**Economics** **Name_____**
**Unit 1 Notes – Fundamental Econ Concepts** **Date_____ Per._____**

**✷PART 1.1 – THE BASICS OF ECONOMICS✷**

**What is economics?**
The study of how people try to satisfy seemingly unlimited and competing needs and wants through the careful use of relatively scarce resources.

**What is microeconomics?**
Microeconomics is the study of decisions that people and businesses make regarding the allocation of resources and prices of goods and services.

**What is macroeconomics?**
Macroeconomics is the field of economics that studies the behavior of the economy as a whole and not just on specific companies, but entire industries and economies.

**"There is no such thing as a free lunch" (TINSTAAFL)**
Acronym that attempts to describe the cost of decision-making. It expresses the idea that even if something seems like it is free, there is always a cost, no matter how indirect or hidden.

***THE FUNDAMENTAL ECONOMIC PROBLEM***
**What is scarcity?**
Condition that arises because society does not have enough resources to satisfy everybody's wants and needs

Is the problem of scarcity caused by a shortage of money? No. Scarcity is not caused by a lack of money, but by a lack of resources needed to make all the things people want.

➢**Needs and Wants**
A need is a basic requirement for survival. A need is something that you have to have.

A want is a desire that can be satisfied by consuming a good, service, or leisure activity. A want is something you would like to have.

***THREE BASIC QUESTIONS***
Society must make decisions about the ways its limited resources are going to be used.
1. WHAT TO PRODUCE?
2. HOW TO PRODUCE?
3. FOR WHOM TO PRODUCE?

***THE FACTORS OF PRODUCTION***
➢**Land**
"Gifts of nature" or natural resources not created by human effort.
Why do economists tend to think of land as being fixed (or in limited supply)? We can't create more land

➢**Capital**
The tools, equipment, and factories used in the production of goods and services. Financial capital is the money used to buy the tools and equipment used in production.

➢**Labor**
Also known as human capital. People with all their efforts, abilities, and skills.

➢**Entrepreneurs** (risk-takers in business)
People that start a new business or bring a new product to the market.
An entrepreneur's initiative combines the resources of land, labor, and capital into new products.

**✷PART 1.2 – BASIC ECONOMIC CONCEPTS✷**

## *GOODS, SERVICES, AND CONSUMERS*

### ➢Goods

Economic products are goods and services that are useful, relatively scarce, and transferable to others. A good is a tangible commodity.

Durable goods last three years or more when used on a regular basis. Nondurable goods last less than three years when used on a regular basis.

### ➢Services

Work that is performed for someone. A service can not be seen or touched.

### ➢Consumers

People who use goods and services to satisfy wants and needs. Consumption is the process of using up goods and services in order to satisfy wants and needs. Conspicuous consumption is the use of a good or service to impress others.

## *THE CIRCULAR FLOW OF ECONOMIC ACTIVITY*

**What is a market?**

Location or other mechanism that allows buyers and sellers to deal readily in a certain economic product

### ➢Factor Markets

Factor markets are markets where productive resources are bought and sold. Households receive income from businesses in factor markets. Businesses receive resources from households in factor markets.

### ➢Product Markets

Product markets are markets where producers offer goods and services for sale. Households buy goods and services from businesses in product markets. Businesses get consumer spending from households in product markets.

**✷PART 1.3 – ECONOMIC CHOICES AND DECISION MAKING✷**

## *TRADE-OFFS AND OPPORTUNITY COST*

### ➢Trade-Offs

Everyone faces trade-offs, or alternative choices when spending their income or time. All trade-offs result in some form of opportunity cost.

### ➢Opportunity Cost

The cost of the next best alternative use of money, time, or resources when one choice is made rather than another. Opportunity cost is the result of a trade-off.

## *PRODUCTION POSSIBILITIES*

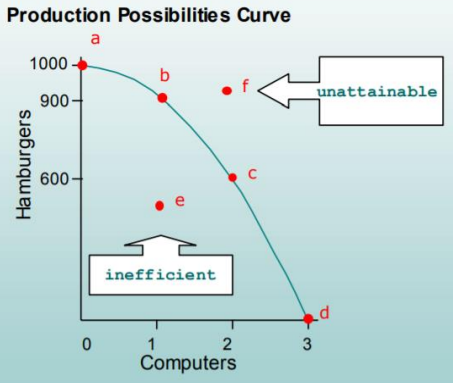
The production possibilities frontier is a diagram representing various combinations of goods and/or services an economy can produce when all productive resources are fully employed.

This diagram is used to illustrate:

1) Total output when all resources are fully used
2) Trade-offs
3) Opportunity costs

**Production Possibilities Schedule**

| Hamburgers | Computers | point on graph |
|---|---|---|
| 1000 | 0 | a |
| 900 | 1 | b |
| 600 | 2 | c |
| 0 | 3 | d |



## ✷PART 2 – ECONOMIC SYSTEMS✷

All societies must have an economy (or economic system).

**What is an economy?**
It's an organized way of providing for the wants and needs of their people.

Three major kinds of economic systems:
1) Traditional
2) Command
3) Market

***TRADITIONAL ECONOMIES***
The allocation of scarce resources and all other activity stems from ritual, habit, or custom.

***COMMAND ECONOMIES***
The central planning agency (a.k.a. government) makes most of the WHAT, HOW, and FOR WHOM decisions.

***MARKET ECONOMIES***
People and firms act in their own best interests to answer the WHAT, HOW, AND FOR WHOM questions. They act with no government involvement. A pure market economy offers the most choices because there is no government involvement.

**What is capitalism?**
A system in which private citizens own the factors of production. Capitalism thrives on competition - the struggle among sellers to attract consumers while lowering costs. In a free enterprise economy, competition is allowed to flourish with a minimum of governmental interference.

## ✷PART 3.1 – BUSINESS ORGANIZATIONS✷

***SOLE PROPRIETORSHIP***
A business owned and operated by one person. They are the most numerous of all business organizations. They are the smallest in size.

**➢Forming a Sole Proprietorship**
Most sole proprietorships open for business as soon as they set up operations. Sole proprietorships represent many different types of businesses.

***PARTNERSHIPS***
A partnership is a business jointly owned by two or more persons.

**➢Types of Partnerships**
General partnership – all partners are responsible for the management and financial obligations of the business.

Limited partnership – at least one person is not active in the daily running of the business.

***CORPORATIONS***
A corporation is a form of business organization recognized by law as a separate legal entity having all the rights of an individual.

**➢Forming a Corporation**
If you would like to incorporate, or form a corporation, you must file for permission from the national government or state where the business will have its headquarters.

**What is a charter?**
A government document that gives permission to create a corporation.

The charter specifies the number of shares of stocks, or ownership parts of the firm. The shares are sold to investors called stockholders or shareholders.

If the corporation is profitable, it may issue a dividend (a sum of money paid regularly by a company to its shareholders out of its profits) to each stockholder.

**What is principal and interest?**
Principal refers to the original sum of money borrowed in a loan, or put into an investment.

Interest is the charge for the privilege of borrowing money.

**➢Corporate Structure**
After an investor purchases stock, he or she becomes an owner and has certain ownership rights.

Common stock represents basic ownership of a corporation. Explain?
Receives one vote for each share of stock owned.

Preferred stock represents nonvoting ownership of the corporation. Explain?
Receive dividends before common stockholders.

**What is the Securities and Exchange Commission (SEC)?**
Federal government agency that corporations must register with if they want to sell stocks. Regulates the buying and selling of stocks.

*Read about the Securities and Exchange Commission (SEC) - https://www.sec.gov/Article/whatwedo.html*

**✷PART 3.2 – BUSINESS GROWTH AND EXPANSION✷**

***GROWTH THROUGH MERGERS***
A merger is when two or more businesses form a single firm.

**➢Reasons for Merging**
1) Efficiency (eliminate management positions)
2) Catch up with, or eliminate, rivals
3) Lose corporate identity

**➢Types of Mergers**
1) Horizontal Merger - occurs when two or more firms that produce the same kind of products join force.
2) Vertical Merger - occurs when firms involved in different steps of manufacturing or marketing come together. (US Steel)

**➢Conglomerates**
Firms that have at least four businesses, each making different products, and none of which is responsible for a majority of its sales. Allows for diversification.

**➢Multinationals**
A multinational is a corporation that has manufacturing or service operations in a number of different countries.

**✷PART 3.3 – OTHER ORGANIZATIONS✷**

## *COMMUNITY AND CIVIC ORGANIZATIONS*

Nonprofit organizations do not seek financial gain for their members.
Examples: Schools, churches, hospitals, welfare groups, and adoption agencies

## *COOPERATIVES*

A cooperative is a voluntary association of people formed to carry on some kind of economic activity that will benefit its members.

### ➢Consumer Cooperative

Buy bulk goods on behalf of its members in order to offer these goods to the members at a lower price. Costco is a perfect example of a consumer cooperative.

### ➢Service Cooperative

Deals with services rather than goods.
A credit union is an example (employees from a particular company or government agency).

### ➢Producer Cooperative

Helps members sell their products. Sunkist (citrus) is an example of a producer cooperative.

## *LABOR, PROFESSIONAL, AND BUSINESS ORGANIZATIONS*

### ➢Labor Union

A labor union is an organization formed to work for its members' interests in various employment matters.
Labor union representatives negotiate with management.

Collective bargaining refers to the negotiations between representatives of labor and management.
Examples: AFL-CIO, American Federation of Teachers

### ➢Professional Associations

A group of people in a specialized occupation that works to improve working conditions.
Some professional associations require members to join; others have voluntary membership.
Examples: AMA, ABA

### ➢Business Associations

Chamber of Commerce – promotes the welfare of its members and the community.

Better Business Bureau – nonprofit organization that provides general information on companies.