ECONOMICS NOTES
CHAPTER ONE

Scarcity – the fundamental problem facing all societies. It is the condition that results from society *not having enough resources* to produce all the things that people would like to have.

Economics – the study of how people try to satisfy what appears to be unlimited wants and needs with limited/scarce resources

Need – basic things for survival

Wants – way of expressing a need

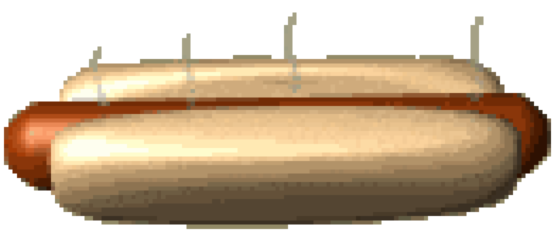
THE FOUNDATION OF ECONOMICS

SOCIETY HAS VIRTUALLY UNLIMITED WANTS...

Luxuries

V.

NECESSITIES



Food

Clothing

Gump Household

Shelter

“There is no such thing as a free Lunch”

No matter what you think you may have gotten for free, it cost something to someone.

Opportunity Cost

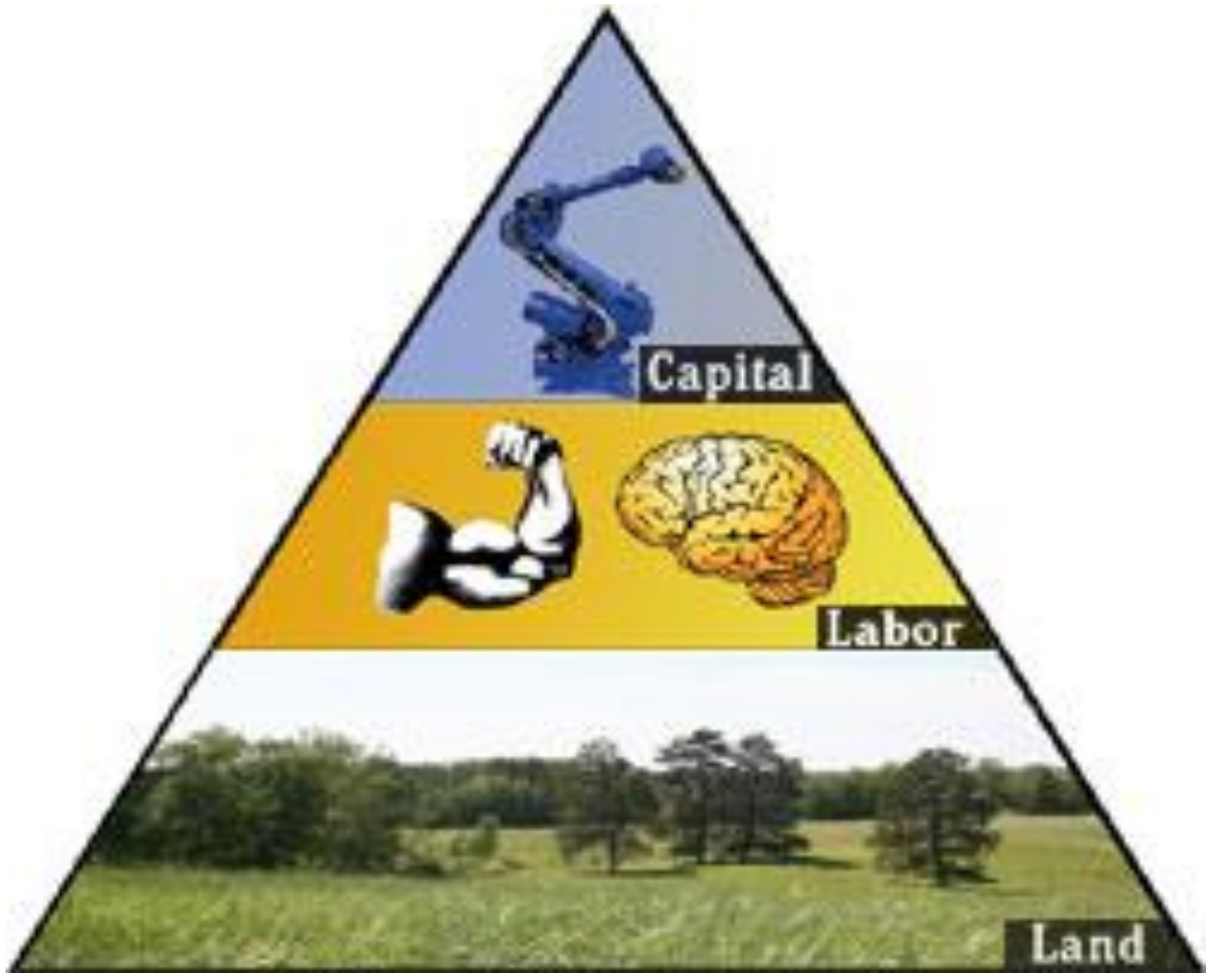
Cost of the next best alternative use of money, time or resources when one choice is made rather than another

Three main economic choices

1. **What to produce**
2. **How to produce**
3. **For whom to produce**

Three main economics questions

Factors of Production



Entrepreneurs

Factors of production

Resources required to produce the thing we would like to have

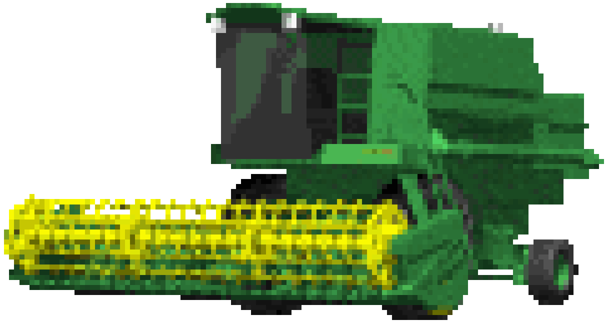
1. **Land** – gifts of nature – natural resources – not created by humans

2. **Labor**- elbow grease – people efforts, abilities and skills (everyone except for entrepreneurs)

3. **Capital** – tools, equipment, machinery, and factories used to produce goods and services

4. **Entrepreneurs –** responsible for much of the changes in the economy, risk takers in search of new profits using existing resources. People who start their own businesses

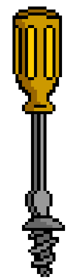
Real Capital v. Financial Capital

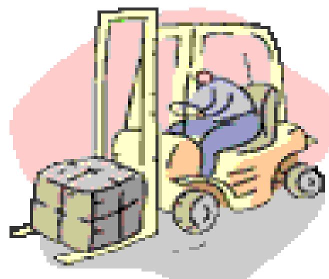


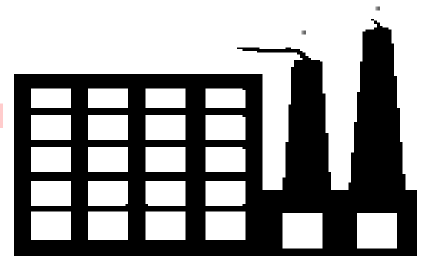
Can produce something directly with these

REAL CAPITAL

[tools, machinery, & factories]







FINANCIAL CAPITAL

[stocks, bonds, and money]

Can't produce anything directly with these

Production – can only take place once all three factors of production are in place

Gross Domestic Product – GDP
dollar value of all goods, services and structures produced within a countries' borders

GNP – Gross National Product
everything that a country produces within and outside of its own borders

Goods – an item that is economically useful or satisfies an economic want, it is something that is tangible

Consumer good – used by an individual

Capital good – used to produce a consumer good

Durable good – anything that gets regular use and lasts more than three years

Good or Service?

Mechanic giving car a tune-up

Good

Service

Trade Offs – alternative choices made by consumers in the market place

Services – work that is performed for someone

Value – worth that can be expressed in dollars and cents

Good or Service?

Watch

Good

Service

Adam Smith

Scotland

1723-1790

Wealth – accumulation of those products that are tangible, scarce, useful and transferable from one person to another.

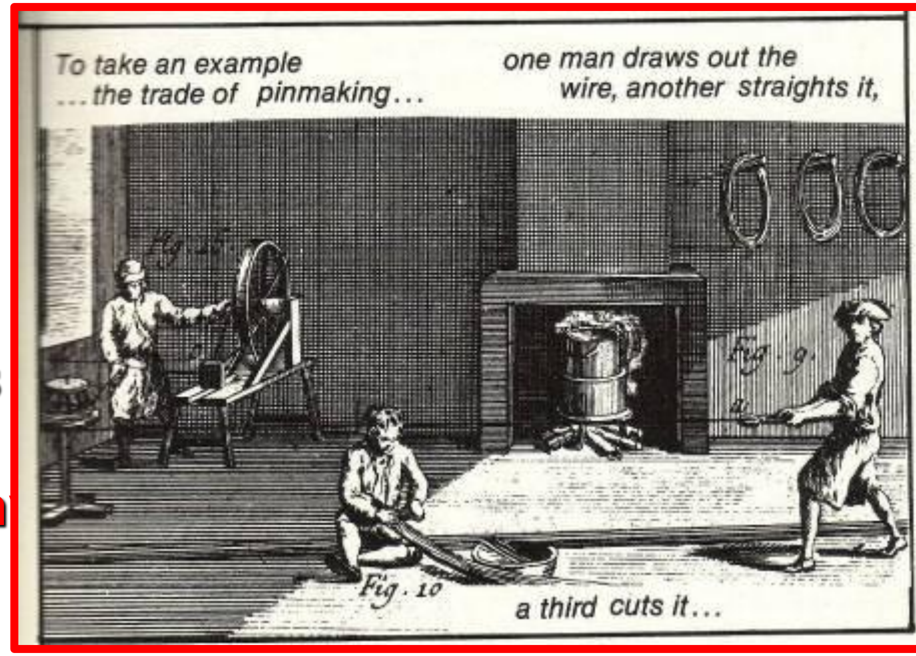
Competition – variety of goods and services – keeps prices down, gives us choices – good for international business

Standard of Living – quality of life based on the possession of the necessities and luxuries that make life easier

Adam Smith's famous Pin Factory Example

One man could do maybe **10 pins 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

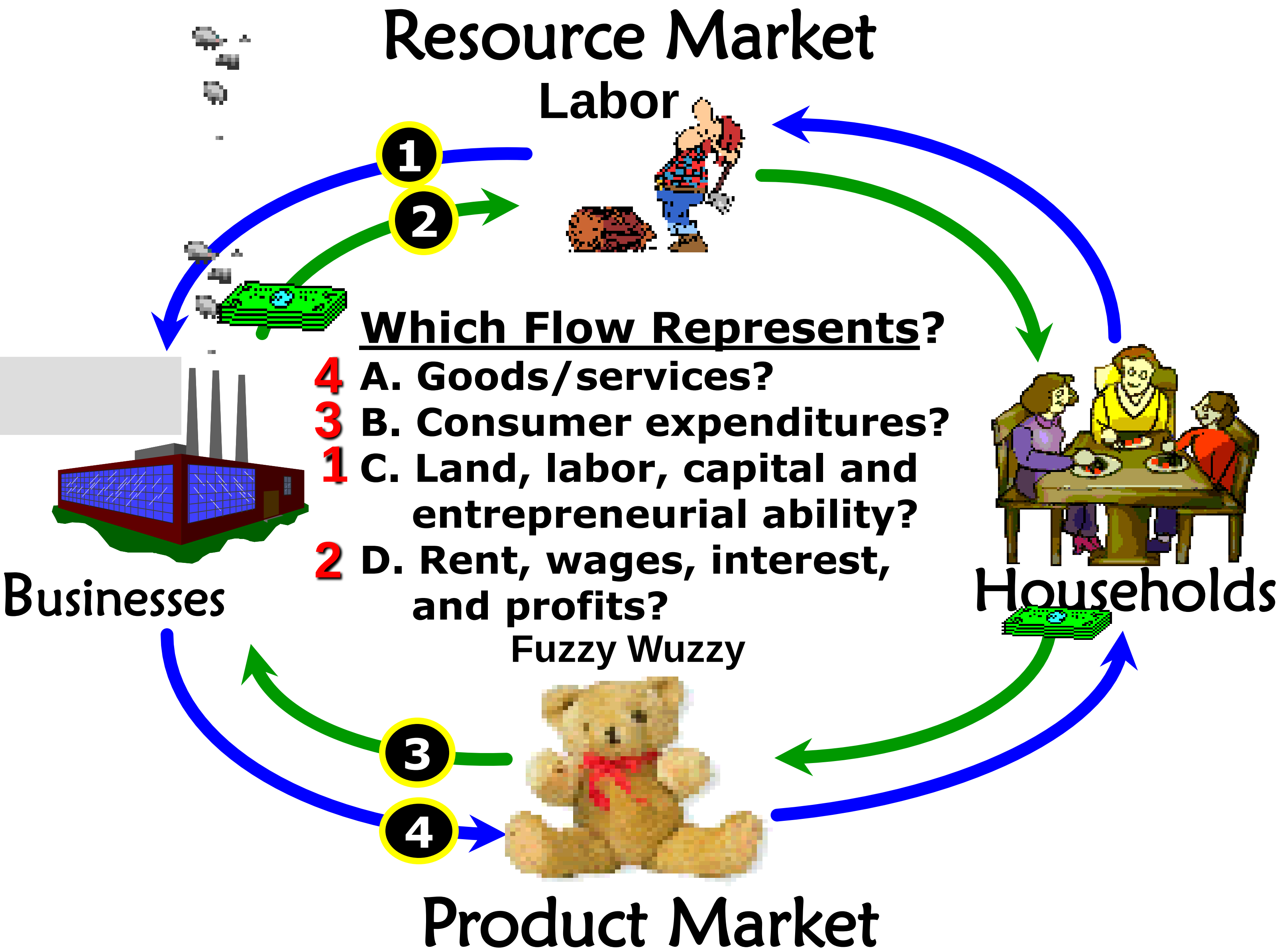
There are **18 distinct operations**
- some perform 2 or 3 operations
10 people do **48,000 pins per da**
1 man = 4,800 pins per day



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**)

In order to keep up with the increasing demand for those newfangled contraptions, horseless carriages, Ransom E. Olds created the assembly line in 1901. The new approach to putting together automobiles enabled him to more than quadruple his factory's output, from 425 cars in 1901 to 2,500 in 1902. Olds should have become known as "The father of automotive assembly line," although many people think that it was Henry Ford who invented the assembly line. What Ford did do was to improve upon Olds's idea by installing conveyor belts. That cut the time of manufacturing a Model T from a day and a half to a mere ninety minutes. Henry Ford should been called "The father of automotive mass production."

The Circular-Flow Diagram



Which Flow Represents?

4 A. Goods/services?

3 B. Consumer expenditures?

1 C. Land, labor, capital and entrepreneurial ability?

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