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# ECONOMIC DECISIONS and SYSTEMS

Chapter 1

# NEEDS AND WANTS

- Needs

- Are basic to survival



- Wants

- Make life more pleasant
- Are unlimited



# GOODS AND SERVICES

- Goods

- Are things you can touch and see
- Are things to satisfy wants



- Services

- Some wants are satisfied through the efforts of other people or by equipment – services
- Services are activities that are consumed at the same time they are produced.
- Services are intangible, meaning they have no physical characteristics



# GOODS AND SERVICES



- Goods and Services for Businesses and Consumers
- The U.S. Economy
  - The United States is the largest producer of goods and services in the world.
  - Americans consume more than any other country.
  - Americans incur a lot of debt through loans & credit cards.
  - High level of U.S. consumer demand may stem from the quantity of goods and services available and the amount of money businesses spend on advertising their products.



# ECONOMIC RESOURCES

*Economic resources are the means through which goods and services are produced. Also called factors of production. Goods and services require economic resources.*

- Natural Resources

- Raw materials supplied by nature

- Human Resources

- The people who work to produce goods and services

- Capital Resources

- The tools, equipment, and buildings that are used to produce goods and services

# ECONOMIC CHOICES



- Scarcity – The Basic Economic Problem
  - The conflict between unlimited wants and limited resources
  - Scarcity affects everyone
  - Scarcity affects businesses and governments

# ECONOMIC CHOICES



- Making Economic Decisions

- Economic decision making is the process of choosing which wants, among several options, will be satisfied.

- Tradeoffs and Opportunity Costs

- Tradeoff - When you give up something to have something else, you are making a tradeoff.
- Opportunity Cost – The opportunity cost is the value of the next-best alternative that you did not choose.

# THE DECISION MAKING PROCESS

- The Decision-Making Process
  - Define the problem.
  - Identify the choices.
  - Evaluate the advantages and disadvantages of each choice.
  - Choose one.
  - Act on your choice.
  - Review your decision.

# KEY ECONOMIC QUESTIONS

- What goods and services will be produced?
- How will the goods and services be produced?
- What needs and wants will be satisfied with the goods and services produced?

*A nation's plan for answering these questions is called its economic system or its economy.*



# TYPES OF ECONOMIC SYSTEMS

- **Command Economy**
  - Resources are owned and controlled by the government.
- **Market Economy**
  - Resources are owned and controlled by the people of the country.
  - A system in which the economic decisions are freely made by individuals through buying and selling of goods and services in the marketplace.
  - **Marketplace:** Any place where buyers and sellers exchange goods, services, and some form of money.
- **Traditional Economy**
  - Things are done the way they have always been done.
- **Mixed Economy**
  - Combines elements of the command and market economies.

# OUR ECONOMIC SYSTEM

(A Market Economy)

- **Capitalism**

- Most of the economic resources are owned by individuals rather than by government.
- Freedom of choice.

- **Private Enterprise**

- The right of the individual to choose whether to own a business, what business to enter, and what to produce with only limited government direction.
- Business – an establishment “enterprise” that supplies us with goods and services in exchange for payment in some form.



# OUR ECONOMIC SYSTEM

(A Market Economy)

- **Private Property**

- The right to own, use, or dispose of things of value

- **Freedom of Choice**

- You can make decisions independently and must accept the consequences of those decisions.

- **Profit**

- The desire to work for profit.
- Profit – the money left after subtracting the cost of operating the business.

- **Competition**

- The rivalry among businesses to sell their goods and services to buyers





# SUPPLY AND DEMAND

- Participating in a Market Economy
  - Consumer – a person who buys and uses goods and services.
  - Producers – individuals and organizations that determine what products and services will be available for sale.
  - Consumers Set Demand
  - Producers Establish Supply

# DETERMINING PRICE



## ● Factors Influencing Demand

- If product is in high demand – price will go up
  - Can't find a good substitute
  - Unwilling or unable to switch to another choice
- If product is not in demand – price will decline
  - Many similar products to choose from
  - Willing to switch from one product to another

## ● Factors Influencing Supply

- If product is in high demand – price will go up
- If product is not in demand – price will decline

# DETERMINING PRICE



- Factors Influencing Supply

- If supply is high – price will go down

- Competitors offering similar products to same customers
- Large number of competitors

- If supply is low – price will go up

- Consumers cannot find good alternatives
- Lack of competition

# DETERMINING PRICE



- Determining Market Price
  - Supply, demand, and competition determine the market price for a product or service.
  - The market price is the point where supply and demand are equal.