

Economics Concepts



Scarcity

- Resources are limited, so people cannot have all the goods and services they want.



Choice

- Deciding between two or more possible alternative objects or actions; called an economic choice for decisions among goods, services, or resources.



Opportunity Cost

- The next best alternative that must be given up when a choice is made. Not all alternatives, just the next best choice.



You study late night
for a final



The next day you
are very sleepy



Your opportunity cost
is a good night's sleep.

Barter/Trade

- The direct trading (barter) or any exchange (trade) of goods and services between people without the use of money.



Interdependence

- People depend on each other to provide goods and services; occurs as a result of specialization of production

Specialization

- Production can often be best done by several or many people where each person specializes: does only a part of the job--the part that the person is skilled to do.

Money/Medium of Exchange

- A medium of exchange, which is a good (like shells or metal coins or pieces of paper) that can be used to buy other goods and services.

Saving

- Not spending all of one's income; the part of income not used for consumption.

Spending

- Purchase of currently produced goods or services; using income to buy for consumption.

Producers/Production

- **PRODUCERS:** People who use resources to make goods and services, also called workers.
- **PRODUCTION:** The making of goods and services using resources.

Consumers/Consumption

- CONSUMERS: People whose wants are satisfied by using goods and services.
- CONSUMPTION: using goods and services.

Factors of Production

- Resources used by businesses to produce goods and services.

Resources-Human/Natural/Capital

Anything used to produce goods and services:

- LAND
- LABOR
- CAPITAL
- ENTREPRENEURSHIP

ECONOMIC RESOURCES

- Land – natural resources such as iron ore, gold, diamonds, oil, etc.
- Labor – human resources such as wage-earning workers
- Capital – plants and equipment used in the production of final goods, such as assembly lines, trucks, heavy duty machinery, factories, etc.
- Entrepreneurship – the marshaller of resources, the person or group that marshals resources in the production of final goods (Bill Gates, Steve Jobs, Henry Ford, etc.)

Markets

- Any setting where buyers and sellers exchange goods, services, resources, and currencies.

Prices

- The value of a good or service stated in money terms.

Demand

- A schedule of how much consumers are willing and able to buy a product or service at each possible price during some time period.

Supply

- A schedule of how much producers are willing and able to produce and sell a product or service at each possible price during some time period.

Competition

- Rivalry among sellers to sell (supply) goods and services, or among buyers to buy (acquire) a service or good.

Entrepreneurs

- The human resource (person) who assumes the risk of organizing the other productive resources to produce goods and services.

Profit

- The difference between the total revenue and total cost of producing and selling a good or service in a business; entrepreneurial income.

$\text{PROFIT} = \text{REVENUE} - \text{TOTAL COST}$

$\text{REVENUE} = \text{QUANTITY} * \text{PRICE}$

$\text{TOTAL COST} = \text{FIX COST} + \text{VARIABLE COST}$

Economic Systems

- The way a society organizes the production, consumption, and distribution of goods and services.

Role of Government

- The economic actions and results of government activities.

Taxes

- Required payments of money made to governments by households and business firms.
- EXAMPLES: VAT, PROFIT TAX....

Credit

- The purchase of something using a promise to pay in the future.

Unemployment

- The situation in which people are willing and able to work at current wages but cannot find jobs.
- Nowadays young people are the most unemployed due to the difficulty of finding a job.

Shortages and Surpluses

- The situation resulting when the quantity demanded exceeds (shortage) or is less than (surplus) the quantity supplied at the current price of a good, service, or resource.

Incentives

- Things that motivate and influence the behavior of households and businesses.
- Prices, profits, and losses act as incentives for participants to take action in a market economy.

Productivity

- The ratio of output (goods and/or services) to input, or the amount of output produced per unit of productive resources over a period of time.

Economic Goals

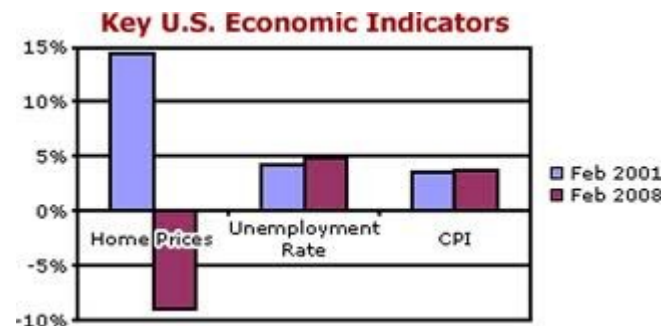
- The objectives that economies pursue, such as full employment, stability, economic growth, and efficiency.

Market Failures

- Situations in which the outcome of the market is not efficient from society's point of view, e.g., the market participants might have no market incentives to avoid polluting the environment.

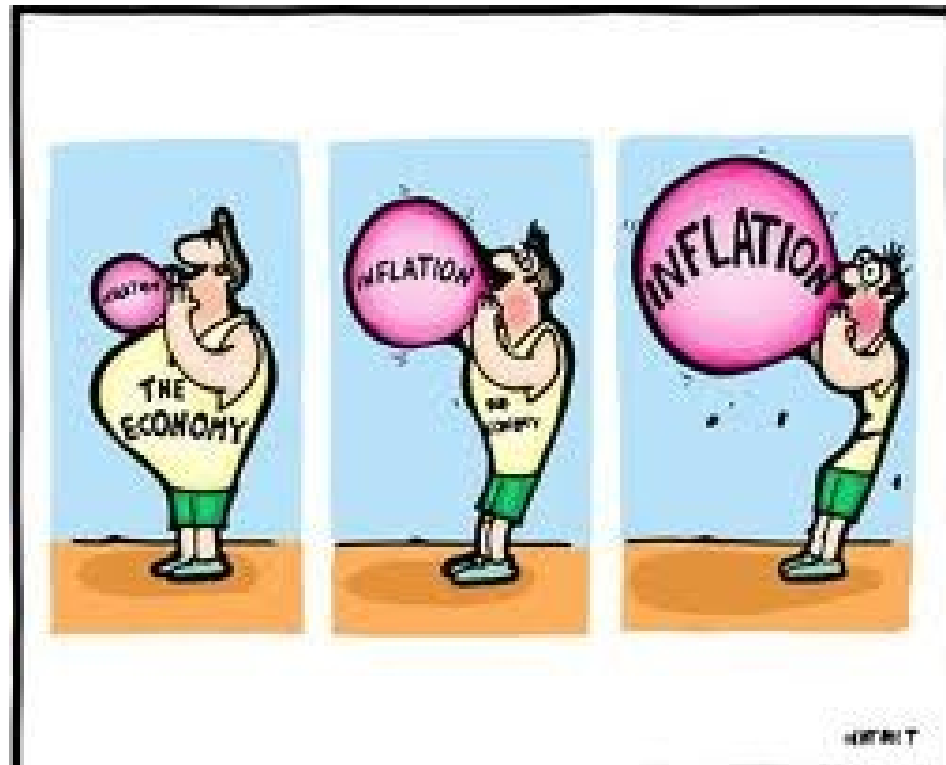
Economic Indicators

- Measures constructed to show where the overall economy has been, is now, or is going.
- Examples: rate of unemployment, GDP (gross domestic product), CPI (consumer price index)....



Inflation

- A persistent rise in overall prices.



Monetary Policy

- Policy done by a central bank to support the economy, relating to the supply of money, credit, and interest rates.

Fiscal Policy

- Policy done by a central spending authority of the government to support the economy, relating to spending and taxes.

Economic Institution

- Customs, behaviors, or organizations that are commonly found in an economy.
- Often used to refer to specific agencies or organizations that have a particular economic objective.

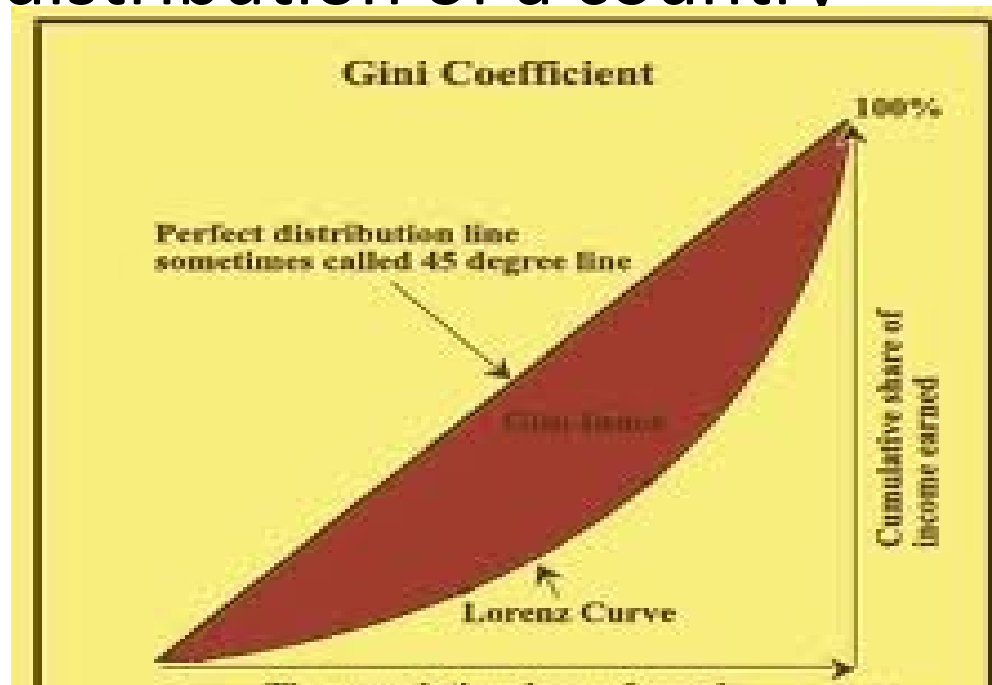
ECB (european central bank)

- It is not like the other banks or credit institutions.
- The EUROPEAN CENTRAL BANK, it makes policy for the money supply, credit, and interest rates.



Income Distribution

- The way national income is divided among households in the economy.
- Gini coefficient measures the inequality of the income distribution of a country



Economic Growth

- Percentage increases of some overall measure of the economy, such as GDP (GROSS DOMESTIC PRODUCT).

