Economics

Economic Systems:

- Every country must develop an economic system to determine how to use its limited resources to answer three basic economic questions.
- --------------------------→

- 1. WHAT goods and services will be produced?
- 2. HOW will goods and services be produced?
- 3. WHO will consume the goods and services?

- 4 types of economic systems…can you name them?

Traditional Economy:

- Traditional Economy- The customs and habits of the past are used to decide what and how goods will be produced, distributed and consumed.

- QUESTION:
- What type of activities are often a part of traditional economies?
- A. Building new factories, expanding farms, and selling goods
- B. Choosing careers, plantation farming and seeking new markets
- C. Farming, herding and hunting and gathering.

Command Economy:

- Command Economy- government planning groups make the basic economic decisions determining which goods and services to reproduce, prices and wage rates.
- Individuals do not own their own business or farms.
- Example: CUBA- the government owns all factories and most farms. About 90% of the people work for the government. Cuba's main export is sugar cane.

- QUESTION:
- What is one problem that Cuba faces in using a command economy?
- A. 90% of the people work for the government.
- B. Cuba cannot afford to buy the oil and natural gas it needs.
- C. The country cannot grow enough sugar cane to supply its people.
- D. Factories and businesses must close down from time to time because the workers produce too many goods.

Market Economy:

- Market-Decisions are guided by the changes in prices that occur between individual buyers and sellers in the market place.
- Businesses and farms are generally own by individuals (private citizens) or corporations.
- OTHER NAMES: Free Enterprise, capitalism, and laissez-faire
- Example: Mexico-Individuals and corporations own most of the businesses and farms. Individuals are free to decide what to sell. The government does not set prices for goods and services.

- QUESTION:
- Which describes the economic system in Mexico?
- A. individuals cannot own businesses or farms in Mexico.
- B. Corporations are not allowed to do business in Mexico.
- C. Individuals and corporations own most of the businesses in the country.
- D. The government owns and manages the businesses and farms in Mexico.

Mixed Economy:

- Mixed- An economy that blends characteristics of both command and market economies, but falls closer to one form or the other.
- There is no pure command or pure market economies.
- Example: Brazil- is mostly a market economy. **The government does have rules to govern business and owns some industry like steel**.

- QUESTION:
- Which of these that we have studied this year, has the least freedom to do business?
- A. Brazil
- B. Canada
- C. Cuba
- D. About the same in each
- ←-------------------------------→

(Label where Cuba, Brazil and Mexico would fall on this continuum)

Specialization

- Work is divided into many different parts and each worker is allowed to become an “expert” in her or his part of the work.
- Example: A factory focuses on producing ONE or TWO types of goods and leaves the production of other goods to other factories.

- QUESTION:
- What is an advantage of specialization?
- A. factories cannot produce goods as quickly.
- B. Workers do not become experts in their jobs.
- C. A factory can produce more goods in less time and for less money.
- D. Businesses cannot sell as many types of goods when they specialize.

Trade Barriers: Tariffs, Quotas, and Embargos

- Tariff- a tax on imports
- Quota- is a specific limit placed on the number of imports that may enter a country
- Embargo- is a government order stopping trade with another country

- QUESTION:

1. Which situation might keep an embargo against a country from being successful?

A. The country is able to find other trading partners.

B. The country does not need to trade with other countries.

C. People in the other country suffer because trading has stopped.

D. People in the other country don't care whether their country trades with other countries.

GDP and Literacy Rate

- GDP- The total value (amount) of all the goods and services produced in a country in ONE year.
- The more educated you are, the better job you get, the better job you get, the more $$ you make, the more $$ you make the more $$ you spend, the more you spend, the more you contribute to your country's GDP!

- Literacy Rate- The percentage of a country's people who can read and write.
- QUESTION:
- Which is most likely to be in a country with a high literacy rate?
- A. A low standard of living.
- B. A high standard of living.
- C. Little investment in human capital.
- D. Too much investment in capital resources.

Human Capital and the GDP

- Humans Capital- investing in workers of a business or country including their education, training, skills and health care
- Businesses and countries that want to be successful MUST pay attention to investing in human capital

- Questions:

1. What is an example of human capital?

A. a country's standard of living

B. the cash a business has to spend

C. the workers of a business or country

D. the buildings, equipment, and property of a business

2. It is important to invest in human capital because businesses?

A. Need money in order to pay their workers

B. Enjoy workers getting extra training and job opportunities

C. Are more successful when the workers have good training and health care

D. Are not responsible for the training and health care of the workers they employ

Capital Investments and GDP

- Physical capital- Investing in factories, machines, technologies, buildings, and property needed for a business to operate
- If a business is to be successful, it cannot let its equipment break down or have buildings fall apart…new technology can help a business produce more goods at a lower cost.

- QUESTIONS:

1. Which activity is an example of investing in physical capital?

A. Constructing a new factory
B. Throwing away old delivery trucks
C. Giving workers more time off to rest
D. Training workers to do their job better

2. How does investment in capital by companies help a country increase its GDP?

A. The GDP of a country goes down when companies make more money.
B. Companies that invest in capital are able to provide a better place for their workers to work.
C. Highly trained workers help the company be more profitable by finding ways to help the company work better.
D. When a company invests in capital, it can produce more good s at a better price and increase the profit that it makes.

Currency

- Currency-money used in a country to buy goods and services.
- BRAZIL- reals
- MEXICO- peso
- CUBA- peso
- CANADA- dollar
- U.S.A.- dollar

- QUESTION:
- What is one reason for people to exchange currency?
- A. To make more money by trading currency.
- B. Most people want to use American dollars to trade.
- C. Because different countries have different currencies.
- D. To buy and sell goods and services with other countries.