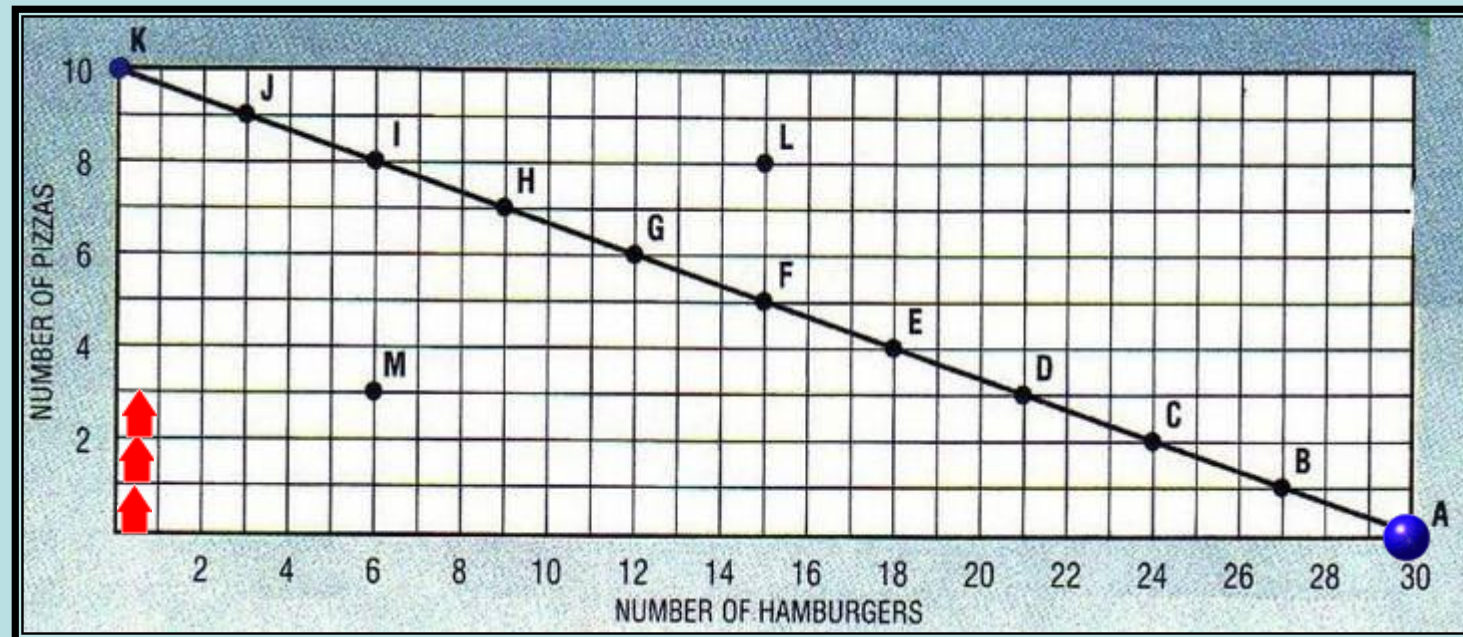
Increasing [opportunity] Cost

Budget Line

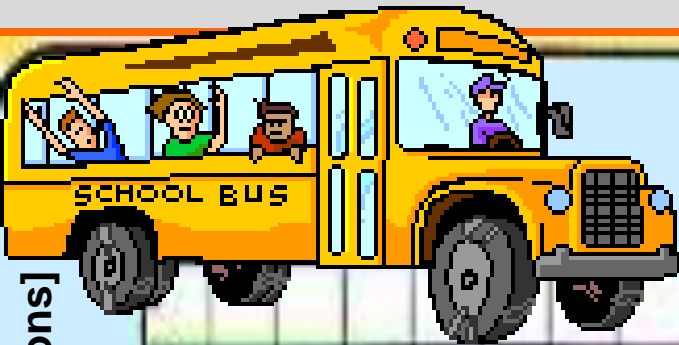
Number of hamburgers & pizzas that can be bought for \$30.



	A	B	C	D	E	F	G	H	I	J	K
Hamburgers at \$1 each	30	27	24	21	18	15	12	9	6	3	0
Pizzas at \$3 each	0	1	2	3	4	5	6	7	8	9	10

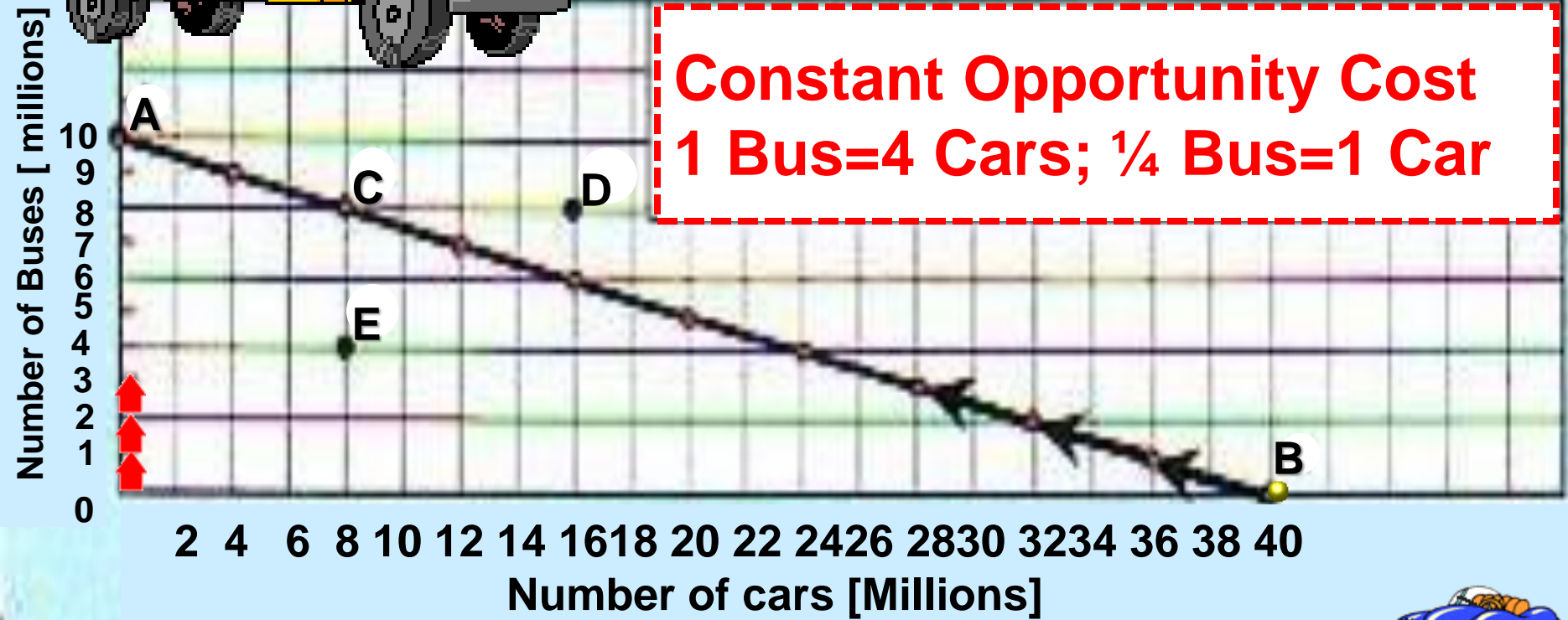


Limits of Production



Straight-Line Production-Possibility Frontier

Constant Opportunity Cost
1 Bus = 4 Cars; $\frac{1}{4}$ Bus = 1 Car



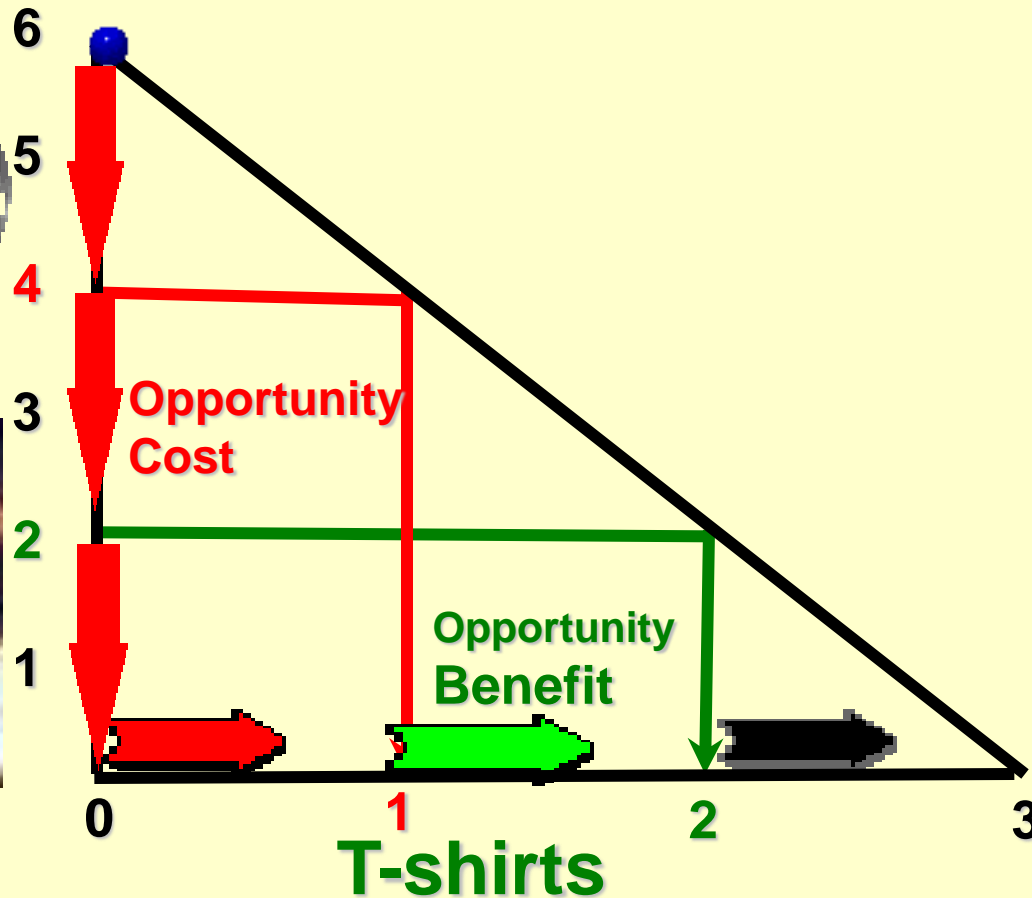
Limits of Production

Constant Opportunity Cost

1 T-shirt = 2 movies;

$\frac{1}{2}$ T-shirt = 1 movie

Movies



PPC

If we are inside the PPC, does anything have to be given up?

So – the answer is ...

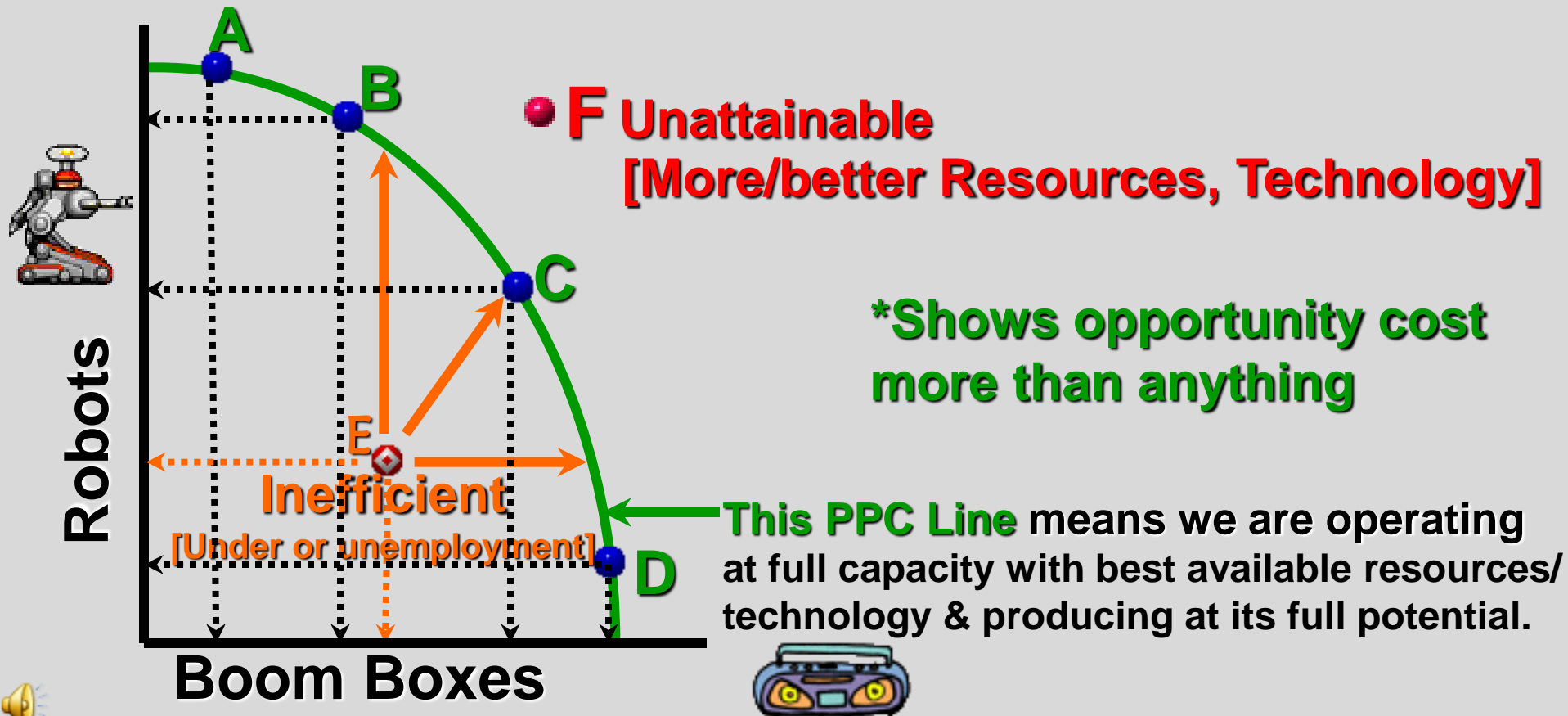
The 4 assumptions of the PPC [the “curve” are these.

38 Full Employment

Fixed Resources

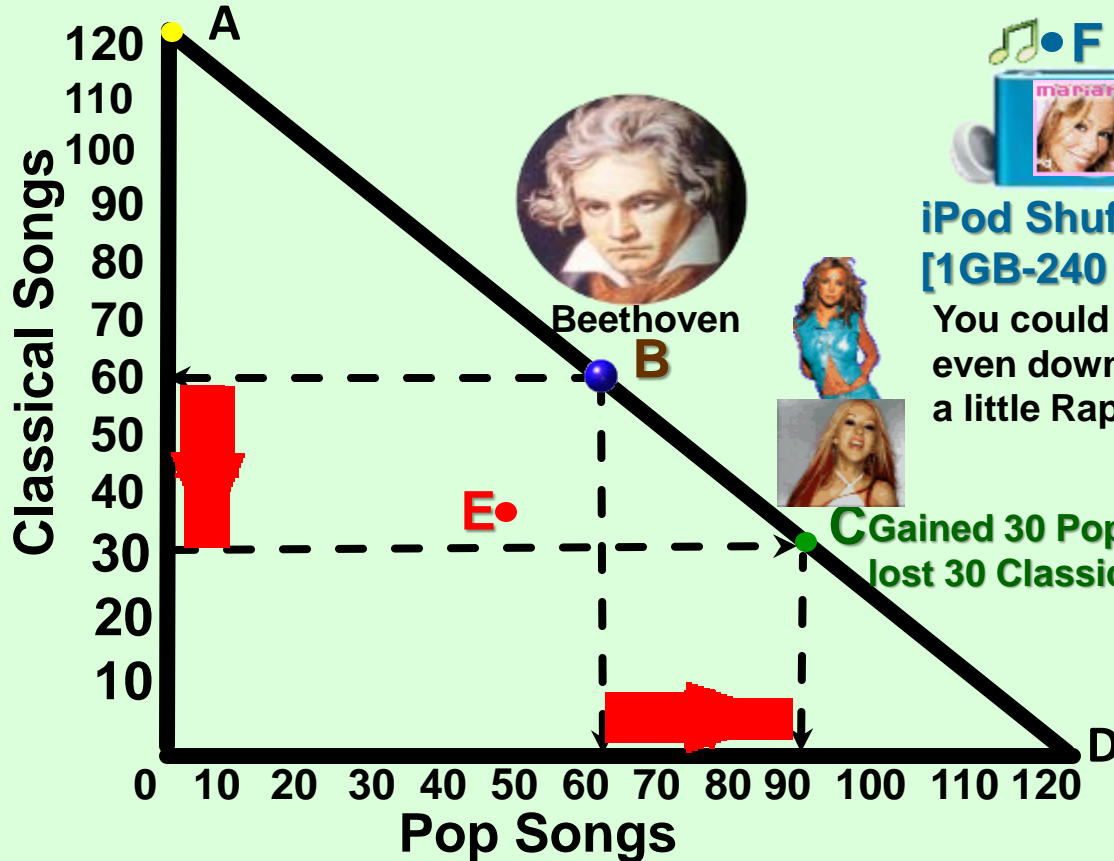
Fixed Technology

Two Products





Suzie Rah Rah



iPod Shuffle
[1GB-240 songs]

You could now
even download
a little Rap.



iPod Shuffle
[512MB-120 songs]



C Gained 30 Pop songs;
lost 30 Classical songs



Suppose that Suzie Rah Rah buys an iPod Shuffle [512MB] with a maximum capacity of **120 songs** and loads up **60 Classical songs** and **60 Pop songs**. If she had put **120 classical songs** on her iPod, then there be no room for Pop songs without giving up some classical like Yo-Yo Ma.

Notice that at **point E**, Suzie can add **more music of either w/o incurring opportunity cost**.

Say Suzie is currently at **point B** and moves to **point C**.

She would be gaining 30 Pop songs but losing 30 classical songs.

If Suzie moves from **point C** back to **point B**, she would **gain 30 classical songs and lose 30 Pop songs**.

What needs to happen for Suzie to be able to move beyond PPF curve **ABCD** [Let's say **point B** to **point F**?

If Suzie bought an iPod with greater storage space, like the iPod Shuffle [1GB - 240 songs].

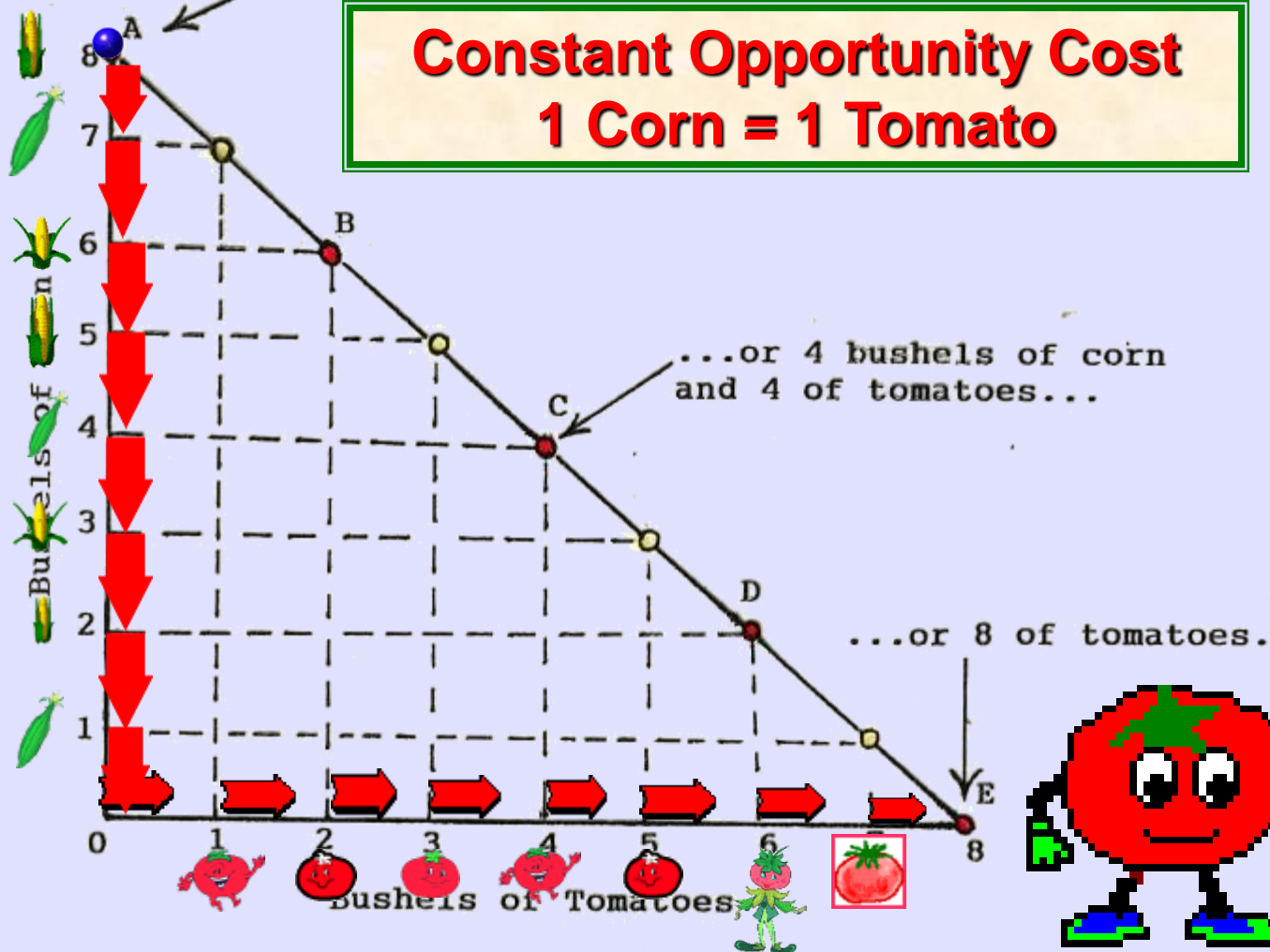
If Suzie is using the maximum capacity of the **smaller iPod Shuffle [512MB with 120 songs]**, what is the opportunity cost of classical songs she must **give up** to get **one more Pop song**?

Constant opportunity cost of "1" Classical song for each Pop song.

The **STRAIGHT LINE** shows the two products
Are “**equally substitutable**”, that is, they **are**
not specialized in particular uses, so the
opportunity costs will remain constant.

Using all your resources, you can
produce 8 bushels of corn...

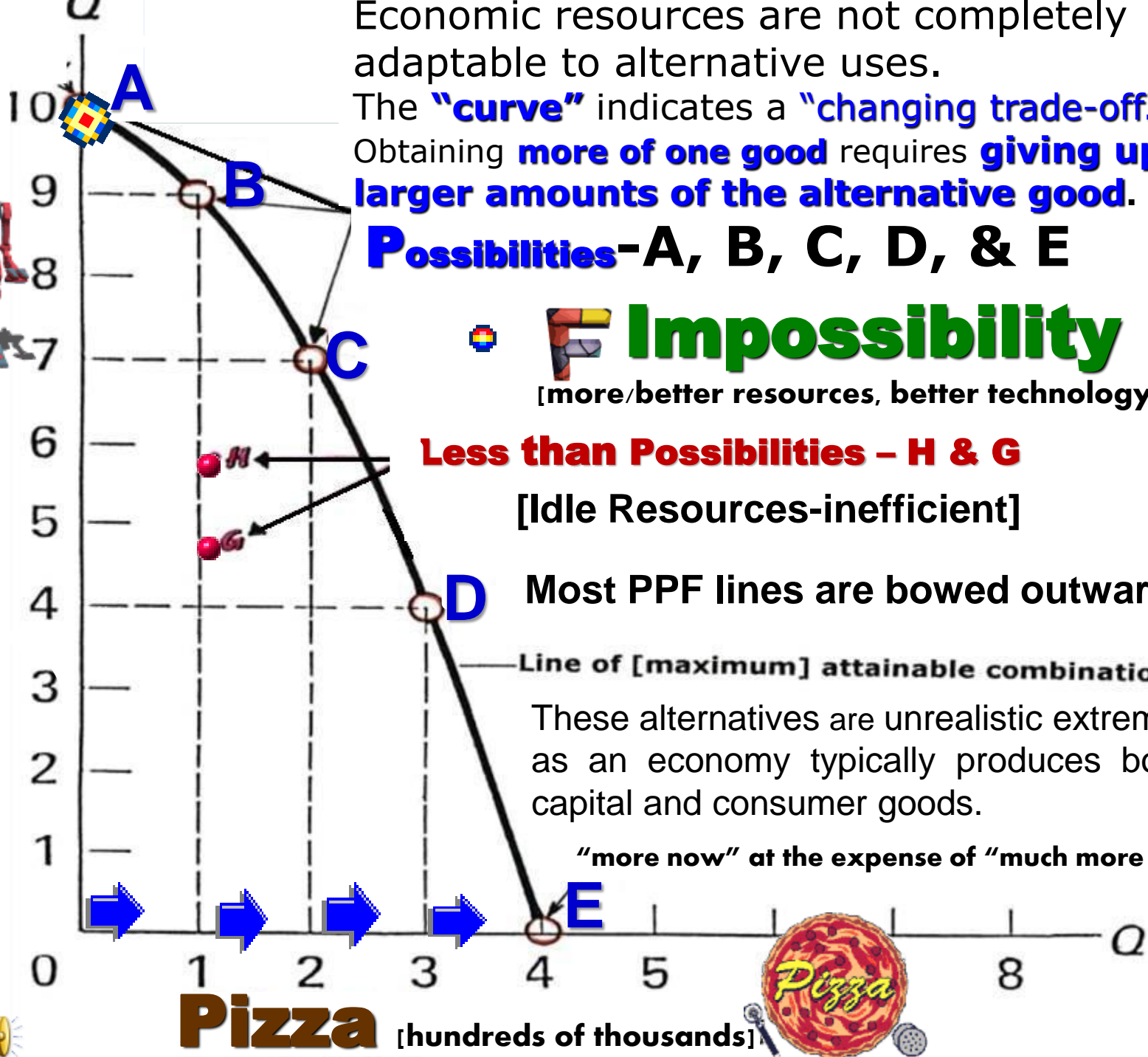
Constant Opportunity Cost
1 Corn = 1 Tomato



"Less now"
but
"more later"



Robots [Thousands]



Economic resources are not completely adaptable to alternative uses.
The "curve" indicates a "changing trade-off."
Obtaining **more of one good** requires **giving up larger amounts of the alternative good.**

Possibilities-A, B, C, D, & E

F Impossibility

[more/better resources, better technology]

Less than Possibilities - H & G

[Idle Resources-inefficient]

Most PPF lines are bowed outward.

Line of [maximum] attainable combinations

These alternatives are unrealistic extremes as an economy typically produces both capital and consumer goods.

"more now" at the expense of "much more later"



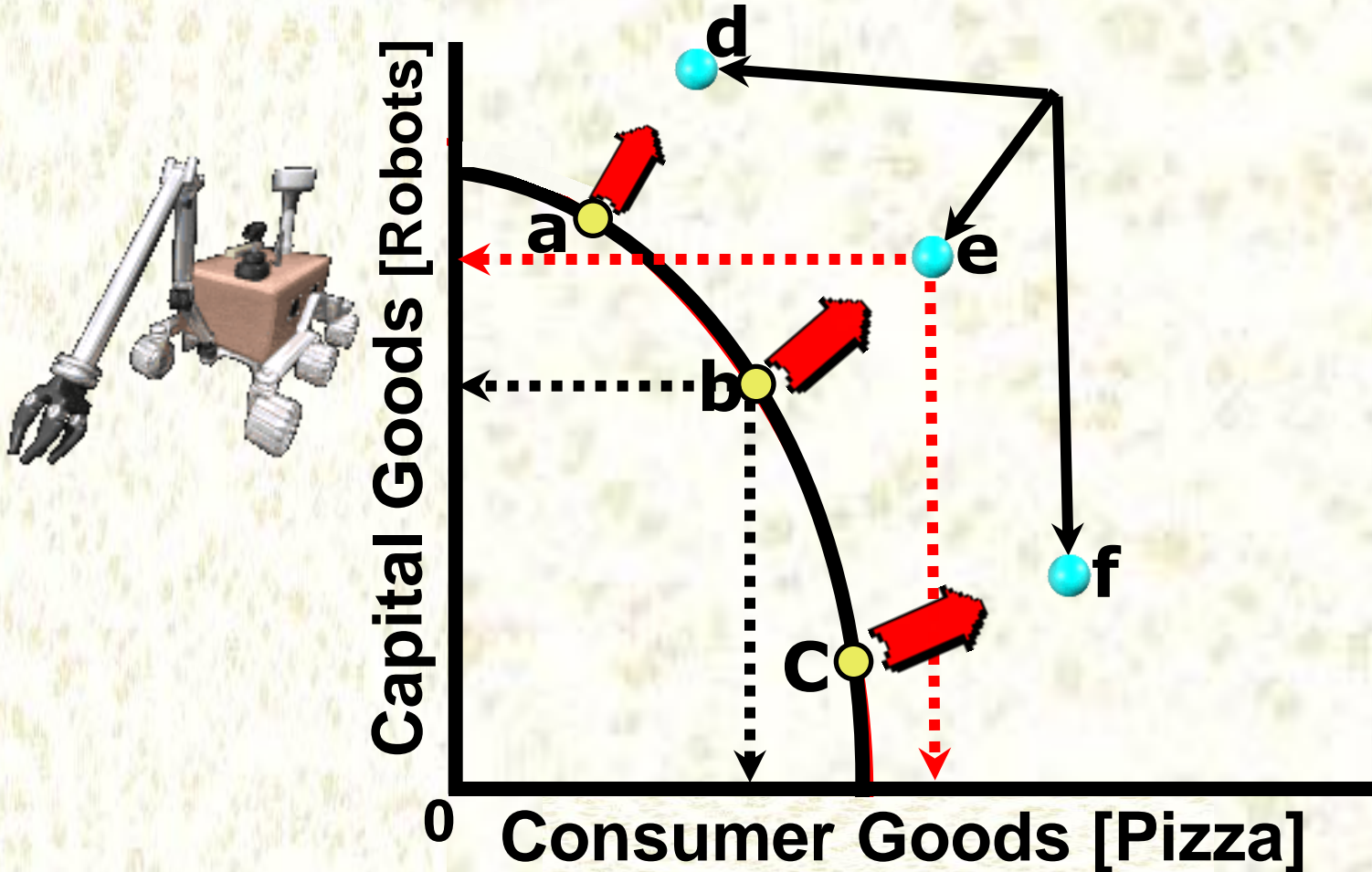
Pizza

[hundreds of thousands]

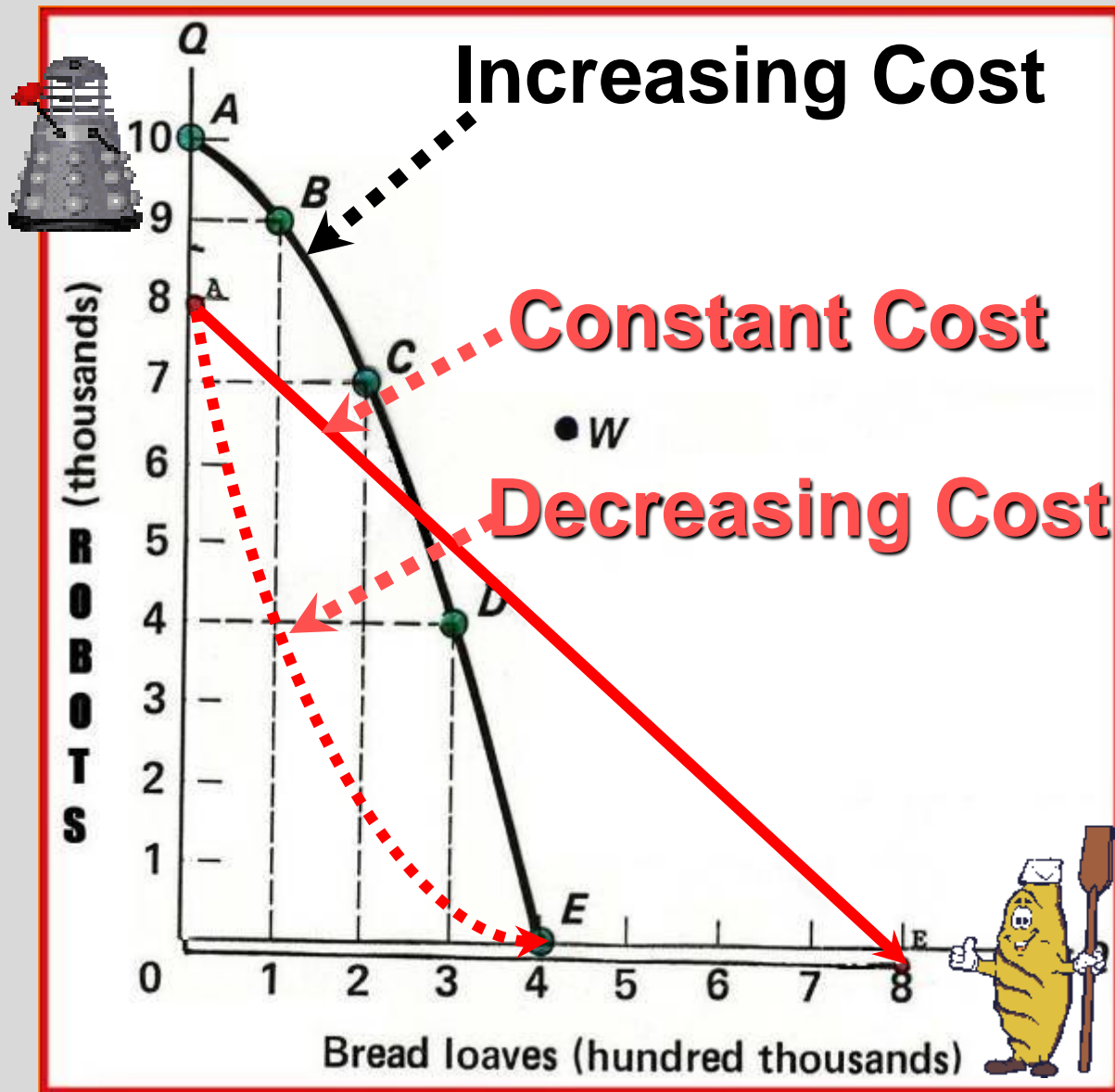


Demonstrating "Economic Growth" on a PPC Graph

Economic Growth - ability to produce a larger total output over time.

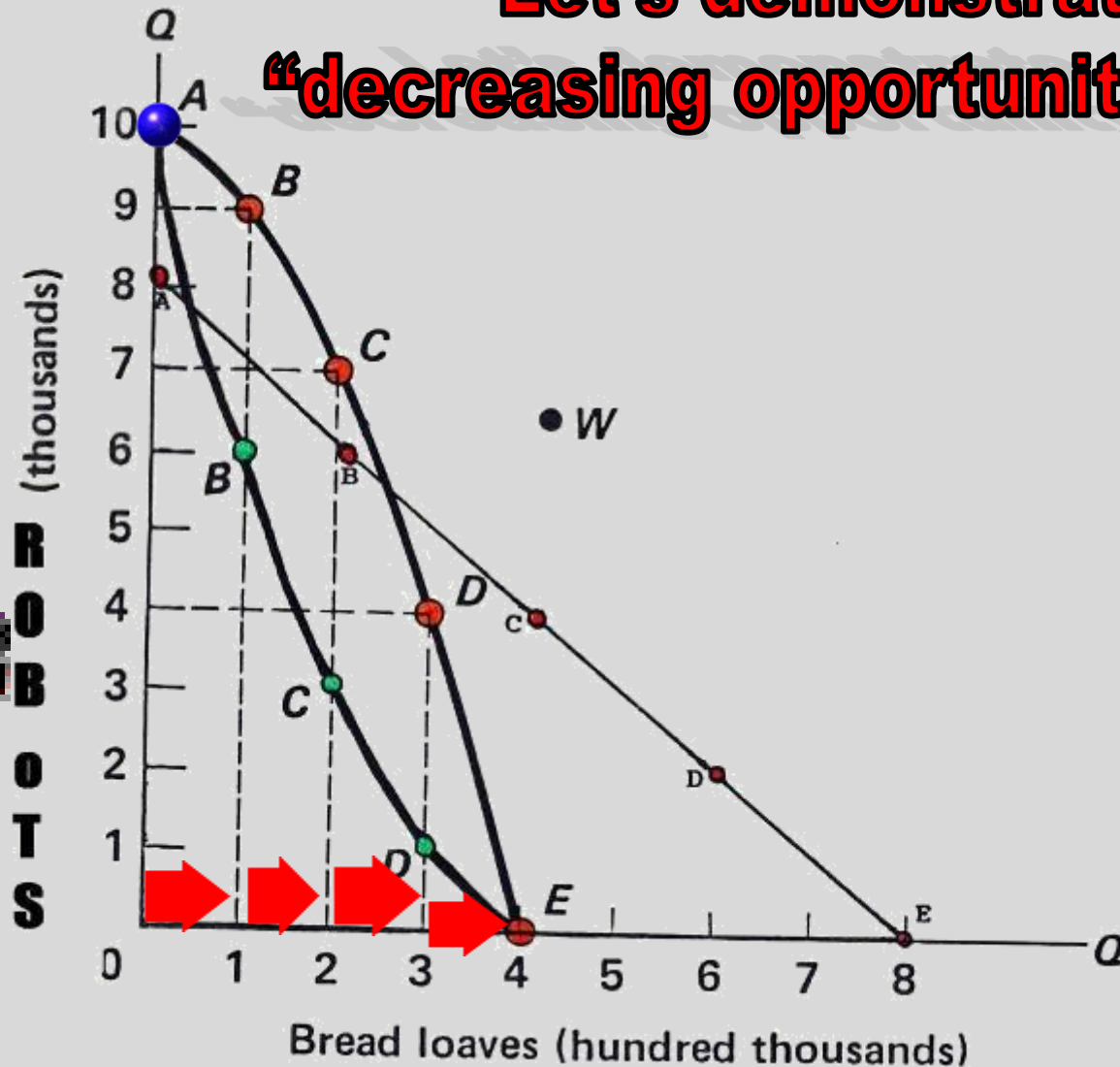


The **straight line** shows the **two products are “equally substitutable”**, that is they are not specialized in particular uses, so the **opportunity costs will remain the same**.



A **convex curve (bowed-in)** shows the **Law of Decreasing Cost** – for each additional bread – **decreasing amounts of robots** are given up.

Let's demonstrate
“decreasing opportunity cost”



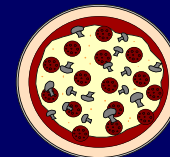
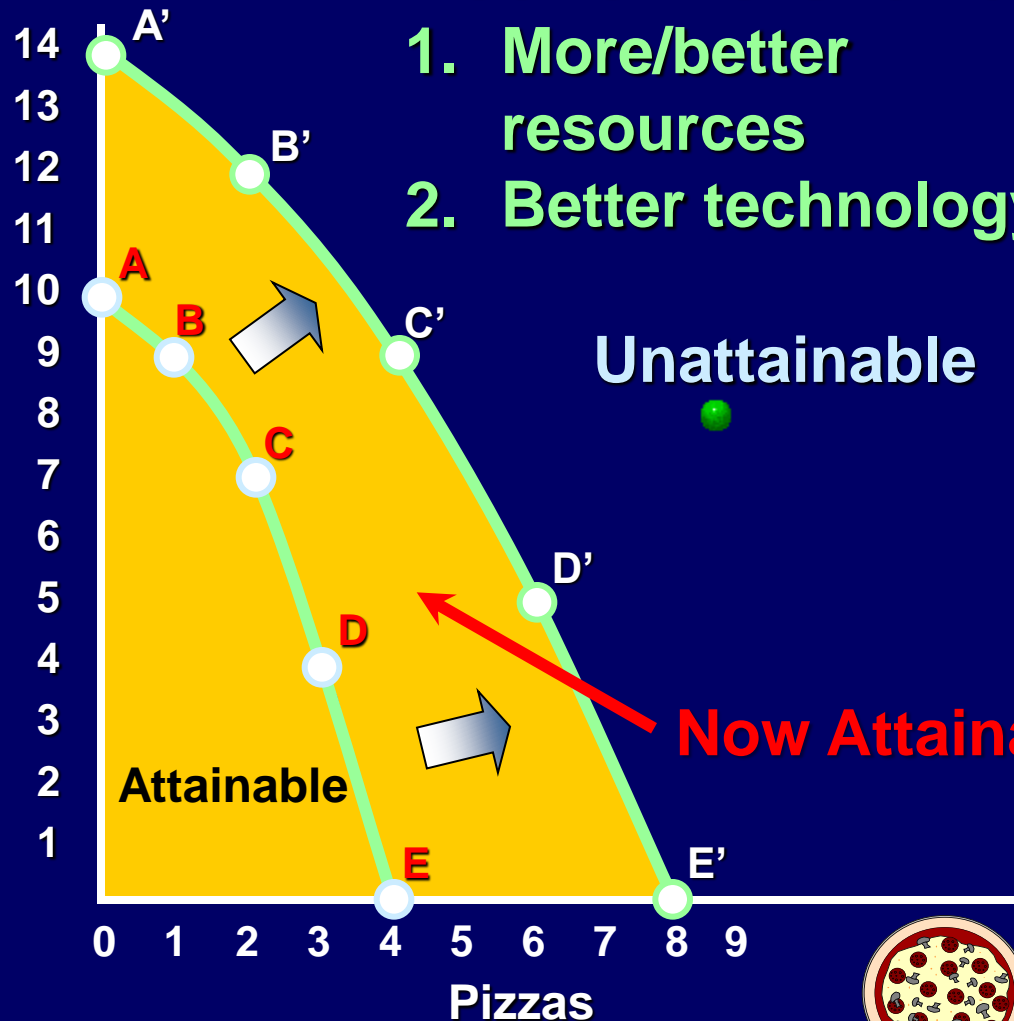
Production Possibilities Curve

Economic Growth

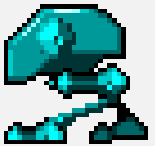
1. More/better resources
2. Better technology



Industrial Robots



Four Assumptions for our PPC Model

1. **Resources are fixed.** There is **no way to increase** the availability of **land, labor, capital** or **entrepreneurship**. However, **reallocation** of these resources is possible.
2. **All resources are fully employed.** No unused land, labor, capital, or entrepreneurship exists. The economy is **running at full production** and **producing goods and services at the least cost** (productive efficiency).
3. **Technology is fixed.** No new technological breakthroughs. PPC represents one specific time period. 
4. **Only two things can be produced[2-good model]**

“There is no free pizza.”

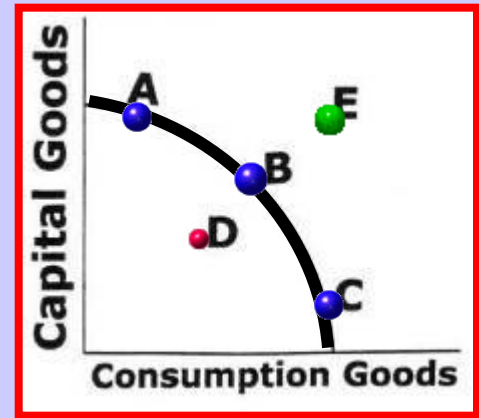


[We are **freezing the economy in time** to focus on the economy's productive alternatives based on **research and technology of today.**]

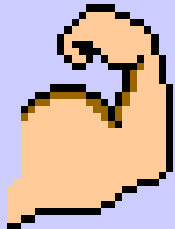




Five PPC Concepts



1. **Scarcity** is represented by the frontier line.
2. **Choices** - represented by pts A, B. or C.
[Choices implies “**opportunity cost**”]
3. **Opportunity Cost** is illustrated in terms of moving from **one point to another** on the PPC, when resources are being utilized to their full potential. [must make choices]
4. **Efficiency** - producing **maximum output with available resources and technology**. We can't increase production of one good without decreasing that of another.
5. **Economic growth** occurs for one of two reasons.
 - A. **More resources** [land, labor, or capital] become available.
 - B. **Technology** improves. [more outputs from same inputs]



Production Possibilities

in table form

PIZZA
(in hundred thousands)

Robots
(in thousands)

0

1

2

3

4

10

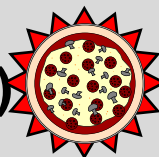
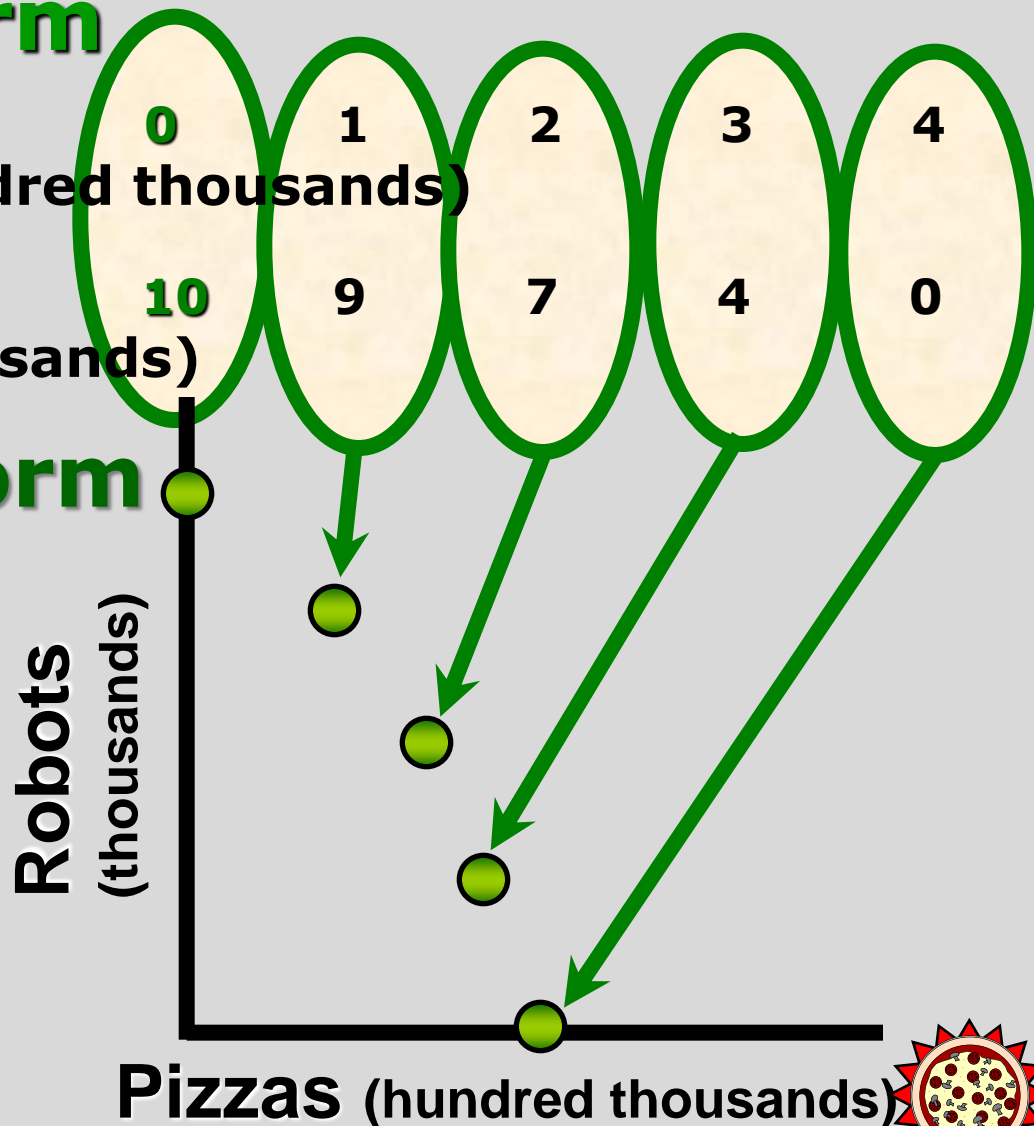
9

7

4



0


graphical form



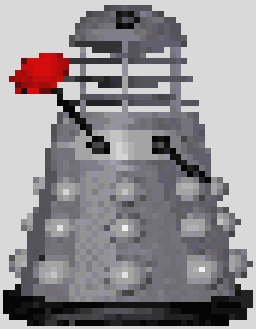
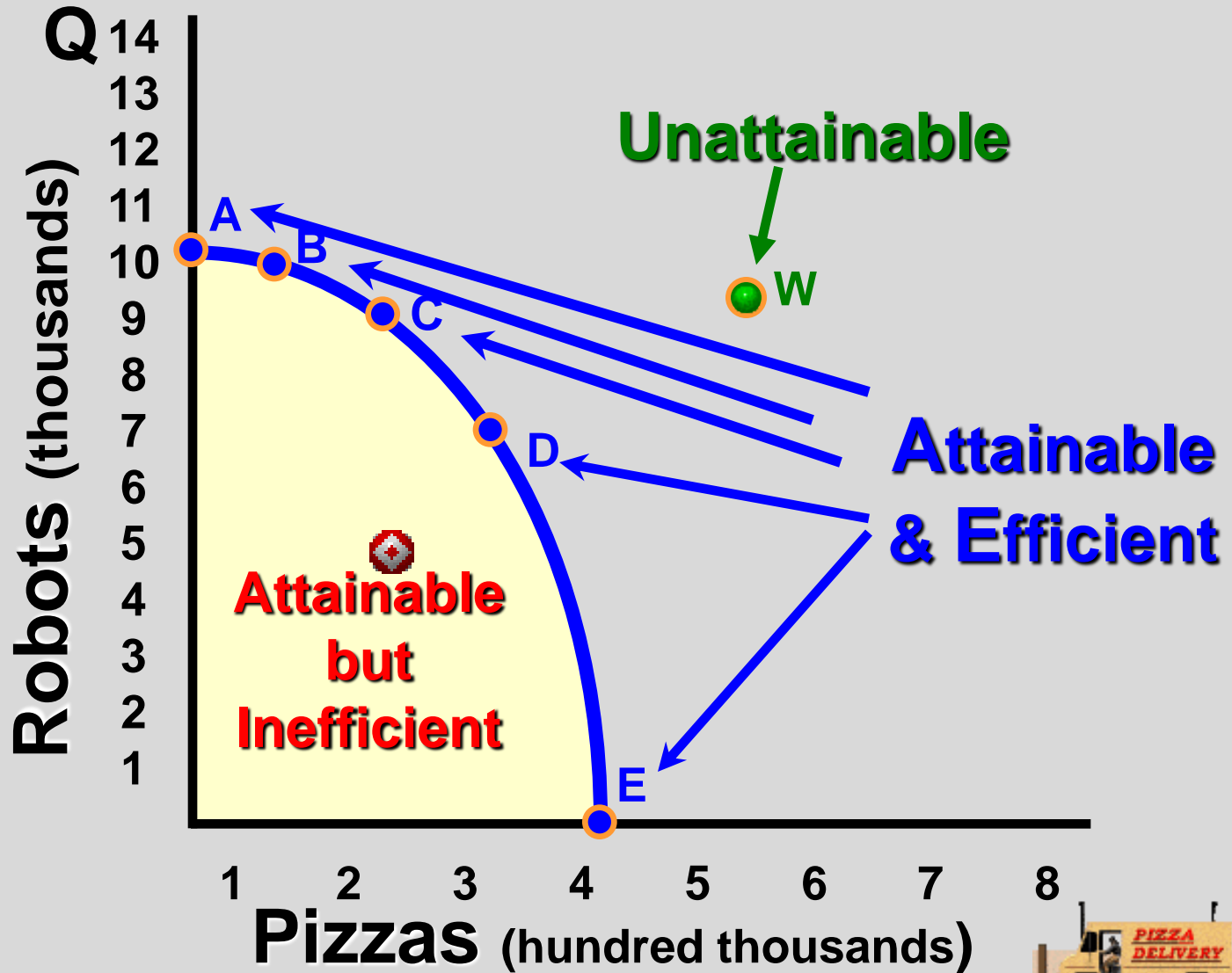
Production Possibilities

Limited Resources means a limited output...

At any one point in time, a full-employment, full-production economy must sacrifice some of product  to obtain more of product .

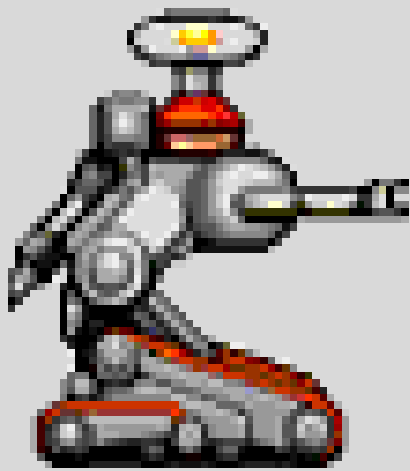
Or, sacrifice some of product  to obtain more of product .

Production Possibilities



Q

Production Possibilities



**More of either or
both is possible**

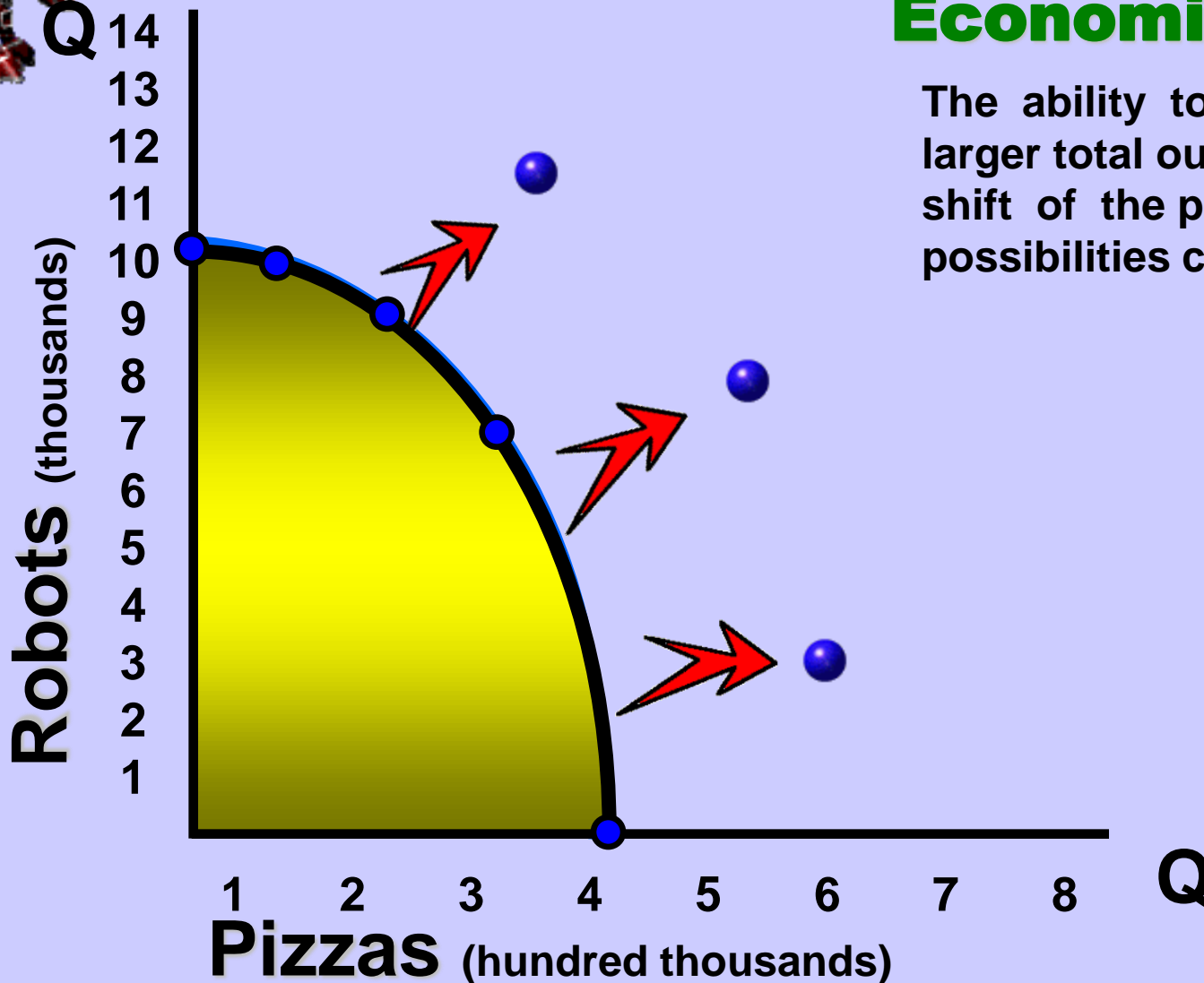
Pizzas (hundred thousands)



Production Possibilities

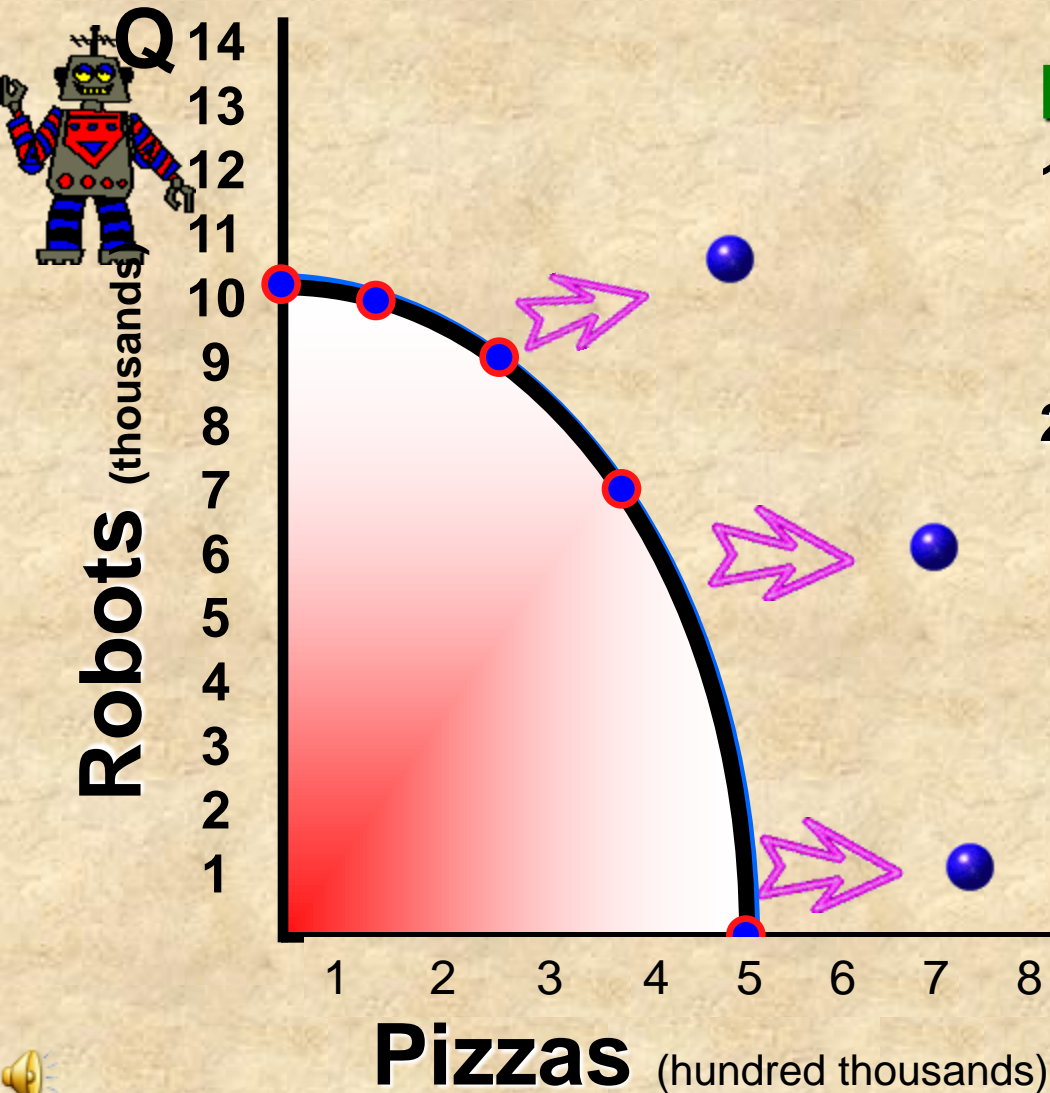
Economic Growth

The ability to produce a larger total output - a rightward shift of the production possibilities curve caused by...



Production Possibilities

More of either or both is possible.



Economic Growth

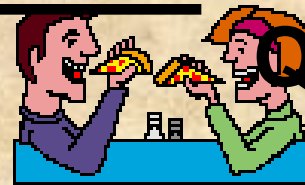
1. Increase in resources -



2. Better resource quality -



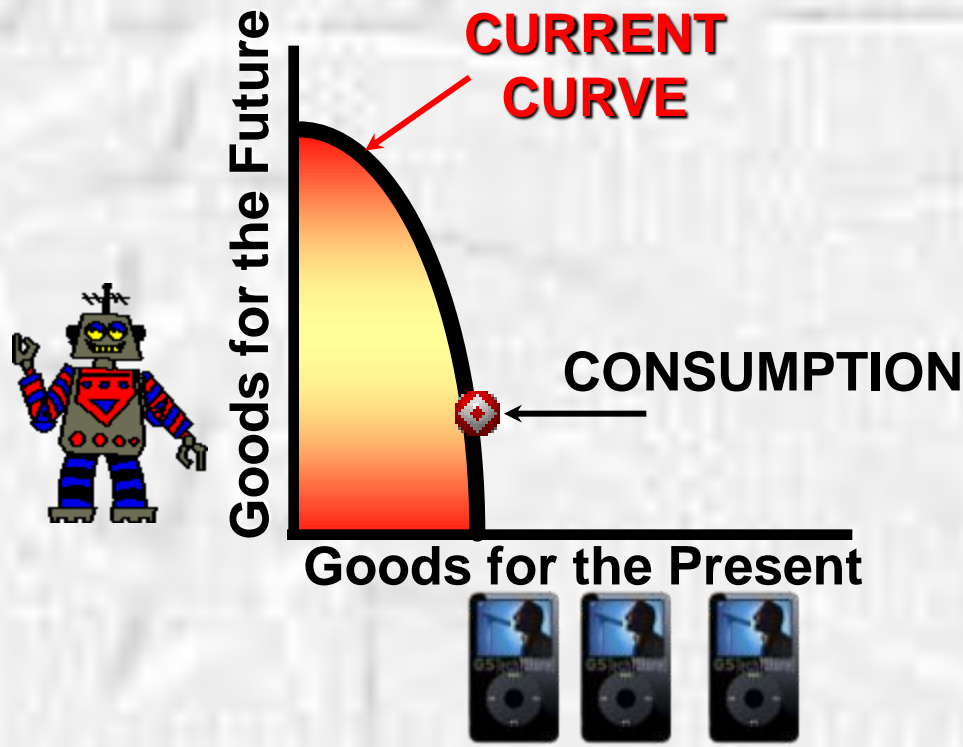
3. Technological advances -



Production Possibilities

Two Examples of Economic Growth

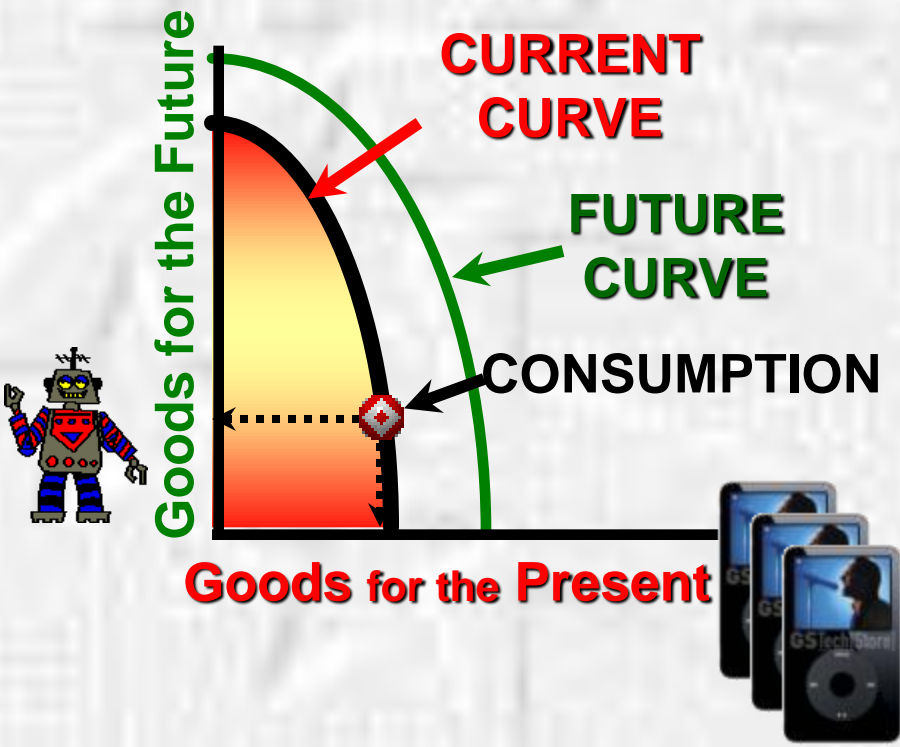
FAVORING PRESENT GOODS



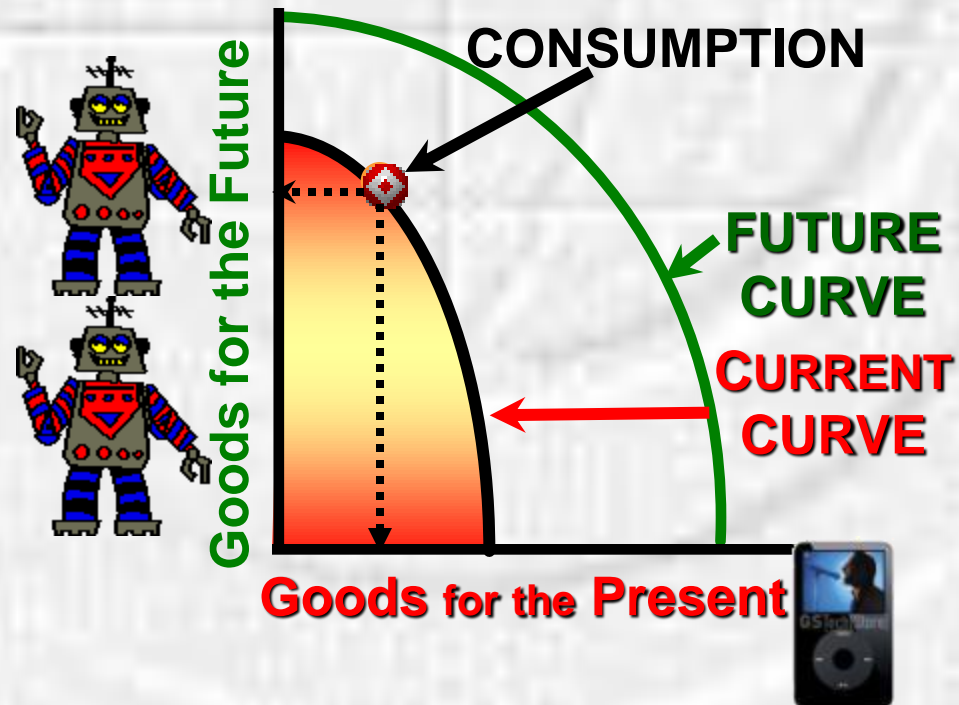
Production Possibilities

Two Examples of Economic Growth

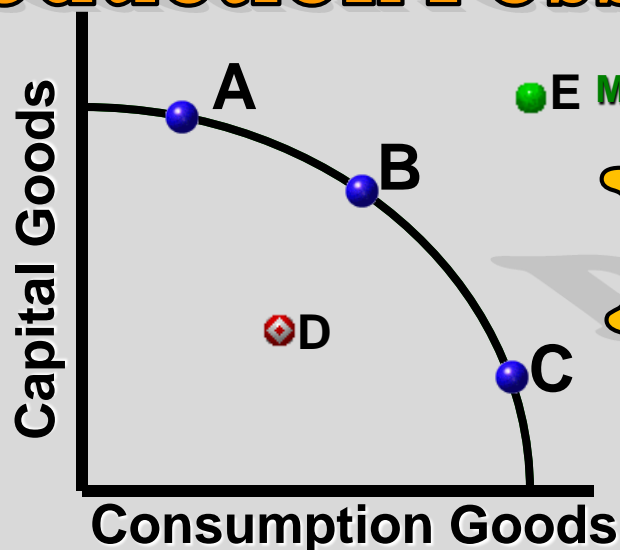
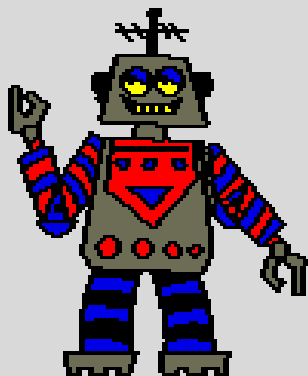
FAVORING PRESENT GOODS



FAVORING FUTURE GOODS



Production Possibilities



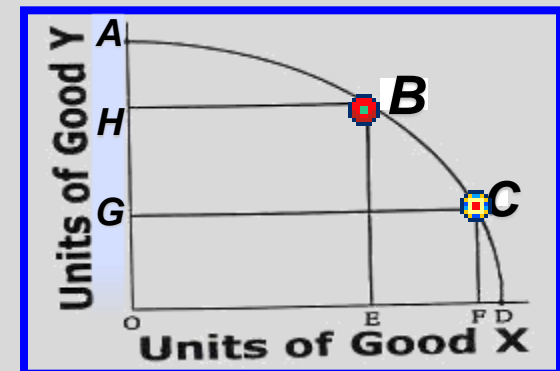
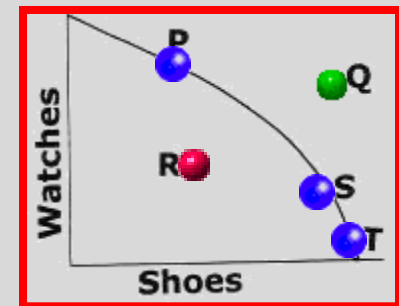
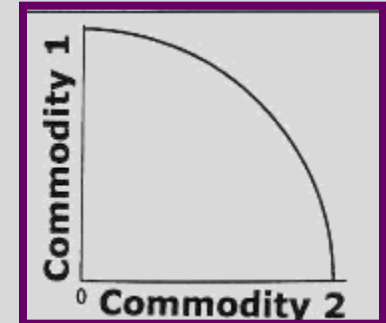
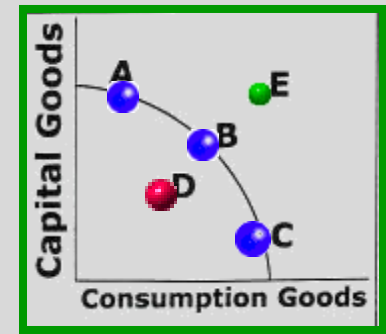
● E More or better resources or better technology

PPC



41. At what letter is there **unemployment** [**recession**]? **D**
 42. What letters represent resources being used in their **most productive manner**? [full employment, full production, and best available technology] **A, B, or C**
 43. What letter represents an **improvement in technology**, therefore a **new PPC** frontier line? **E**
 44. The (straight line/curve) illustrates the "**line of increasing cost**"?
 45. The (straight line/curve) illustrates the "**law of constant cost.**"
 46. At what letter would there be the **most economic growth in the future** if a country were producing there now? **A**
- What is the **opportunity cost** when moving from "**C**" to "**A**"; **Consumption B to C**; **Capital** & do we have to give anything up when moving from **D** to **B**? **no**

PPC AP Questions



1. An economy that is **fully employing** all its productive resources but allocating **less to investment than to consumption** will be at which of the following positions on the PPC to the right?

- a. A b. B c. C d. D e. E

2. Which of the following best explains the shape of the PPC for the **two-commodity** economy shown above?

- a. Opportunity cost of producing another unit of each **stays the same**.
 b. Opportunity cost of producing another unit of each **decreases**.
 c. Opportunity cost of producing another unit of each **increases**.

3. Which of the following is **true of the PPC** on the right?

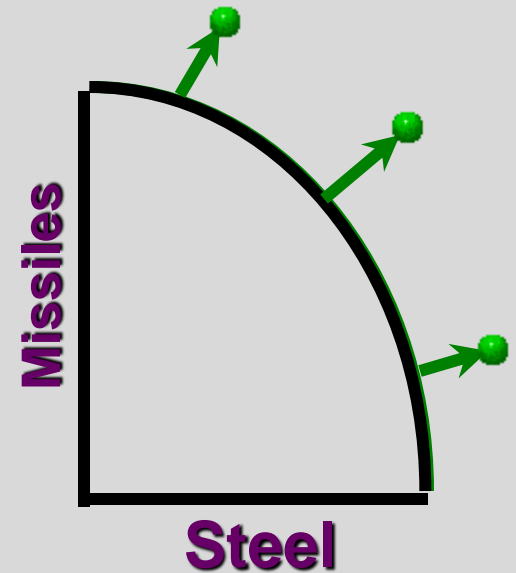
- a. Point Q is attainable but undesirable.
 b. Point R is unattainable but undesirable.
 c. A technological improvement of watches would move the economy from T to P.
 d. There is unemployment at point T because workers
 e. The opportunity cost of moving from S to T is the # of watches given up.

4. If we move from **B to C** on the graph (right), the **opportunity cost** is?

- a. AH units of good Y
 b. OG units of good Y
 c. EF units of good X
 d. HG units of good Y

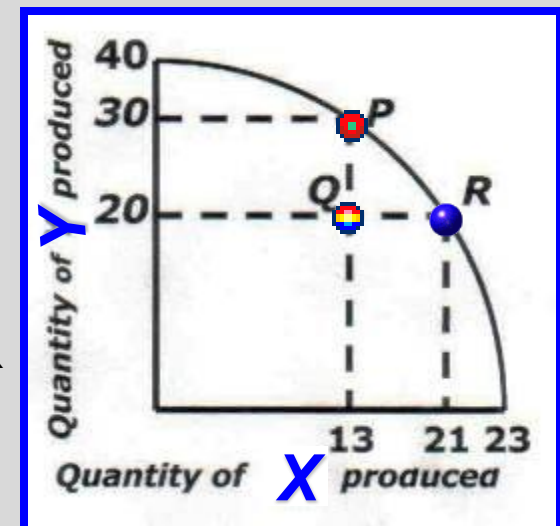
PPC AP Questions

5. Which of the following would cause the PPC shown (right) to shift outward?
- Reopening steel plants that had been closed
 - Rehiring laid-off workers
 - Using machinery for missile production instead of steel production
 - Using machinery for steel production instead of missile production
 - Developing a more efficient steelmaking process



6. Base on the graph (right), which statements are true?

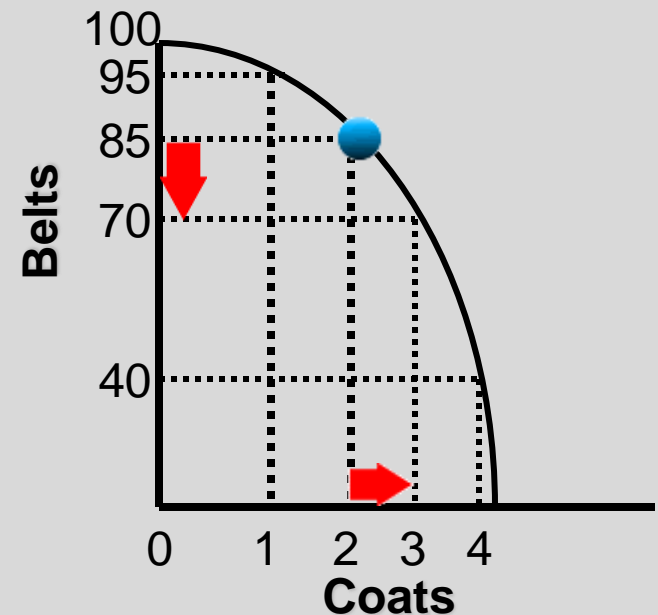
- The opportunity cost of moving from P to R is 10 units of Y.
 - The opportunity cost of moving from R to P is 8 units of X.
 - The opportunity cost of moving from Q to R is 0 units.
- a. I only b. III only c. I & II only d. I, II, & III



From the 2005 Macro MC Exam

- (89%) 3. If two coats are currently being produced, the **opportunity cost of producing the third coat** is
- a. 85 belts b. 75 belts c. 40 belts d. 15 belts e. 10 belts

PPC



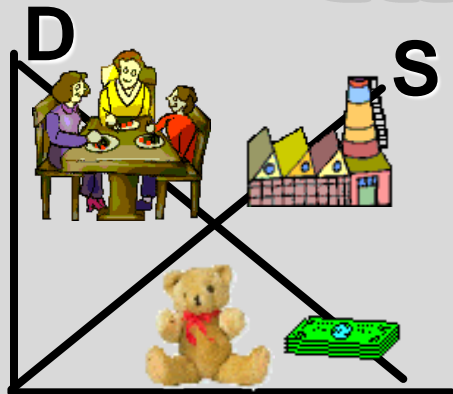
The Circular Flow

The Circular Flow

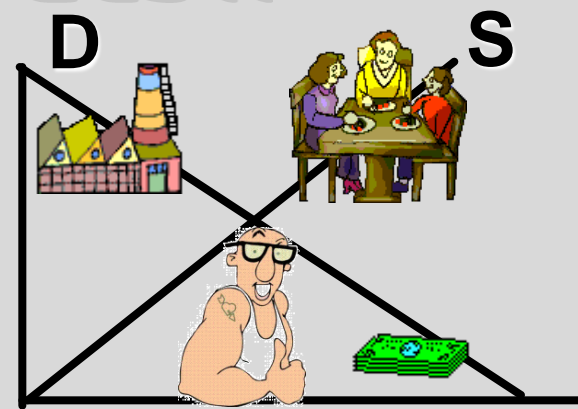
The **Circular Flow** is an abstract, oversimplified model, showing how economic transactions [**resources**, **products** (g/s), and **money**] take place.



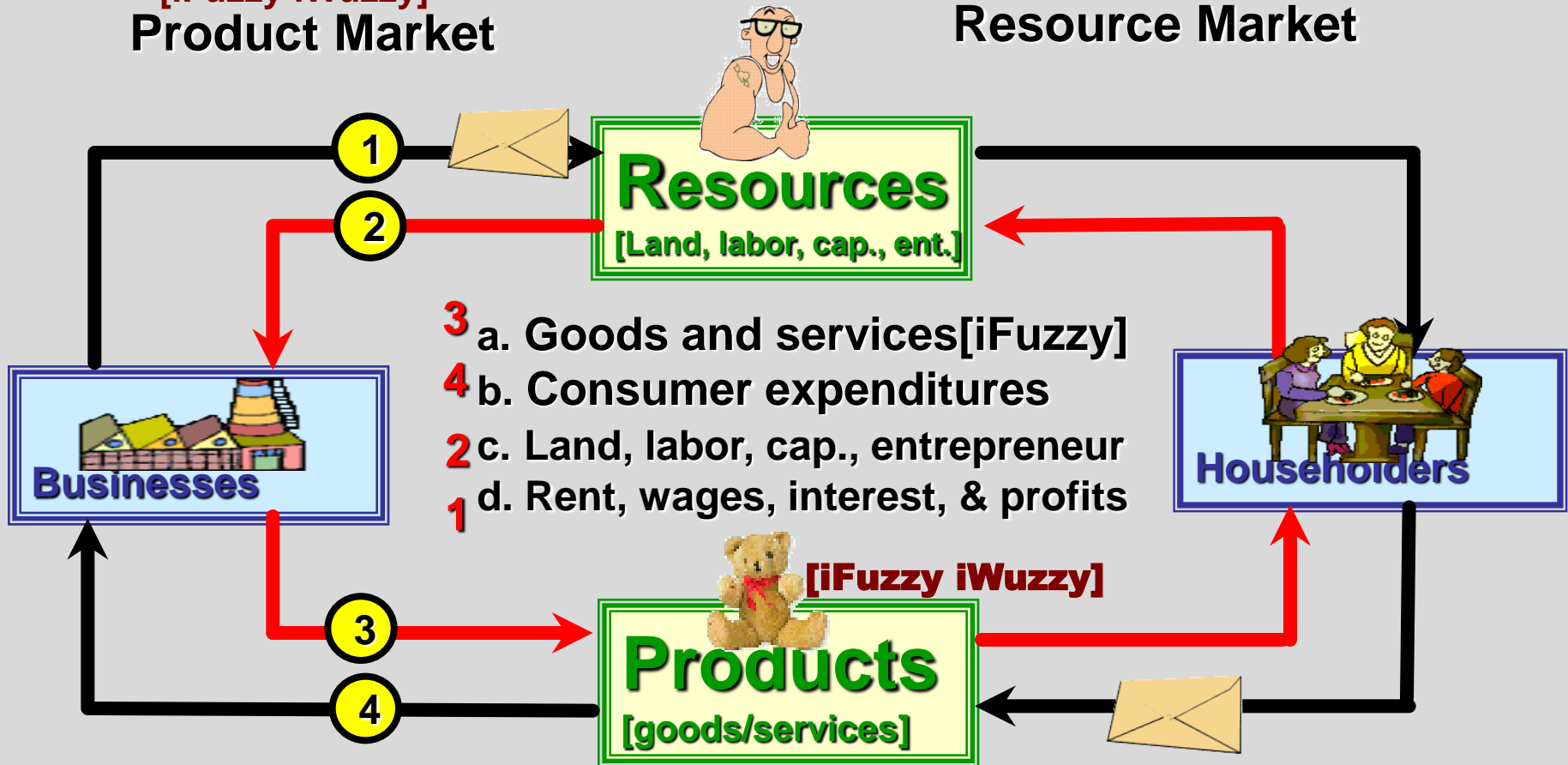
The Circular Flow



**[iFuzzy iWuzzy]
Product Market**

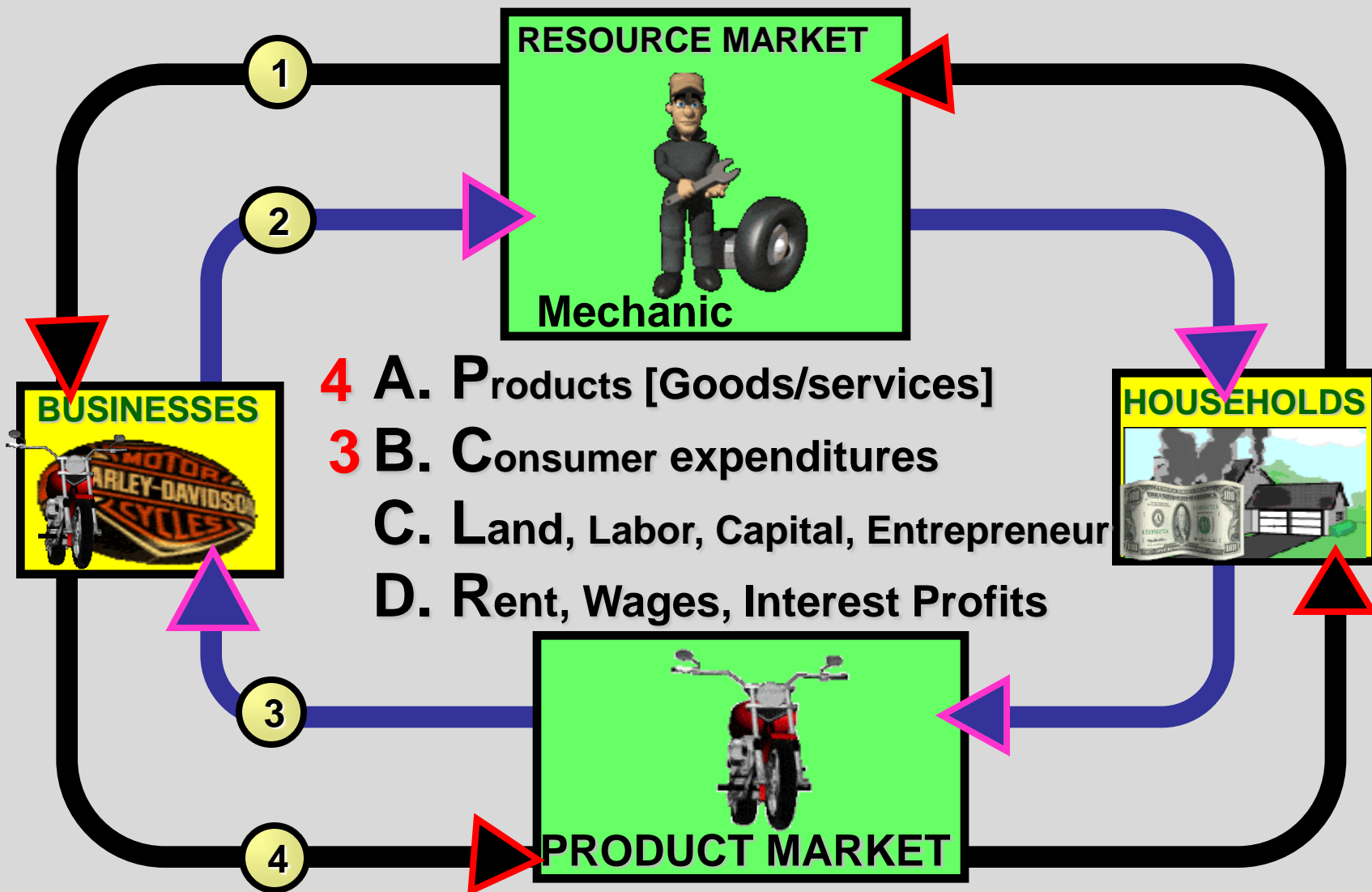


Resource Market



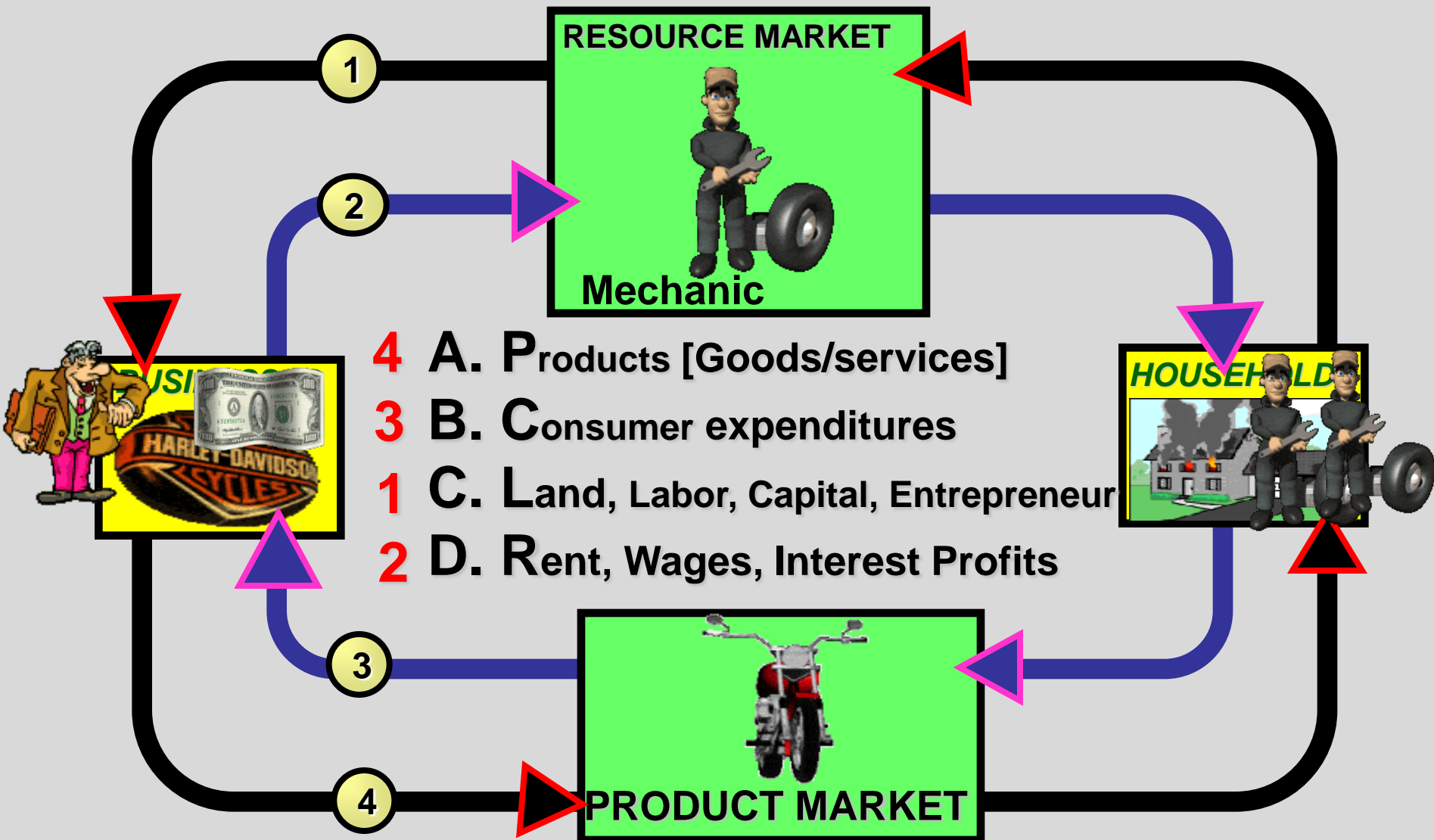


Hog CIRCULAR FLOW MODEL

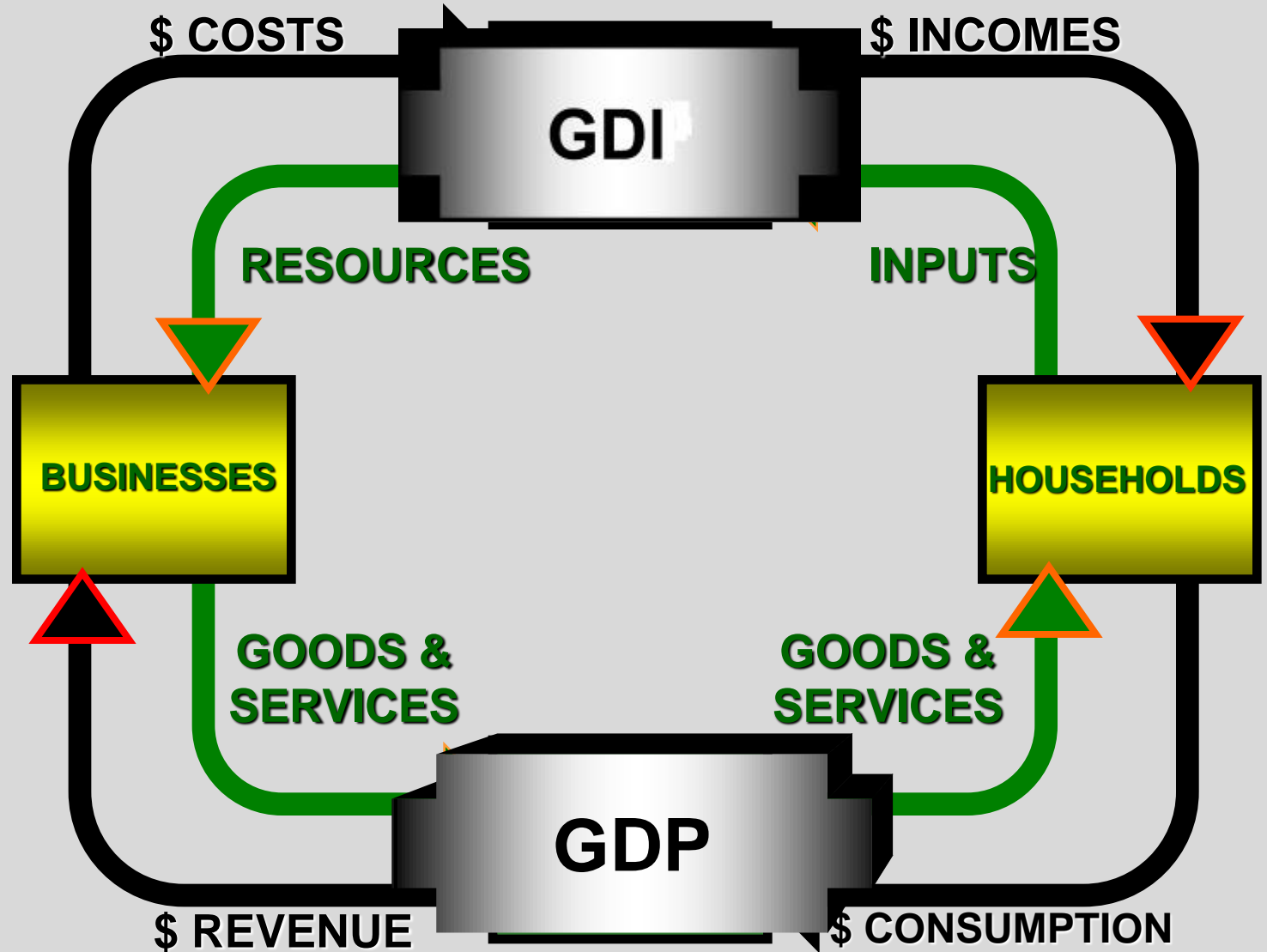




Hog CIRCULAR FLOW MODEL



CIRCULAR FLOW MODEL



The Circular-Flow Diagram

Product Market



1

2

What flow are the following?

2 A. Consumer expenditures?

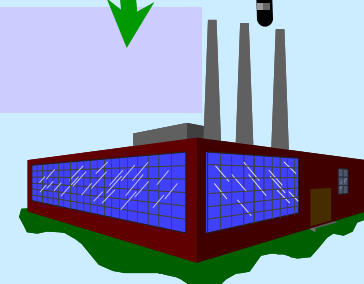
1 B. Goods and services?

4 C. Land, labor, capital,
and entrepreneurs?

3 D. Rent, wages, interest,
and profits?



Households



Businesses

Labor



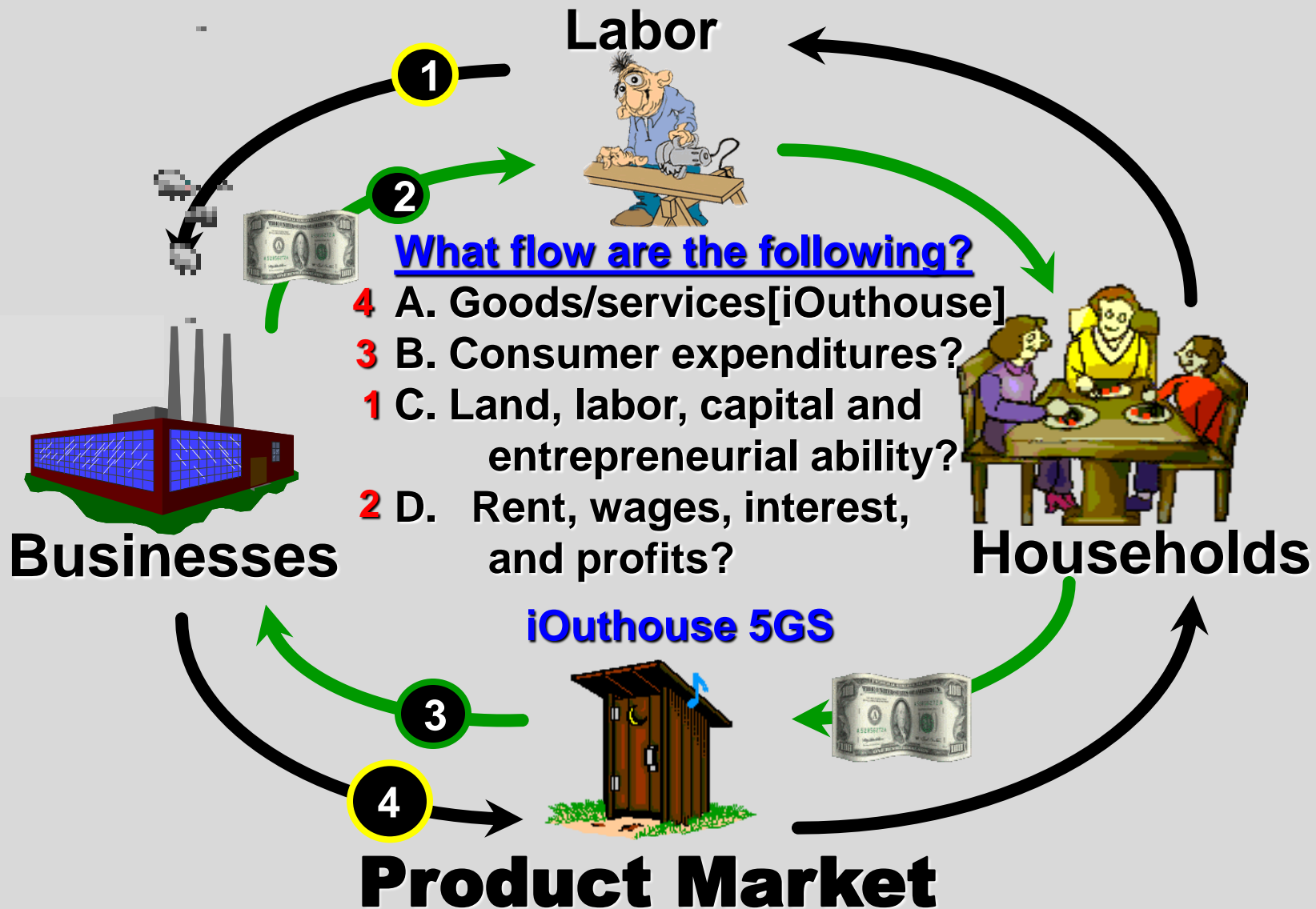
3

4

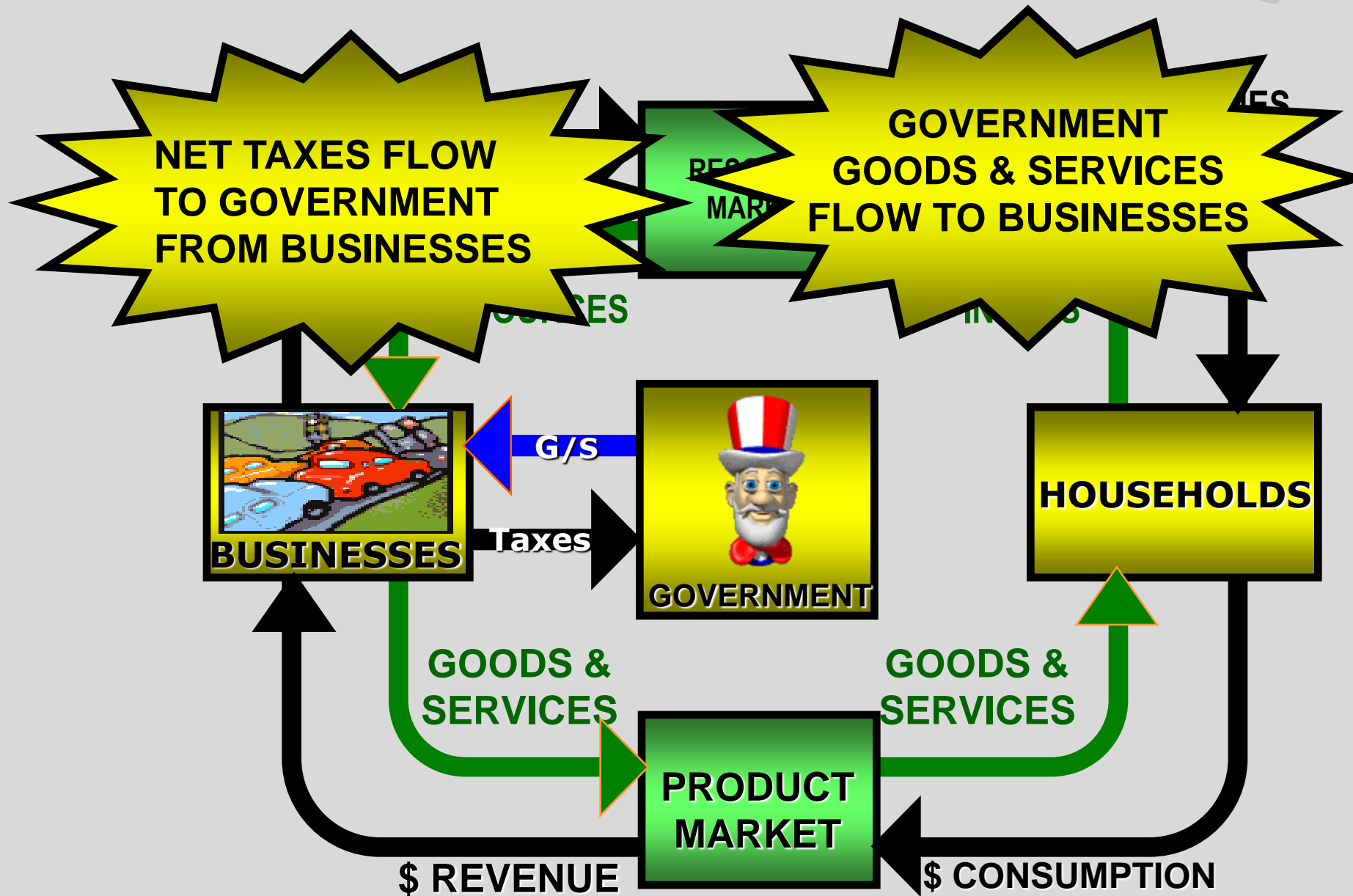
Resource Market

The Circular-Flow Diagram

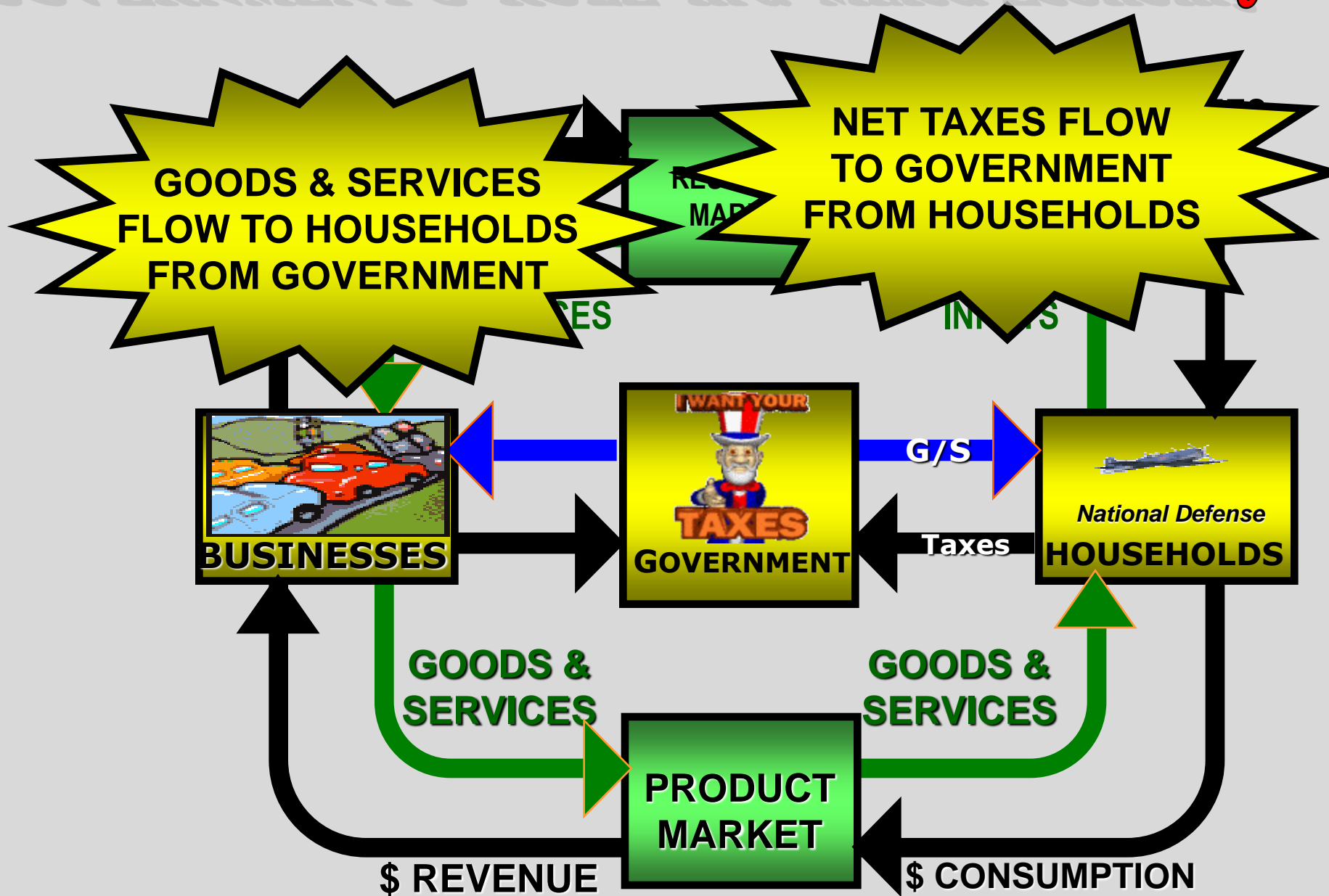
Resource Market



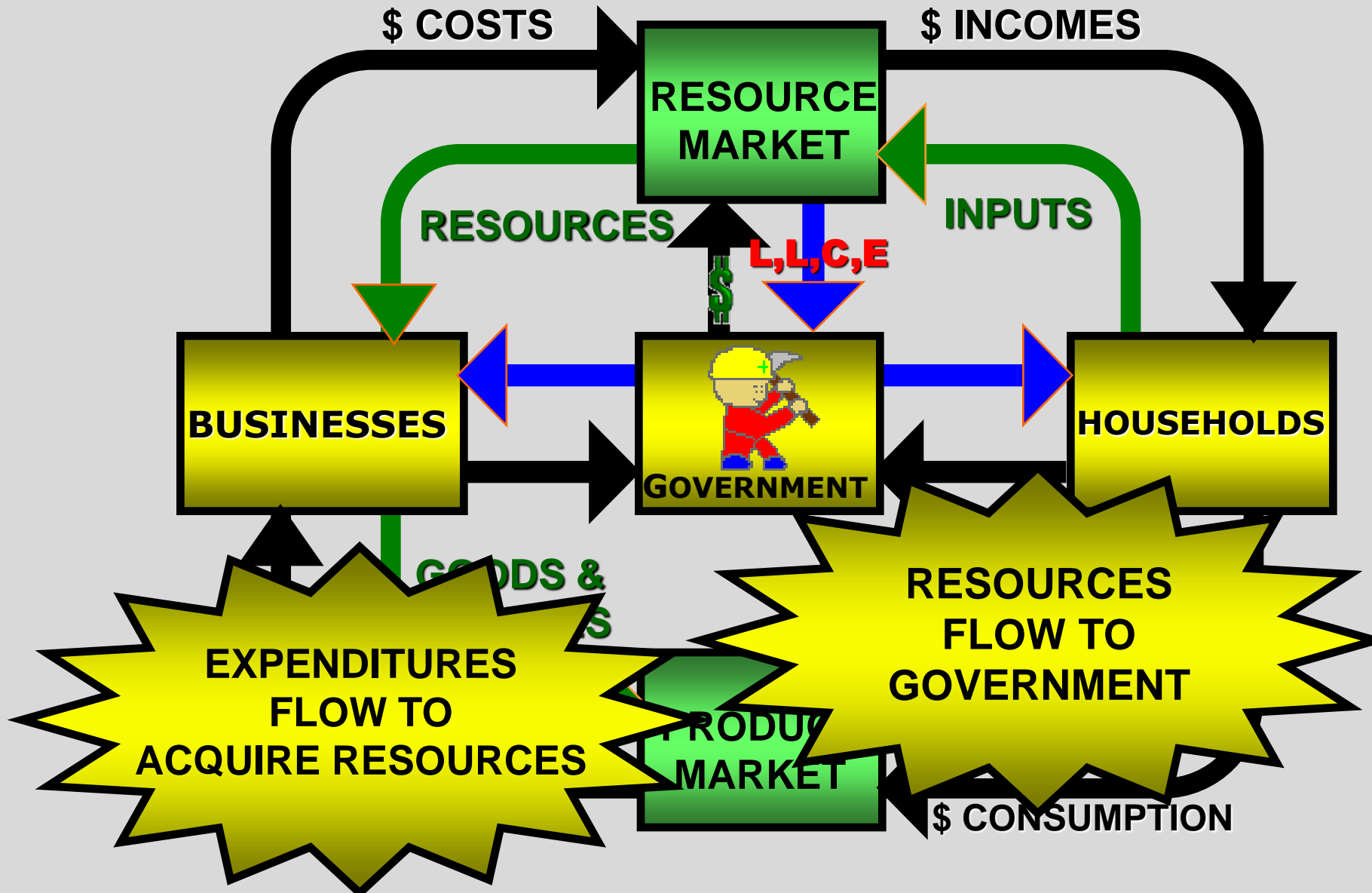
GOVERNMENT'S ROLE in a Mixed Economy



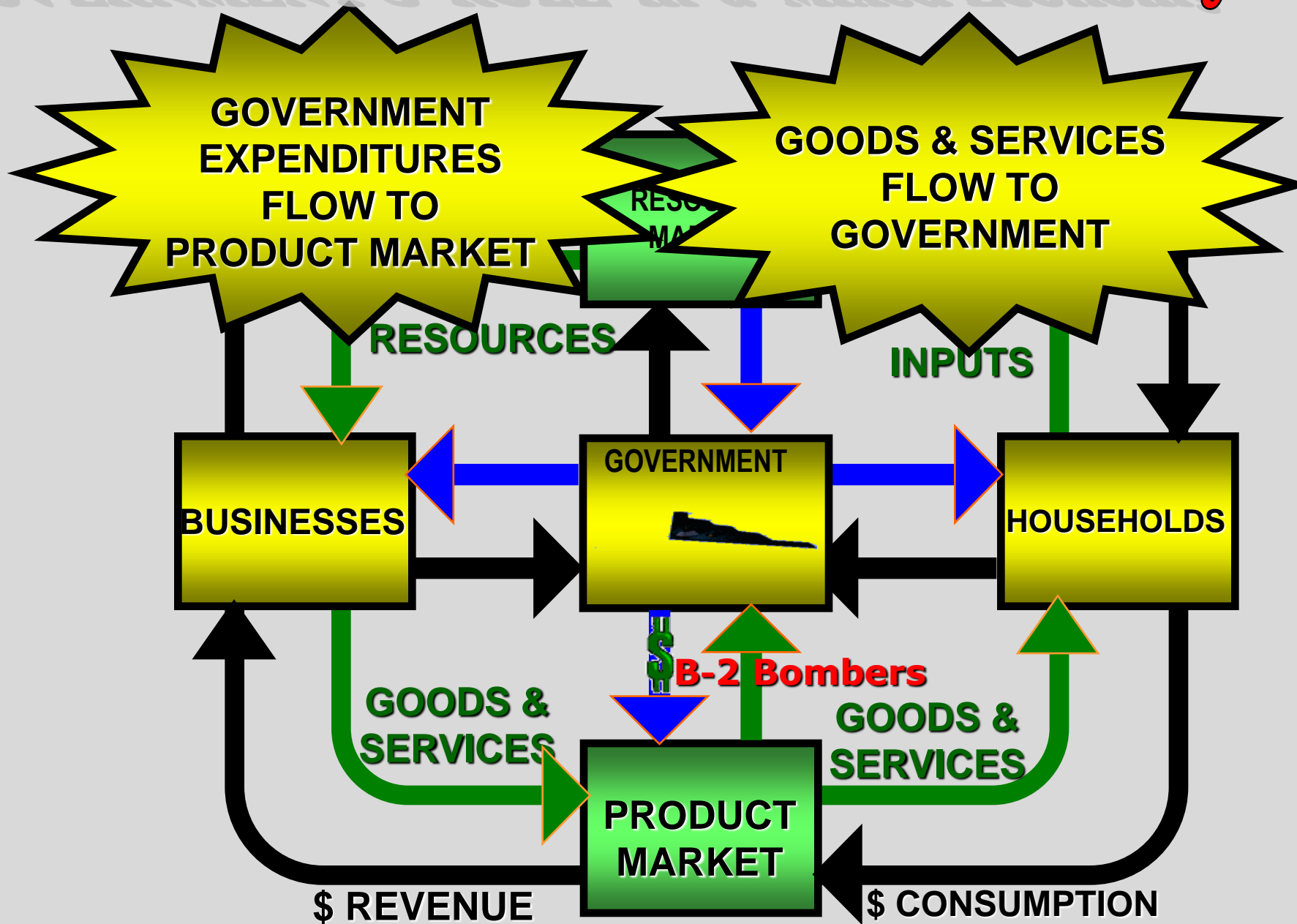
GOVERNMENT'S ROLE in a Mixed Economy



GOVERNMENT'S ROLE in a Mixed Economy



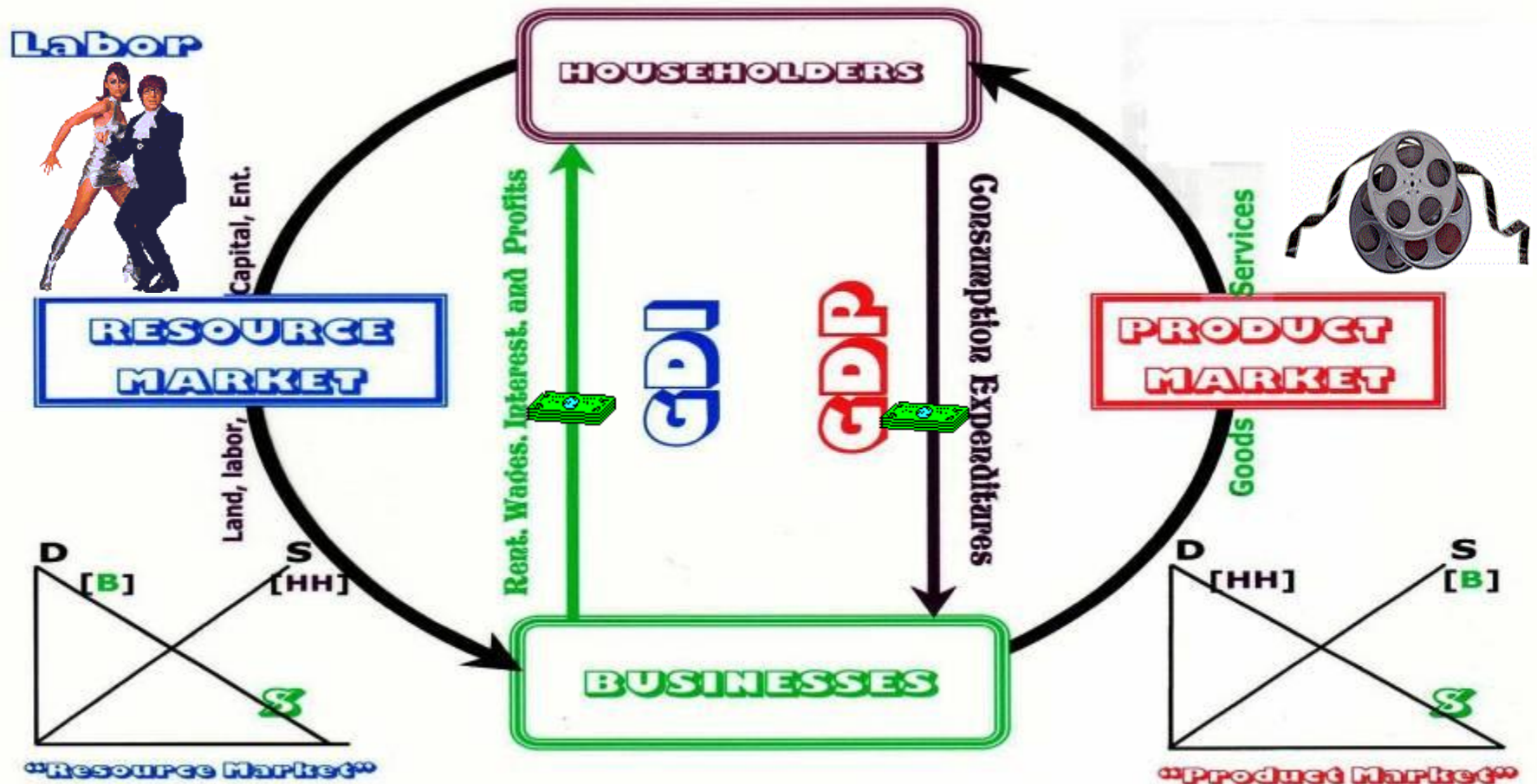
GOVERNMENT'S ROLE in a Mixed Economy



Circular Flow

[of Resources, Products(g/s), & Money]

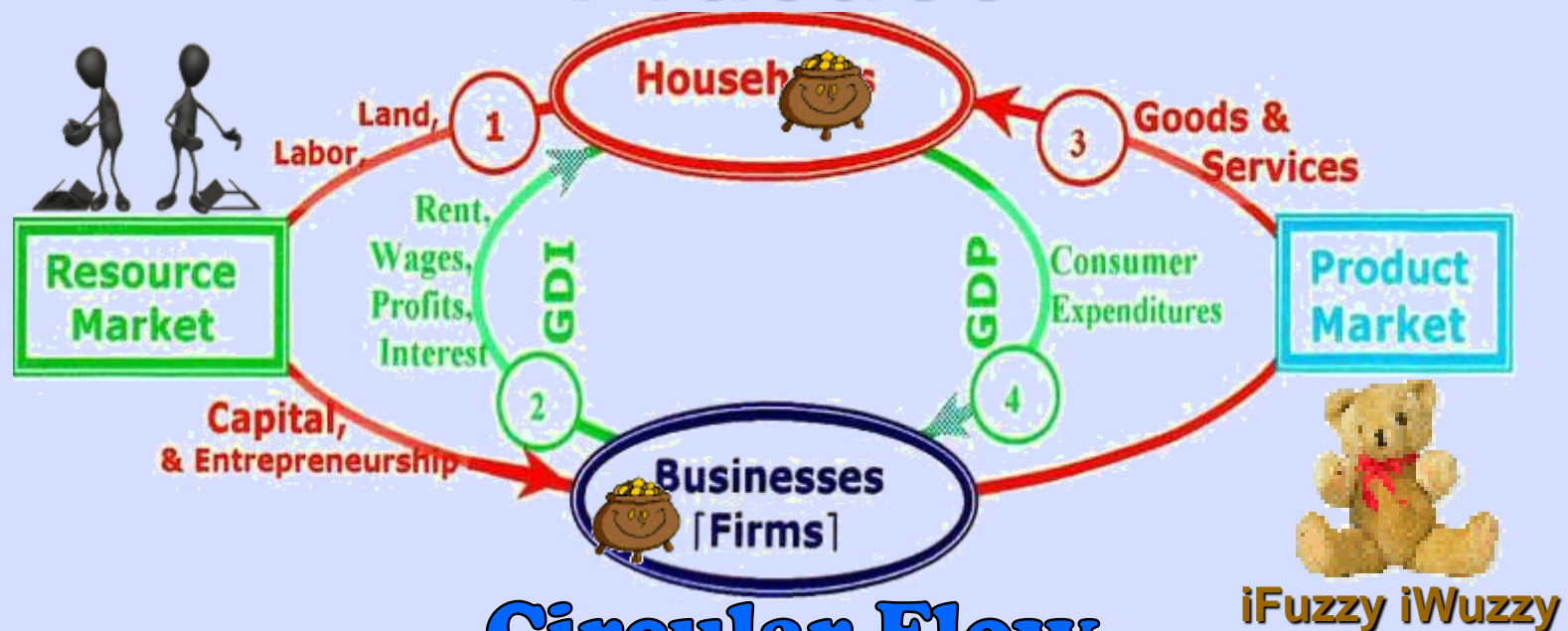
[Abstract, oversimplified model showing how econ. trans. take place]



$$\text{GDP} = \text{GDI}$$

$$\$ \circ \text{ tr.} = \$ \circ \text{ tr.}$$

Practice

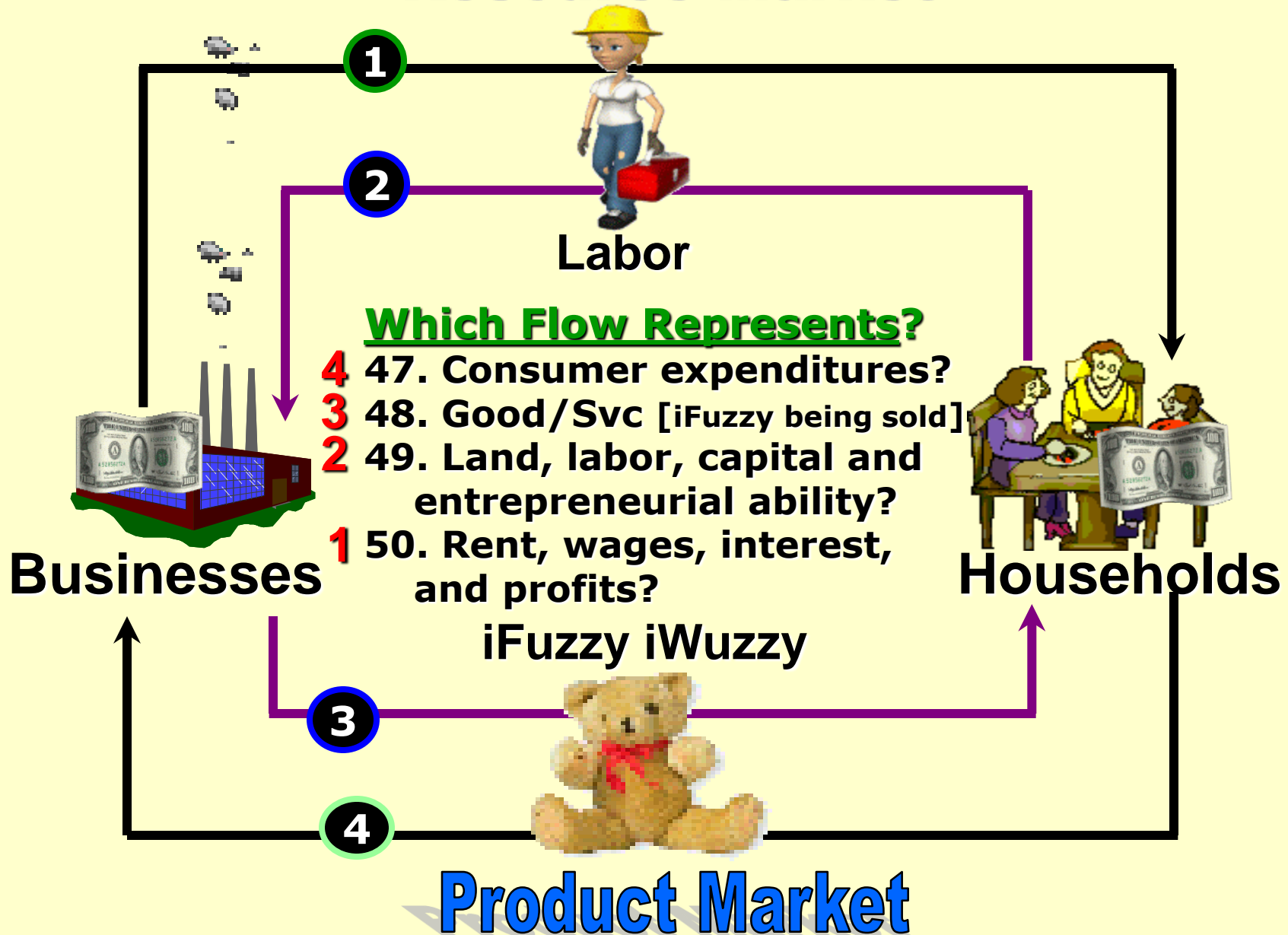


Circular Flow

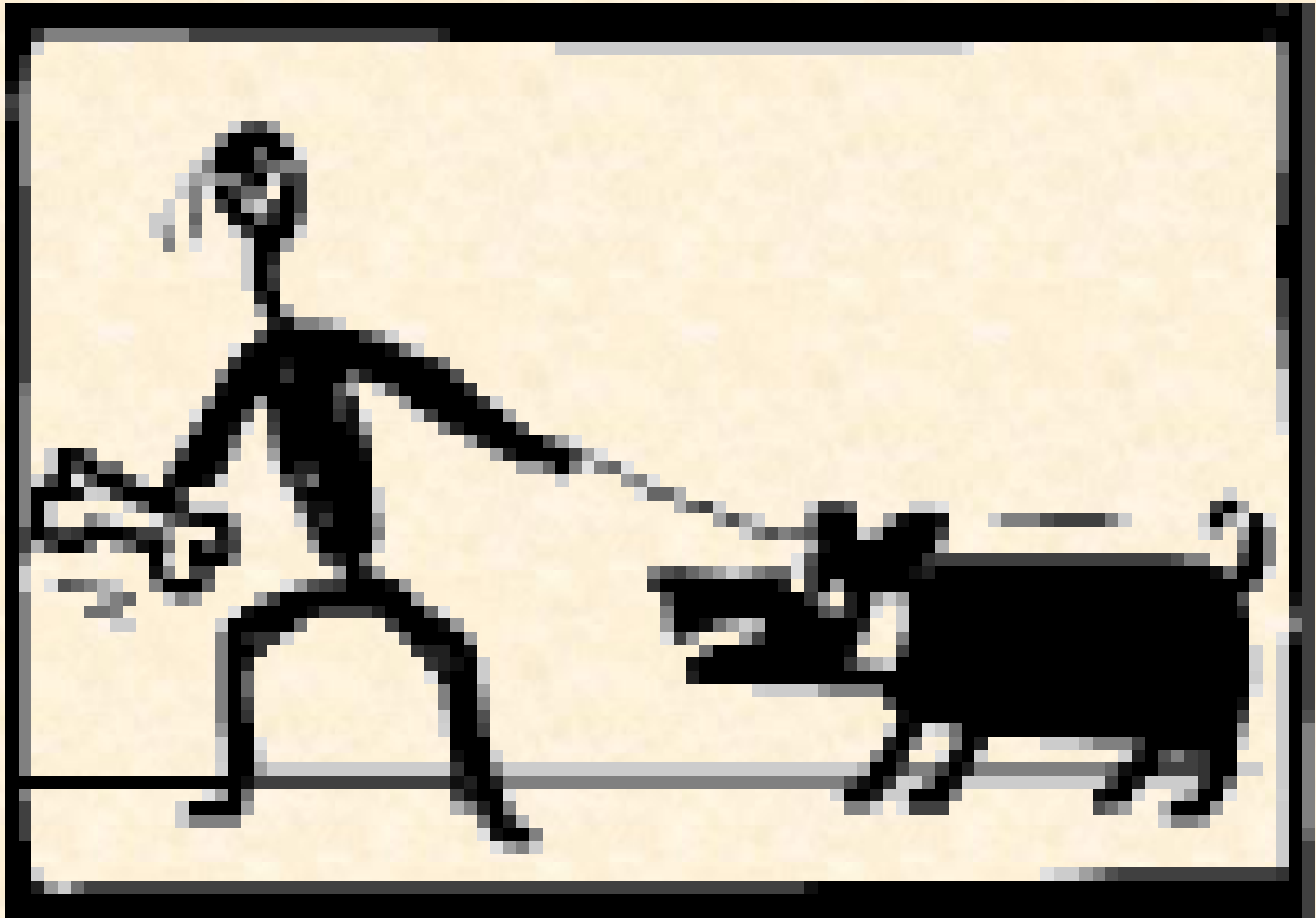
1. In the **product market** (householders/businesses) are the **demanders** and (householders/businesses) are the **suppliers**.
2. In the **resource market** (householders/businesses) are the **demanders** and (householders/businesses) are the **suppliers**.
3. In the **resource market**, (householders/businesses) **sell resources** to (householders/businesses).
4. In the **product market**, (householders/businesses) **sell products** [goods/services] to (householders/businesses).

Note Sheet Questions 47-50

Resource Market



The End



"You da man"



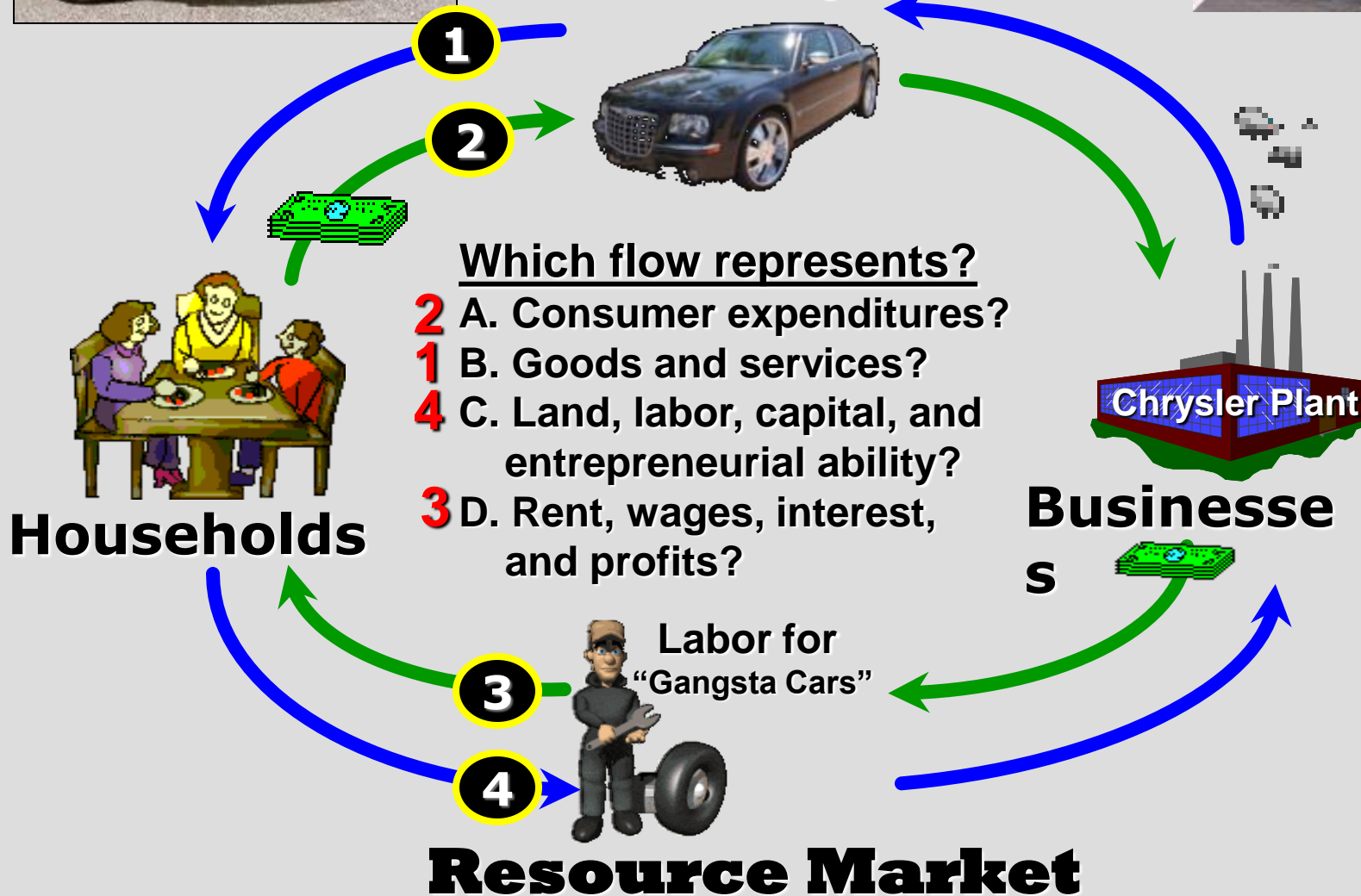
Review for Basic Concepts

The "Gangsta Car"

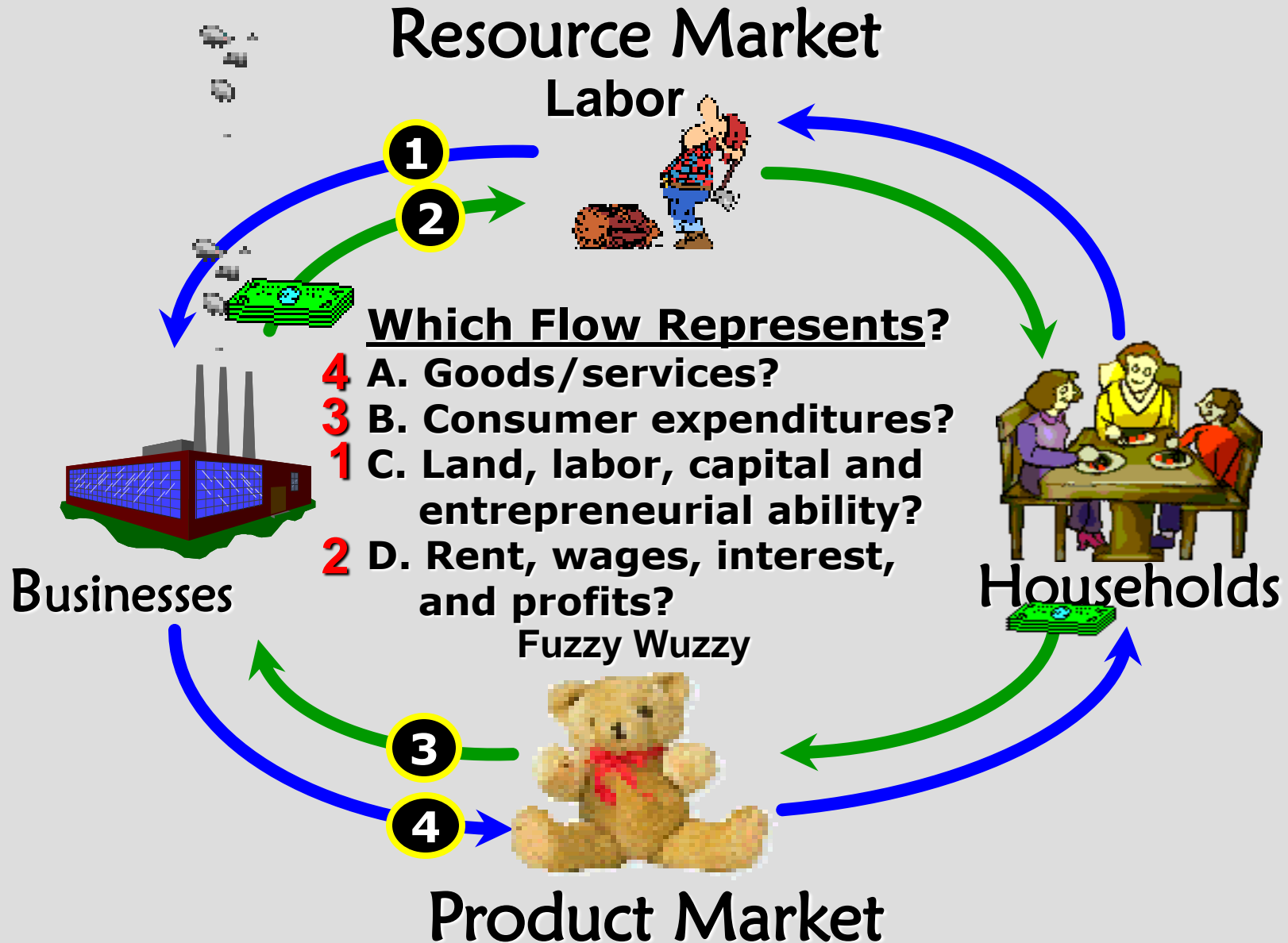


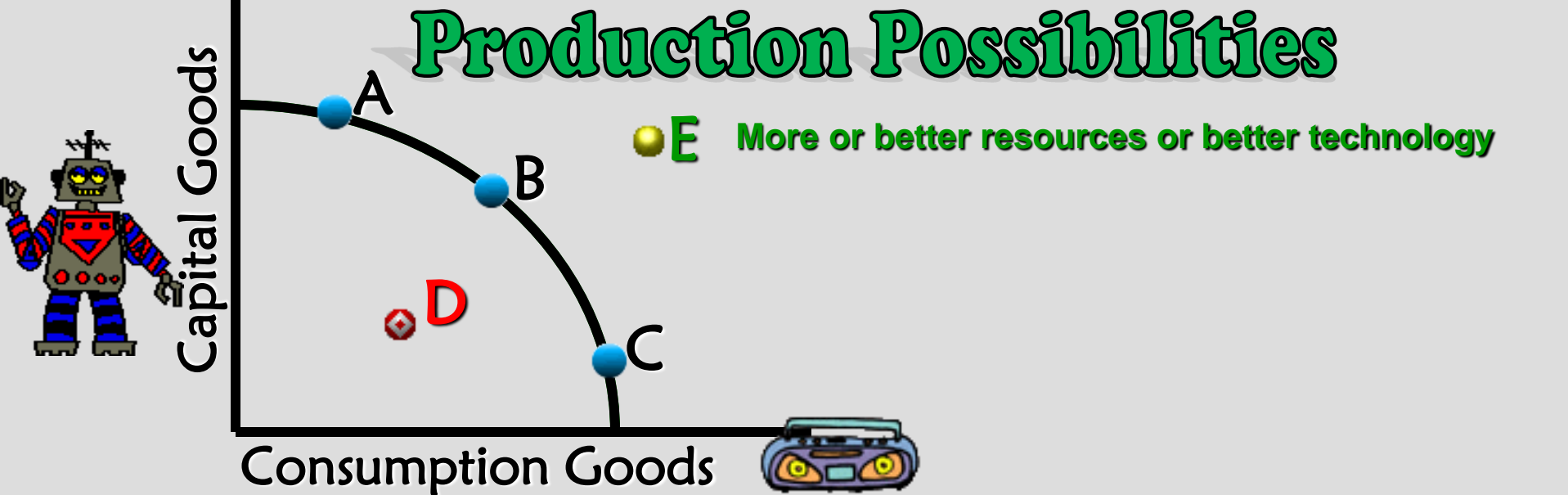
Circular Flow Product Market

Chrysler300 "Gangsta Car"



The Circular-Flow Diagram





41. At what letter is there unemployment [**recession**]? **D**
42. What letters represent **resources being used in their most productive manner**? [full employment, full production, and best available technology] **A, B, or C**
43. What letter represents an **improvement in technology**, therefore a new PPC frontier line? **E**
44. The (straight line/curve) illustrates the "**law of increasing cost**"?
45. The (straight line/curve) illustrates the "**law of constant cost.**"
46. At what letter would there be the **most economic growth in the future** if a country were **producing there now**? **A**
What is the **opportunity cost** when moving from "C" to "A"; **Consumption** when moving from **B to C**; **Capital** and do we have to give anything up when moving from **D to B**? **no**