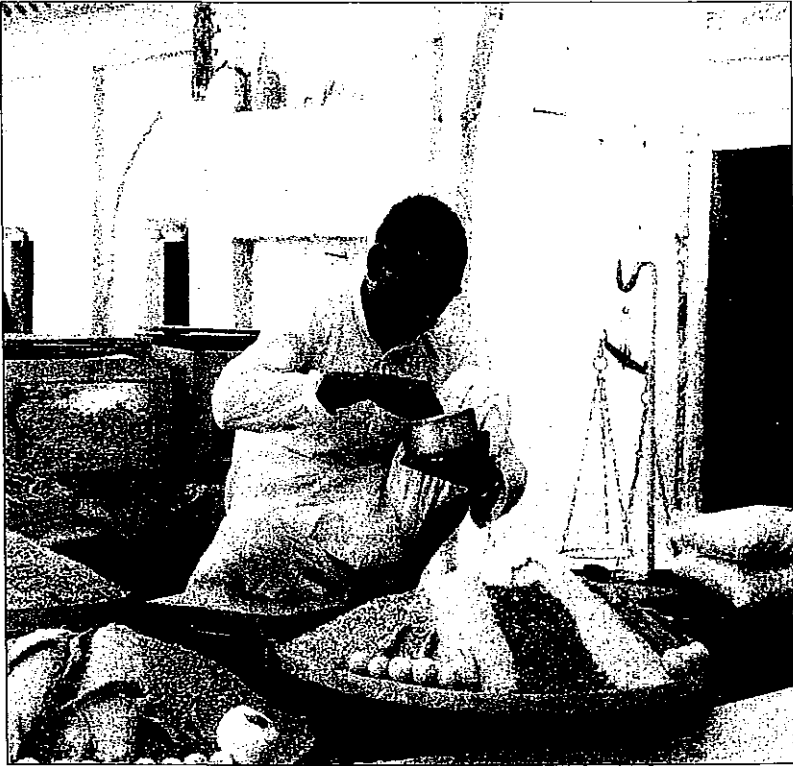


# UNIT



## IN THIS UNIT

- Resources and Markets
- Economic Decisions

*Left: The global marketplace includes factories in Ohio, shopping malls in Europe and spice merchants in India.*

## Economics

Imagine that you just bought a carton of milk from a vending machine at school. You were thirsty. You had some change in your pocket, so you bought a drink. You probably didn't wonder why the machine sells milk, why there's a vending machine or who put it there. You probably didn't think about who gets the money or why someone's willing to trade you milk for some coins.

**Economics** is the study of who gets what and why. **Economists** are the people who study it, and their work is asking and trying to answer questions like these. They describe society by talking about things people want and need, and how they get them from each other. In this unit, we'll review some of the basic ideas of modern economics.

## LESSON



## Resources and Markets

**IT'S IMPORTANT:**

- ★ Resources for production are available in different amounts in different parts of the world.
- ★ Supply and demand help decide how much goods and services will cost in a competitive marketplace.
- ★ The market-clearing price is the price of a good or service at which supply will be just enough to meet demand.

Economics is the study of two things: goods and services. **Goods** are things you can touch. Bikes, cows, milk and vending machines are all goods. **Services** are things people do for you. Haircuts, teaching and bus driving are all services.

How do you get goods and services? Well, you need resources. **Resources** are the things people use to make goods and provide services. If you want a bike, you need a bike factory, steel, rubber, mechanics and all the other things that go into making the bike and getting it to a store. If you want a haircut, you need someone who's willing to do the work, knows how to cut hair and has scissors.

Unfortunately, resources are **limited**, which means there's not an endless supply of them. In other words, resources are **scarce**.

## Production and Resources

Every good or service must be produced. That is, it must be made. Every fleece pullover and every CD must be put together from some materials by someone in a factory somewhere. **Production** combines resources to make goods or provide services. The list of individual resources that go into a cheeseburger would be incredibly long, but you can put all of the resources into four categories: **land**, **labor**, **capital** and **entrepreneurship**. Economists say that these are the **factors of production**.

**TYPES OF RESOURCES**

- **Land:** bare ground and natural resources such as water, timber or oil
- **Labor:** the physical and mental work of people
- **Capital:** buildings, machinery and tools used to make goods and services
- **Entrepreneurship:** the skills to manage a business and the willingness to take risks in starting a business

Not only are resources limited, they are also available in different amounts in different places around the world. The United States, Europe and other developed countries have great amounts of capital and entrepreneurship. They have labor resources, but often workers in these countries ask for higher pay. Developed countries may have land resources. In the United States, however, much land is already occupied, and resources like timber or oil have been harvested so much since the 1800s that there is not much left. Developing countries like Haiti, Vietnam or Bangladesh often have large, young and poorly educated populations that can provide inexpensive labor. (Some developing countries also do less to protect workers from abuse than developed countries do.) Many developing countries in South America and Africa have land resources that they do not use. However, developing countries sometimes do not have the capital to put land and labor resources to work producing goods.

**Quick Review 1:** A small country has very few factories or large farms, but many banks. Many citizens of the country have become wealthy by starting businesses that import goods to the country, or that invest money in businesses in other countries. What types of resources does the country have?

- A. land and labor
- B. land and capital
- C. capital and entrepreneurship
- D. labor and entrepreneurship

**A LITTLE BIT FROM HERE, A LITTLE BIT FROM THERE**

Who made the computer you use at school or at home? Many of the most popular computer brands, such as Dell, Apple or HP, are American companies. That doesn't mean the computer was made in the United States, however. Most computers purchased in the United States are built in factories in Asian countries. This is because labor resources are less expensive in Asia than in the United States. American computer companies use expensive American workers for the planning, design and marketing of their machines, but not for the building of them.

Sometimes, though, even the design is done in other countries. One company in Taiwan does as much as 70% of the design of laptops for American computer companies, and then builds the computers.

As Taiwan's computer industry becomes more successful, their workers want higher pay, too. So, the companies have shifted some of their production to China, where land and labor resources are even less expensive. It is now possible to buy a computer from an American company that was built in Taiwan out of smaller parts made in China.

Different countries sell different kinds of things. Developing countries sell their people's labor and natural resources. Developed countries sell lab equipment and space shuttles. They sell different things because they have differing amounts of land, labor, capital and entrepreneurship. The United States, for example, has a lot to work with.

- The United States has hundreds of millions of people, so it has labor.
- The United States has tremendous amounts of capital: scientists, artists, engineers, factories, mills, laboratories and so on. Not only that, but the United States has the money to buy whatever capital it needs.
- The United States has a large land mass that's rich in natural resources, so it has land.
- The United States also has some of the world's best managers and risk-takers. It has entrepreneurs.

As it happens, the United States relies mostly on capital and entrepreneurs. That's true of all developed countries.

Achievement Coverage: E.A.1, E.B.5

Venezuela, however, is not a developed country. It doesn't have much labor. It doesn't have many entrepreneurs. It doesn't have much capital, either. It's just got plenty of oil, which they take out of the land. Venezuela has no choice about what factors of production it must rely on. It relies on land.

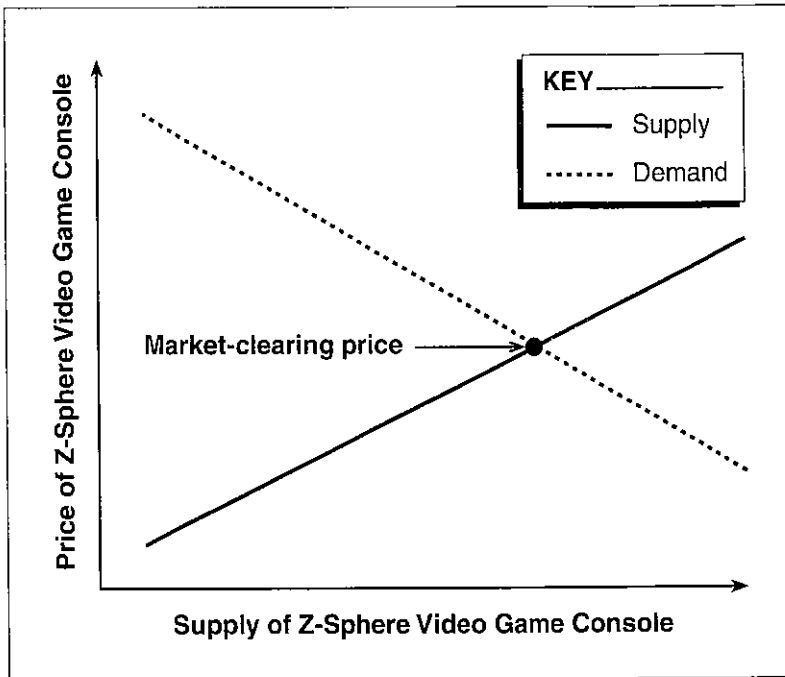
Different countries use different combinations of land, labor, capital and entrepreneurship.

## Supply and Demand

Supply and demand set prices. **Supply** has to do with how scarce or plentiful things are. Usually, the more scarce something is, the more people will pay for it. If there's a lot of something, people will pay less for it. **Demand** has to do with how badly people want a good or service.

The balance between consumer demand and producer supply determines how much of a product will be available in the market. Supply and demand also determine the price. Let's say Z-Sphere wants to sell as many game consoles as they can at the highest possible price. But you and other consumers want to pay the lowest price possible. If the price is very low, then demand will be very high, but Z-Sphere will not make much money. If the price is too high, then demand will be low, and again, Z-Sphere will not make much money. Z-Sphere needs to find the market clearing price. The **market clearing price** is the price where consumers' demand and producer's supply are just about the same. It's called a market-clearing price because, literally, it clears the market shelves.

**Market-Clearing Price**



The market-clearing price is always where the supply and demand curves intersect. At that price, people will buy exactly as many toys as the company is willing to make.

Of course, the demand for the Z-Sphere game console won't always stay the same, and different stores will offer different prices as they try to attract more customers. This means that consumers and producers won't always agree on a market-clearing price and stay there. Supply and demand (and price) usually move around:

- If supply increases but demand stays the same, the price will fall.
- If supply decreases but demand stays the same, the price will rise.
- If demand increases but supply stays the same, the price will rise.
- If demand decreases but supply stays the same, the price will fall.

**FAST FACT**

People are mostly consumers, but we're also producers. We buy goods and services, but we also help to produce them. Businesses are mostly producers, but they also consume labor and other resources.

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**Quick Review 2:** If the supply of the Z-Sphere video game console is high, but everyone wants the Game Station 3 instead, what will happen to the price of the Z-Sphere?

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Why? \_\_\_\_\_

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Flor-Mart sells calculators for \$10.99 each. As part of its Going-Back-to-School sale, Flor-Mart cuts its price on calculators to \$8.98. What should happen to consumer demand for its calculators?

- A. demand will rise
- B. demand will fall
- C. demand will stay the same
- D. demand will rise, then fall

### A COLLECTOR'S ITEM

Do you or does someone you know collect baseball cards (or any other kind of trading card)? If you do, you know that some cards are quite valuable. Usually, that's because the demand for them is high, but the supply is low. The high price for a rookie card of home run hitter Babe Ruth reflects the card's scarcity in the market. Anything that people *really* want that is also scarce—a first edition of the first Harry Potter book signed by J. K. Rowling, for example—will usually cost much more than similar items for which supply is high.