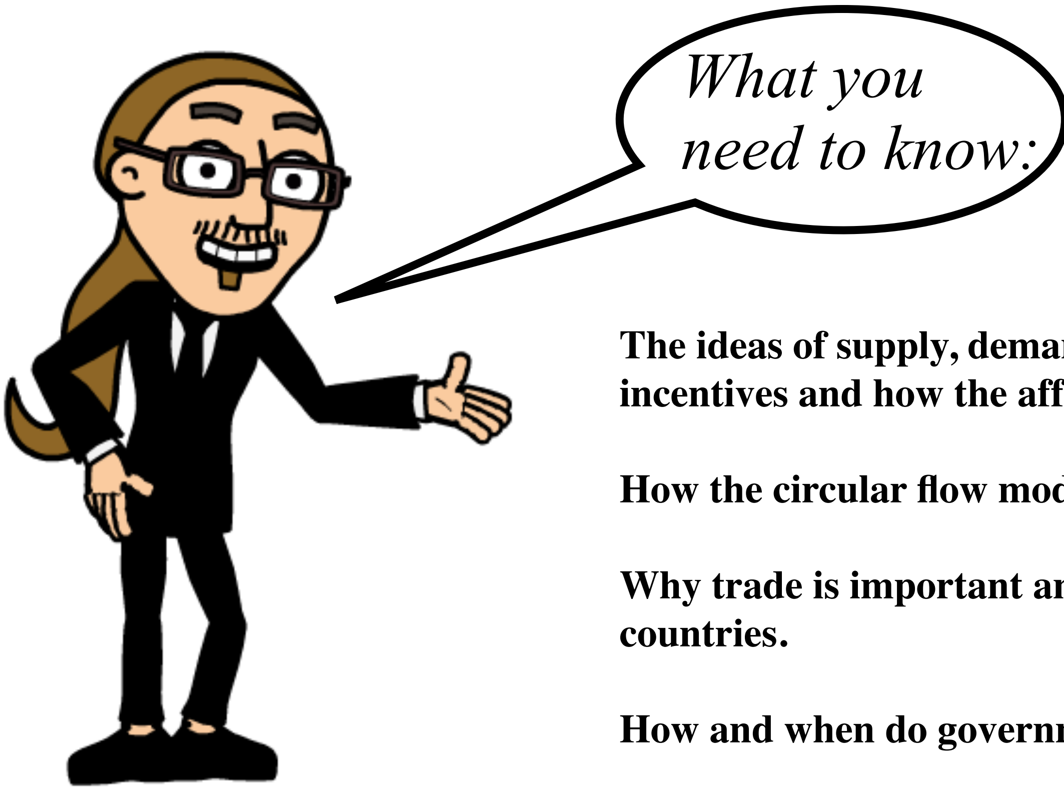
Unit Ten Economic Basics



The ideas of supply, demand, scarcity, and incentives and how the affect people and business.

How the circular flow model works.

Why trade is important and how it interconnects countries.

How and when do governments use sanctions

Section one

Part one

Supply and Demand Basics

Questions:

What is supply? Give an example that is NOT used in the reading.

What is demand? Give an example that is NOT used in the reading.

What normally happens to the price of something if demand for it goes up?

What normally happens to the price of something if demand for it decreases?

If demand for a book is low, what are the two options a book seller has to try and still make a profit?

Thinking Questions:

If you figure out a way to turn the dirt in your back yard into gold, what will it do to the price people will pay for gold???

If they release a new Playstation 4 what will happen to the price of a playstation 3? Why?

If scientist discovered that Flaming Hot Cheetoes cured cancer what would happen to their price? Why?

click **answer online**

Supply and Demand: Basic Economics

from social studies for kids

One of the most basis concepts of economics is *Supply and Demand*. These are really two separate things, but they are almost always talked about together.

Supply is how much of something is available. For example, if you have 9 baseball cards, then your *supply* of baseball cards is 9. If you have 6 apples, then your *supply* of apples is 6.

Demand is how much of something people want. It sounds a little bit harder to measure, but it really isn't. To measure *demand*, we can use a very simple numbering system, just like the *supply* one. If 8 people want baseball cards, then we can say that the *demand* for baseball cards is 8. If 6 people want apples, then we can say that the *demand* for apples is 6.

Did you notice that the baseball cards *supply* was one more than the baseball cards *demand*? Did you also notice that the apples *supply* was equal to the apples *demand*? We'll get to that soon.

Part 2: Comparisons on Price

So we have *supply*, which is how much of something you have, and *demand*, which is how much of something people want. Put the two together, and you have *supply and demand*.

Now, how do you show the relationship between the two? One way is to use the *price* of something. Generally speaking, the price of something will go up if the demand goes up. Why? Because the seller thinks he or she can get more money for whatever he or she is selling.

If more people want something, they will be willing to pay more for it. A good example is the newest basketball shoes. Everybody wants them, and they will be willing to pay more than they normally would to get them. The *demand* goes up. Why? Because more people want them. The *price* also goes up. Why? Because the seller knows he or she can get more money for the product because it is *in demand*.

In the same way, the price will go down when the demand goes down. When the new style of basketball shoes comes out, everyone wants the new shoes. The old shoes don't seem so new anymore. The seller still wants to sell those older shoes, since he or she has a lot still in stock. So, the *price* goes down. Why? The seller hopes that people will be willing to buy the older shoes at a lower price. After all, the older shoes aren't **that** much older or worse than the brand new shoes.

What does all this mean? It means that you can track *supply* and *demand* by also tracking *price*. If something has a high price, you can usually conclude that the *demand* for that item is low. (This is not always the case; it is **usually** the case.) In the same way, if something has a low price, you can usually conclude that the *demand* for that item is high.

Why? First of all, a seller has already paid money for what he is trying to sell. A bookseller has paid $4 for each paperback book he has on his shelves. He has bought 1,000 books and paid $4,000. He is selling those same books for $5 each. He hopes to sell all of them at $5 each and get a total of $5,000.

But what if the *demand* is low and no one wants to buy them? The seller wants to make some of his money back, so he might lower the price. He is already out the $4,000. He can't change that. But he can change how money he is bringing in. If he lowers the price of the books to $4 each, he breaks even on each book but still takes in some of the money he had spent to buy the books in the first place. And this bookseller would have had to lower the price of the books because the *demand* was low.

The reverse can also be true. If the bookseller decides that he wants to get as much money as he can back, then he might raise the price of the books to $6 each, figuring that he will sell fewer books overall but will get more money for each book he sells.

What does it all mean? *Supply* and *Demand* are two very strong market concepts. Studying the two of them can give you a good idea of what people like to buy and sell. And you can track both *supply* and *demand* by comparing the price of an item over time.

Section one

Part two

Scarcity Basics

Questions:

What does scarcity mean? Give an example that NOT used in the reading.

What choices does scarcity force people to make? (the reading give two)

What factors can affect the scarcity of a good?

Thinking Questions:

Gucci decides to make only 10 purses this year. How will this scarcity affect their price?

You love apples. This years apple crop failed, so only a quarter as many apples were grown? What choices will this cause you to make?

The largest diamond mine in the world announces that they are out of diamonds. You want to buy a new diamond ring this year. What choices will this cause you to make?

click **answer online**

Basic Economics: Scarcity and Choices

from social studies for kids

Think of a thing that you like to have. What would your life be like if you suddenly couldn't get any more of it?

You might have a favorite hobby, like collecting toys or reading *Harry Potter* books. You might have a favorite food, like ice cream or a special kind of bread. What would you do if your favorite toys or books were no longer available? What if you couldn't get ice cream or your favorite bread anywhere?

People deal with this kind of problem every day. It's called *scarcity*. It comes from the word *scarce*, which means there isn't a lot of it or it isn't always available.

Some fruits and vegetables are scarce in markets sometimes because those fruits or vegetables grow only at certain times of the year. Because the supply of fruits and vegetables is lower, there is a better chance that those fruits and vegetables will be scarce, or not always available. You may find that the market has *no* strawberries at all. Why? Either no shipments of strawberries came in, or so few strawberries came in that by the time you got there, they were all gone.

What does this mean for the *demand* of strawberries? If enough people want strawberries when none are available, then the *demand* is quite high. And the demand is high not because the price is low (as is usually the case) but because the *supply* is low.

An older person in your family can probably tell you about a time 30 years ago when there was a gasoline shortage. At that time, in the 1970s, gasoline was *scarce*. Many people wanted to buy it, but only a certain amount was available. This is a great example of *scarcity*: Wants are more than what is available. The *supply* was low. Because the demand was greater than the supply, the gasoline was scarce.

So how does *scarcity* relate to *supply* and *demand*? *Scarcity* is a measure of *supply*. If strawberries are *scarce*, then the *supply* of strawberries is low. And if many people want to buy strawberries when none are available, then *demand* is high because of a low *supply* caused by *scarcity*.

Part 2: Scarcity and Choices

When things are *scarce*, we have to make choices. If the market doesn't have strawberries, you have to decide if you really want strawberries. If you do, then you will have to travel to different markets to try to find some strawberries. If you don't find any strawberries anywhere, then you will have to go without. *Scarcity* has forced you to go without strawberries.

In the same way, the latest *Harry Potter* book might be difficult to find because you weren't one of the early people at the bookstore the day the book came out. If your local bookstore ordered only 5,000 copies and 4,998 people bought the book before you got there, then you'd better hope you're one of the next 2 people through the door. The same is probably true at other bookstores in your area. We can say that the latest *Harry Potter* book is *scarce* because its supply is low.

Another choice you might have to make when something is *scarce* is how much you are willing to pay for it. If strawberries are normally a low price, then they might have a higher price when they are *scarce*. If that is the case, then you will have to decide whether you want to pay the higher price. You'll have to decide how badly you want those strawberries. If you have only a certain amount of money, then you'll have to buy the strawberries using some of the money you had planned to spend on other foods. *Scarcity* has forced you to make a choice between foods.

For many people, making difficult choices is a way of life. If you don't have enough money to buy all the foods you need (and many, many people don't), then you have to make choices. And the more *scarcity* you see on the shelves of the market, the more difficult choices you have to make.

The same is true if the *scarcity* is created only by a seasonal market, like the strawberries or other fruits and vegetables. Some crops grow better at certain times of the year, so they are harvested at those times and sent to market at those times. If you want strawberries and it's not strawberry season, then the supply of strawberries is most likely *scarce*, if any are available at all.

Lastly, sometimes *scarcity* is created only because a supplier has sold out of a certain product. A sale on older *Harry Potter* books might result in a bookstore's selling all of the books on hand. And if other bookstores have similar sales, then it will be very difficult to find one of those older *Harry Potter* books. This is *scarcity* caused by too many people trying to buy too few things.

Scarcity can be a powerful thing. It can force you to make difficult choices. It can force you to go without. It can force you to pay more than you wanted to. It can force you to look elsewhere for the thing you want. The next time you discover that something you want isn't available, remember the idea of *scarcity*. What choice will you make?

Section two

Circular flow

Questions:

What is a good? Give an example that is NOT in the reading.

What is a service? Give an example that is NOT in the reading.

What is the difference between a good and a service?

What are the “factors of production”?

How do firms pay for their “factors of production”?

What role do consumers play in the circular flow model?

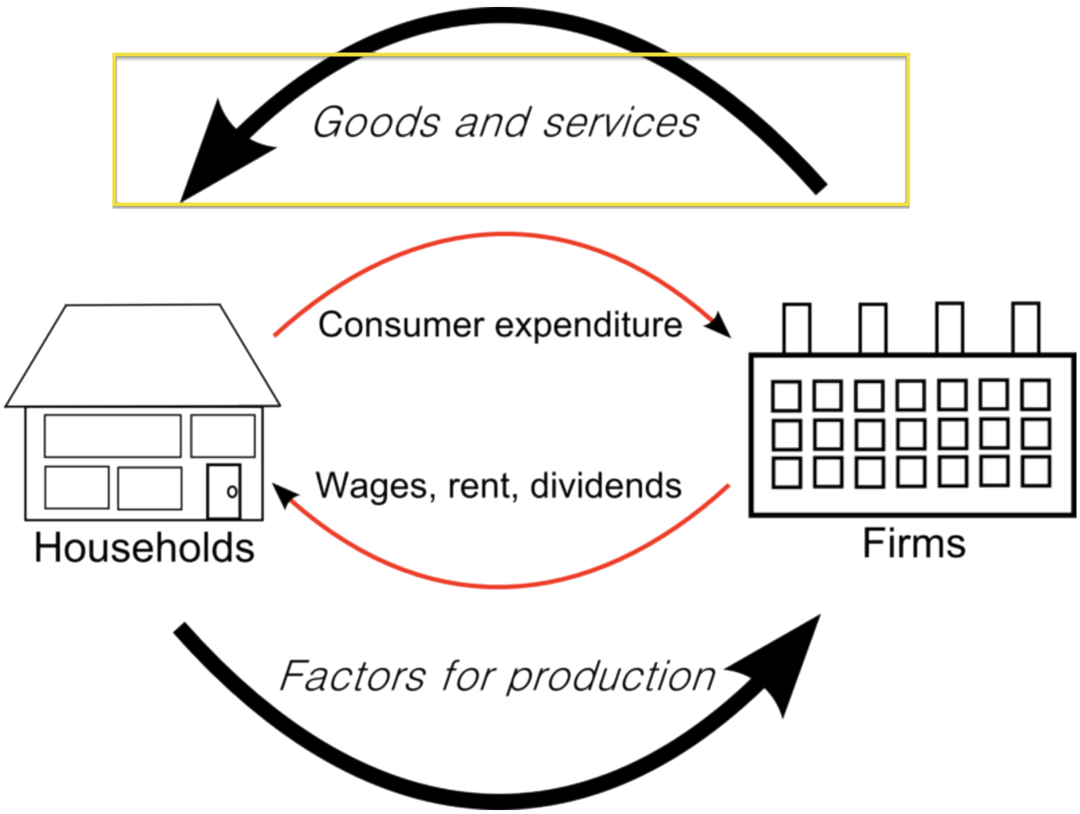
Thinking Questions:

If a business pays its workers more money how might it help the business in the long run?

People stop buying CDs. What is likely to happen to the wages of people who make Manufacture CDs for a living?

click answer online

Circular Flow Model



Basic Economics: Goods and Services

Part 1:
Which Is Which?

One of the most basic ideas in economics is **goods** and **services**. More than anything else, money is spent on goods and services. It helps to know the difference between two.

A **good** is something that you can use or consume, like food or CDs or books or a car or clothes. You buy a good with the idea that you will use it, either just once or over and over again.

A **service** is something that someone does for you, like give you a haircut or fix you dinner or even teach you social studies. You don't really get something solid, like a book or a CD, but you do get something that you *need*.

See the difference? It doesn't always seem clear-cut. The basic difference is that a **good** is something you can hold in your hand (unless it's something big, like a car or a house).

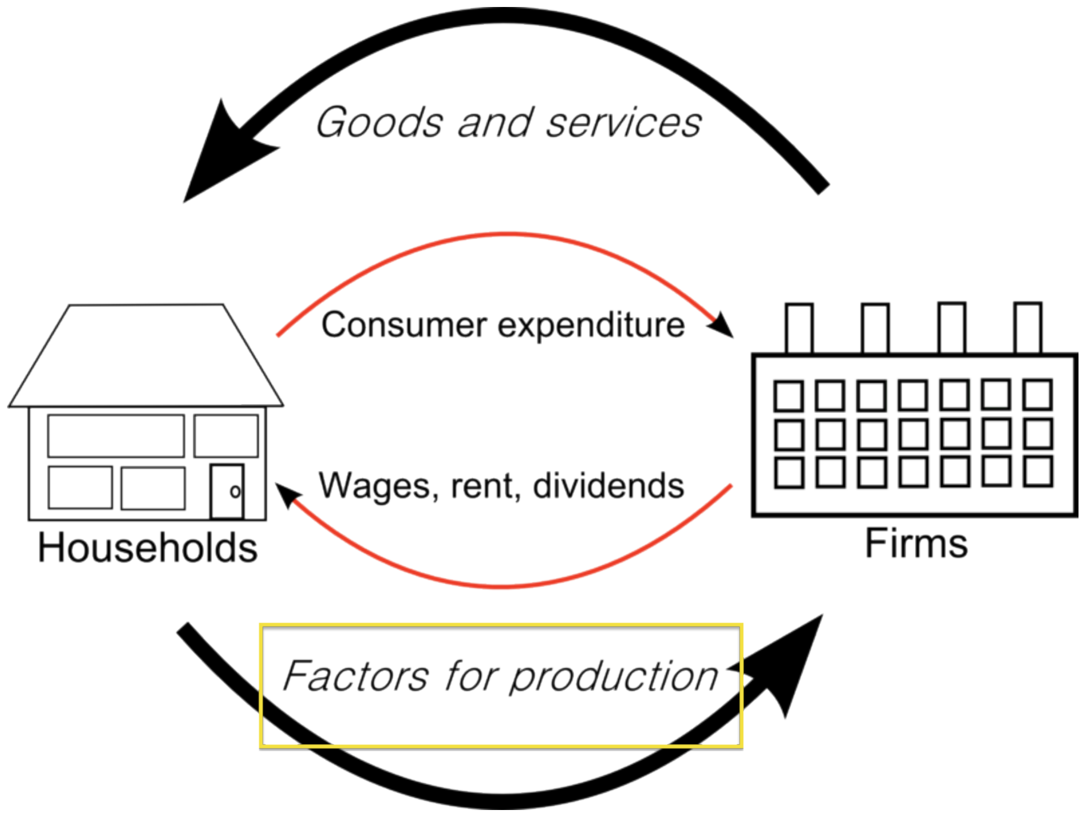
Now, a **service** can also contain a good. Someone who fixes you dinner gives you food, which was bought. In this example, the food is the **good** and the person's fixing it for you is the **service**.

In the same way, your teacher gives you a **service** by teaching you social studies. He or she also gives you a **good** by giving you a textbook.Your teacher teaching you social studies is a good example of a **service** that you personally don't pay for. (Your family might pay for it, but you don't.)

And not all **services** are economic, either. A service can be as simple as reading a book to someone. This kind of activity doesn't cost anything, but it *is* something that one person did for another.

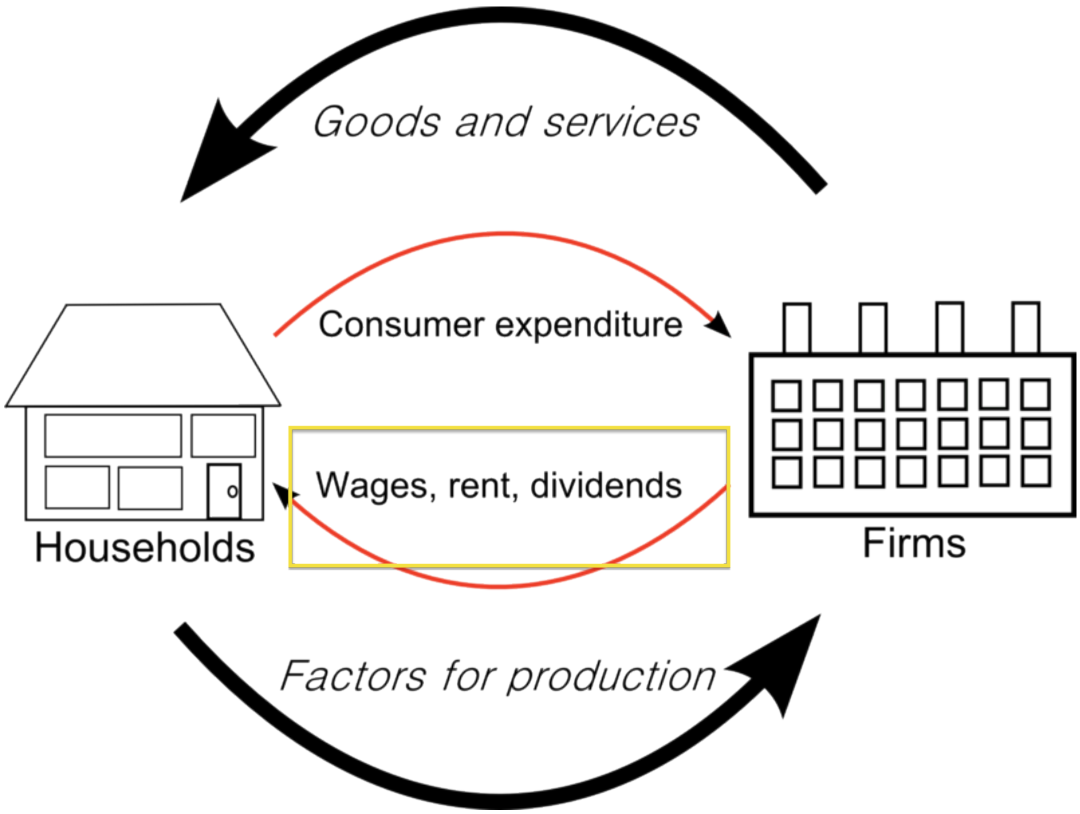
A **good** doesn't have to cost anything, either. If you give your friend a book or a CD, then you given that friend a **good**, since we have already defined books and CDs as **goods**. Your friend didn't give you any money for the **good**. But you didn't really do something for your friend, either; you just gave your friend something he or she could hold or touch.

Remember, the one thing that sets **goods** and **services** apart is the ability to touch them. You can touch a **good**, but you can't touch a **service**. You can touch the result of a **service** but not the **service** itself.



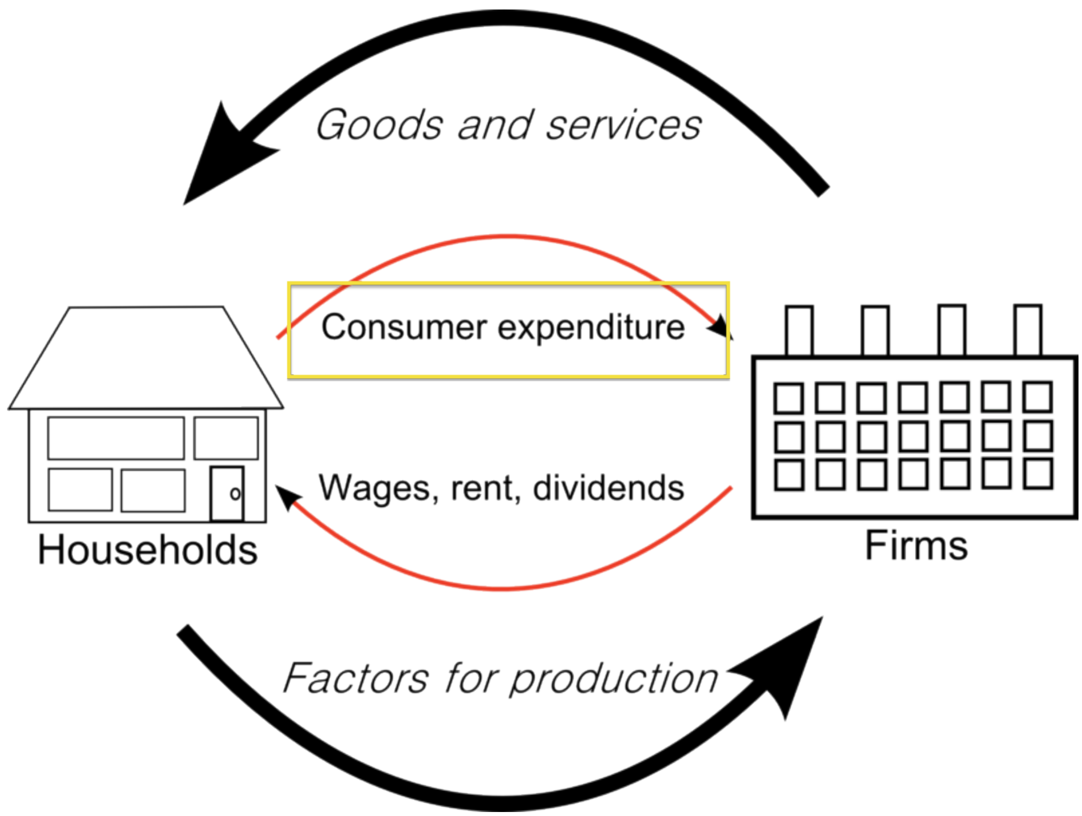
Factors for Production

Firms and business need people. Employees can help production in a number of ways:
- manufacturing - creating parts and assembling goods
- design - creating, modifying and improving products
- sales- creating advertisements or physically selling products
- investments- loaning money to or buying stock in a company or firm



Wages, Rent, dividends

Firms and business pay employes for their labor (factors of production). They also pay dividends (payments to stockholders). Anyone can buy stock in a company and if that company does well, then they pay some of that money back to stockholders. Many employees have the option to buy stock in the company that they work for.



Consumer Expenditures

People like to spend money. When workers get paid they return a large portion of their wages back into the system by buying goods and services. The more people spend the more firms and business produce. The more business produce the more labor they require. This means more jobs and more money for people.

Section three

Part one

Interdependence

Questions:

What is interdependence?

What examples of dependence does the reading give? Think of at least one other example not given in the reading.

Why don't people, companies and countries just make everything they need for themselves?

Thinking Questions:

We get lots of our oil from Saudi Arabia. We need oil to make gasoline and plastics. What would happen if went to war with Saudi Arabia?

We buy most of our clothes and electronics from China because they can make them for low prices. How does this "force" us to get along with China and China to get along with us?

click

answer online

Basic Economics: Interdependence

Another of the most basic terms in the study of economics is *Interdependence*. It is a big word, but it means "dependent on others for some needs." In other words, you can't produce everything you need.

If you live on a farm, you might grow all your own fruits and vegetables. You might have cows and chickens to give you milk and eggs. You might have pigs to give you meat. You might not ever need to go to a grocery store for food. But you probably don't make your own farm equipment. You are *dependent* on someone else for those things. If someone else didn't make the hoes and the rakes and the tractors that your family uses, you wouldn't be able to produce all that food.

And unless you live on a farm, you are *dependent* on others for all kinds of food. Farmers today usually specialize in one or a few kinds of food that they grow to sell to other people. Rarely do you see one farm that sells fruits, vegetables, meat, and dairy products. A farmer might grow several different kinds of fruits or a few different kinds of vegetables. This farmer then sells these fruits or vegetables to grocery stores or markets or even other countries.

Some food grows better in certain areas of the world. Rice grows very well in China and in Southeast Asia. It doesn't grow so well in the African desert. So, many people who live in China and Southeast Asia grow rice, which they then sell to people around the world. If you live in the African desert and you want to eat rice, you are *dependent* on other people to grow that rice and sell it to you.

What else do you use in your daily life? Do you listen to a radio or watch television? Someone else probably made that and you or your family bought it. Those books and comic books you read were written, printed, and sold by someone else. All you did was buy them. If you want to listen to the radio, watch TV, or read a book, you are *dependent* on someone else to make those things.

What about the clothes you wear? Those are probably made by other people. (Some people still make many of their own clothes, though.) If you or your family doesn't make all its own clothes, then you probably buy clothes at a store or a market. These clothes are made by other people, either in your country or in other countries. Again, we see the idea of *dependence*. You *depend* on other people to make the clothes you wear.

In fact, we can now talk about the idea of *interdependence*. Things like food, clothing, radios, TVs, and books are made by people all around the world. Some people can make things better than others. Some foods grow more easily in some countries than in others.

If you are a farmer who grows vegetables, you will want to spend all your time growing vegetables because you can make money doing it. You won't want to spend your time trying to grow other kinds of food that don't grow well in the area where you live. So, you grow and sell your vegetables and buy the other kinds of food you eat. If you work at a factory that makes radios, then your company will want to spend its time making radios and not trying to also grow its own food. Your company makes a lot of radios and buys the food it feeds you and your fellow workers.

What does all this mean? *Interdependence* is the idea that you as a person *depend* on other people for certain things. The same is true of families, towns, and even countries. The people who use their own hands to make everything they could ever want are rare these days. More common are people like you, who get different things from different people. *Interdependence* is a big word; now you know what it means.

Section three
Part two
Trade

Questions:

What is the “classical” definition of trade given in the reading?

What are the THREE options that a civilization has if it has extra goods?

Applied Questions:

Use wolframalpha.com to find out what each of the following countries main exports are (search: *country export commodities*)

- United States
- Canada
- China
- India
- Russia
- Finland

click answer online

The Importance of Trade

Trade is vital to the success of a civilization. Why? The civilization that can produce just enough of everything it and its people need to survive is rare indeed. Can you think of an example, today or in the long history of people? Keep thinking ...

Trade is simply the trading of something for something else. This can be one good for another good, one good for money, one good for a service, a service for a good, money for a service, etc. You get the idea. Trade is an exchange of things.

Usually, people or civilizations trade things that they have too much of for things that they don't have enough of. This is the classical definition of trade and the one that will be used in the remainder of this article. (Note: You can certainly trade money for CDs or whatever and this doesn't necessarily mean you have too much money or too few CDs. However, for the purposes of this article, we will assume that you have too much of something and too little of another.)

Now, why would a civilization have too much of something? First of all, what is that something they have too much of? Is it grain or vegetables or rice or some other kind of food? If so, they probably have too much because they planted too much of it to begin start with, or because the ground proved especially fertile and brought forth a lot more food than was expected. It could also be that the population of the area has dropped since the crop was planted. Whatever the reason, the civilization has too much food.

So, what do they do with it? They can save it. If it's grain and they have a granary (in ancient times) or a grain silo (a modern granary), they can store it for use later, when the supply of grain might be low. This might not work so well with rice or vegetables or fruit, however. Then what? Well, then the people have to do something with that extra food. They will either sell it, exchange it, or give it away. It kind of depends on their goal at that point.

If they decide to sell it, then they will expect money or some kind of wealth in exchange. If they decide to exchange it, then they will expect some other kind of food or some other kind of good in return. And if they decide to give it away, then they will expect the gratitude of the people who received this gift.

This, at its simplest level, is trade: exchanging one thing for another.

Civilizations of yesterday and today have thrived because they were able to work out agreements to get what they didn't have from other people and give what they did have to other people, often at the same time. In this way, if your civilization plants a lot of grain but not so much rice and your people like to eat both, you can give some grain to the rice-growers, get some rice from them, and eat both.

This is true for other goods besides food. Machinery, oil, cars, plastics, and electronics are all examples of things that one civilization produces to sell, exchange, or give to another civilization. Nearly every single day, trade keeps civilizations prospering. Planes land and take off, ships dock and leave port, trucks unload and load again--all bringing goods from one people to another and taking other goods to other people.

Often, trade involves many civilizations at the same time. The grain farmers of the American Midwest might sell their grain to rice farmers in Southeast Asia, who sell their rice to people in China and Japan. The Chinese and Japanese people might eat the rice to keep them healthy so they can go to work at automobile factories, where they make cars that they sell to the grain farmers in the American Midwest.

Trade circles aren't always this perfect. One country might sell its goods to a country from which it doesn't accept anything in return. It all depends on the needs of its people.

Again, peoples and countries and civilizations need to trade because they can't produce by themselves everything they need to survive. This is where trade comes in. Trade keeps the populations of the world running.

Section three

Part three

Trade Infographics

Use the infographics to answer the questions

Questions:

How much more are China's exports worth than ours?

What are the top 5 things we import from China?

What are the top 5 things China imports from the USA?

Who exports more to South Korea? *USA or CHINA*

Who exports more to Japan? *USA or CHINA*

Who imports more from Saudi Arabia? *USA or CHINA*

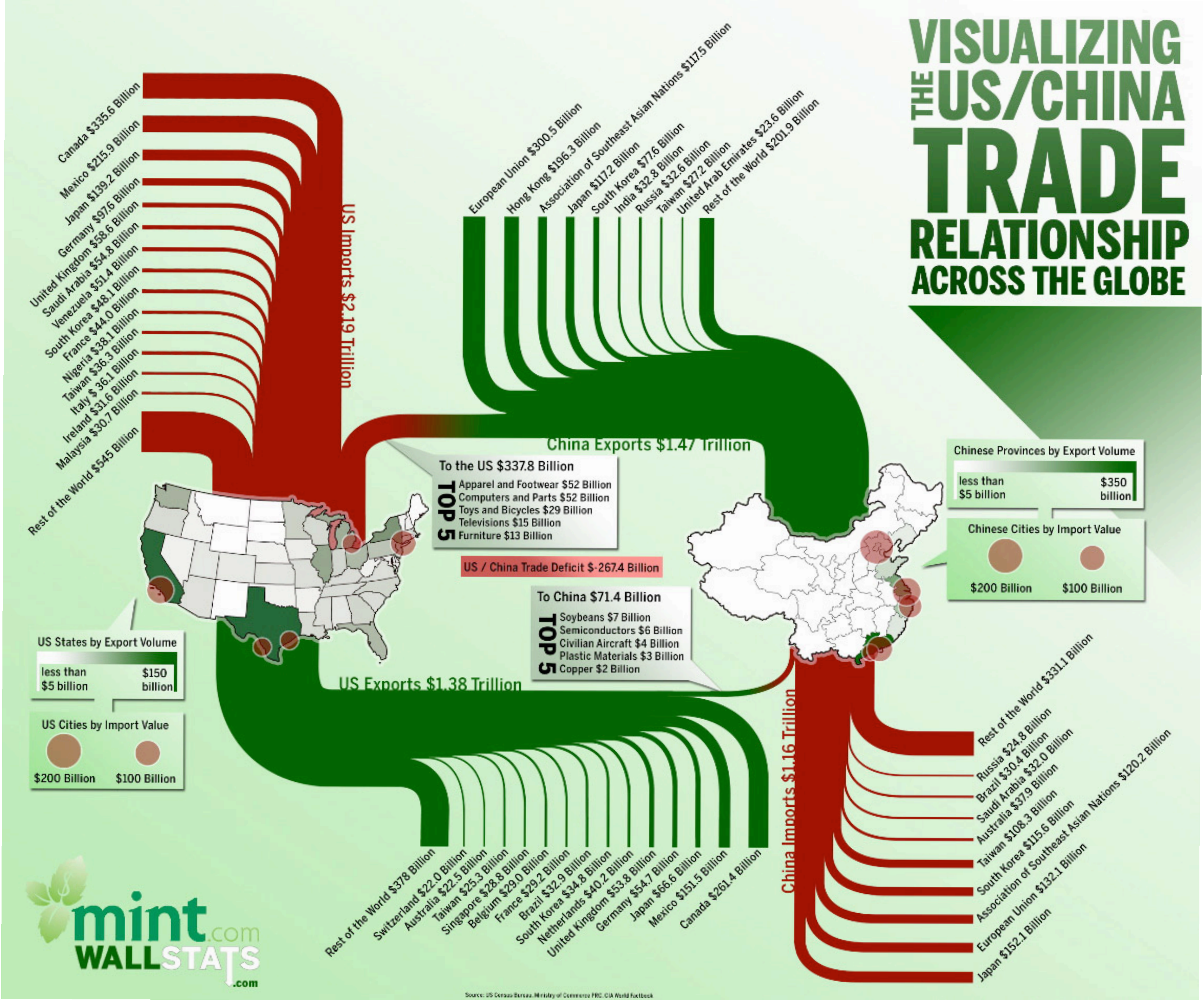
What country do we have the largest trade deficit with?

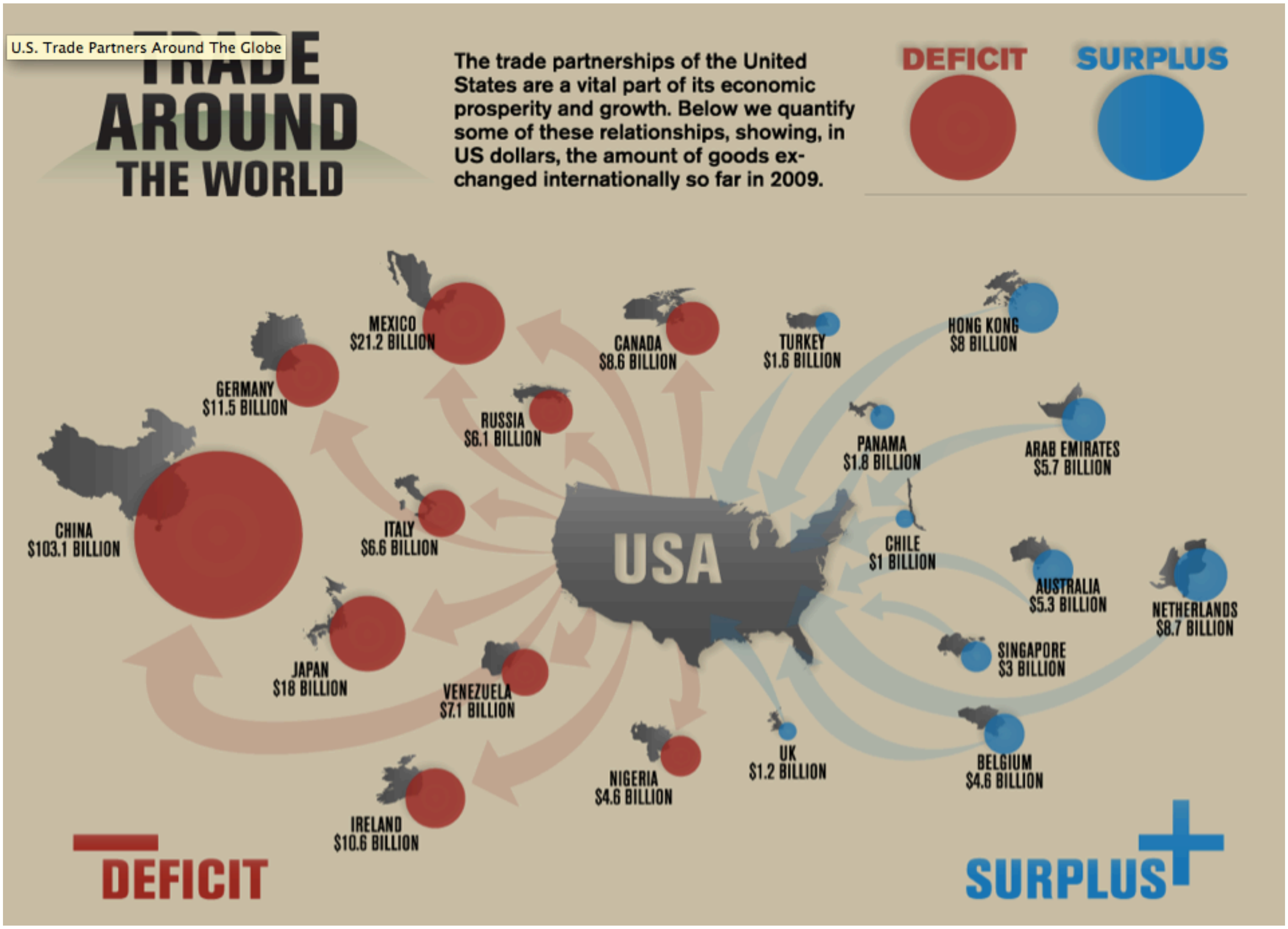
What country do we have the largest trade surplus with?

click

answer online

rotate and zoom to read chart




U.S. Trade Partners Around The Globe
TRADE AROUND THE WORLD
The trade partnerships of the United States are a vital part of its economic prosperity and growth. Below we quantify some of these relationships, showing, in US dollars, the amount of goods exchanged internationally so far in 2009.
DEFICIT
SURPLUS
MEXICO $21.2 BILLION
CANADA $8.6 BILLION
TURKEY $1.6 BILLION
HONG KONG $8 BILLION
GERMANY $11.5 BILLION
RUSSIA $6.1 BILLION
PANAMA $1.8 BILLION
ARAB EMIRATES $5.7 BILLION
CHINA $103.1 BILLION
ITALY $6.6 BILLION
USA
CHILE $1 BILLION
AUSTRALIA $5.3 BILLION
NETHERLANDS $8.7 BILLION
JAPAN $18 BILLION
VENEZUELA $7.1 BILLION
SINGAPORE $3 BILLION
UK $1.2 BILLION
BELGIUM $4.6 BILLION
NIGERIA $4.6 BILLION
IRELAND $10.6 BILLION
DEFICIT
SURPLUS

Section four

Government and the Economy

Use the map and table to answer the following questions

Questions:

What are the US sanctions on Cuba?

Why did the US sanction Iran in 1987 and 2000?

What import goods did Iraq not have access to immediately after the sanctions?

How did the sanctions effect the Iraqis health in the *short term?*

How did the sanctions effect the Iraqis health in the *long term?*

How did the sanctions effect food for the Iraqis*?*

These sanctions effected **everyone** who lived in Iraq not just their dictator. After looking at the overall effects: do these sanctions seem like a good idea? Why or why not?

click **answer online**

Government and the Economy

Incentives

When country wants another country to do something they will often use incentives. An example of this is the South Korea and North Korea. North Korea was trying to create nuclear weapons and we wanted them to stop. To get our way we tried to make a deal where Japan and South Korea would give North Korea fuel oil that it needed if they stopped trying to make nuclear weapons.

Economic Sanctions

When a country doesn't respond to incentives, sanctions can be used instead. The most famous sanction is between the US and Cuba. The United States doesn't like that Cuba is a Communist country so they have set up strong economic sanctions against them. It is illegal for the US to trade with Cuba. This hurts Cuba's economy and shows them that we don't like what they are doing without having to go to war
with them.

Not all sanction work. This table explains the negative effects of the US sanctions on Iraq. The US applied these sanctions when the Iraqi dictator Saddam Hussein invaded his neighbor Kuwait. The sanctions didn't stop Saddam, but had very negative effects on everyday Iraqi citizens.

Direct Effects	Short Term Effects	Long Term Effects
1. Decreased Imports Medicines Food Imports Agricultural Inputs - fertilizer, pesticides, spare parts Industrial/Commercial inputs/parts Other spare parts Fuel Educational materials Water Purification/supply inputs **2. Decreased Exports** Impact on export earnings, access to foreign currency, etc. **3. Decrease in Communications** Including telecommunications, media	**1. Health** Deterioration in health status; Increased: Morbidity and mortality (esp. child),Maternal and perinatal [sic] mortality, Low-birth-weight babies, Infectious diseases, Epidemics, Malnutrition; Deterioration in water quantity and quality; Deterioration in health services; Decrease in available medicines, vaccines laboratory and diagnostic tests; Breakdown of medical, Xray, lab equipments. **2. Food Security** Higher market prices for basic foodstuffs; "Entitlement" problems in obtaining food; Shortages of basic food items; Decrease in household diet and caloric intake; Decreased agricultural and production; Decrease in livestock production; Black market purchases **3. Economics** Decreased export earnings; Decreased trade leading to closure of business and industry; Inflation; Unemployment; Emergence of black (paralles [sic]) market; Decrease wages, purchasing power; Increase in personal/household loans; Decreased economic activity (industry, commerce, agriculture, etc) due to lack of trading partners, resources, funds, inputs.	**1. Health** Reduction in the overall (general) health status of the population Deterioration in health services and diminshed [sic] national capacity to provide care; Loss of previous gains in preventive and curative care services; Resurgence of illness and disease associated with poverty (e.g. epidemics, infectious disease) **2. Economic** Chronically decreased economic activity; Decline in revenue from all sources; Decline in GDP, GNP, per capital income; Loss of trade partners, regional/ international trade interests; Chronically high unemployment Collapse of public and private infrastructure Decline in public education. **3. Social** Increase poverty Increase in social inequality (Income gap between rich and poor); Social upheaval, violence distress Decrease in social cohesion Psychosocial impact difficult to measure **4. Political** Impact on democracy Impact on human rights, previously-observed democratic freedoms Change in regional balance of power, security