

Economics

Adam Smith is thought to be the father of Modern Economics. In 1776, he published a book called “The Wealth of Nations.” It is no wonder that it was published the same year as the Declaration of Independence, since people were trying to attain freedom at that time. They believed in the importance of political freedom and economical freedom to ensure the nation’s growth, wealth, and prosperity.

Economics is a social science. It discusses and looks at the choices people make when deciding to buy things or save money. It also looks at the choices that companies make when deciding what to produce.

There are two main types of things that you can buy or consume. There are **goods**, which are objects you can touch, like music CDs, toys, and books. The other type is **services**, which are things you cannot touch, such as getting your car washed or going to a movie theater.

To produce goods and services, resources are needed. There are three main kinds of resources:

- 1) Natural Resources: gifts from nature, like land and oil.
- 2) Human Resources: represent the time spent by people working to make and produce goods and services. It is also known as labor.
- 3) Capital Resources: are man-made objects that are used for producing goods and services. Examples include: computers, hammers, and machines.

These resources are also called **inputs or means of production**, as they are needed for companies or people to produce goods and services. For example, a farmer needs his land (natural resources) to plant seeds. He will need to spend time working on the land (human resources). He also needs tools to make sure that he is able to plant the seeds, water the land, and remove weeds (capital resources). He needs all these inputs to get vegetables or fruits. The vegetables and fruits are considered the end result, and are called outputs of production. **Outputs** are the goods or services produced.

In a society, people want to consume more things than what is available. There are many goods and services that companies can produce, but they do not have endless resources, so they cannot produce all the goods and services that people want. When faced with limited resources, companies must choose what to produce with their limited resources. This is known as the **law of scarcity**.

The main questions in economics are: What is to be produced? How it will be produced? For whom will it be produced?

Name _____

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Economics (Cont'd)

Economics is the study of how societies use scarce resources to produce valuable goods and services to distribute them among people.

Economics has two main branches. **Microeconomics** deals with the behavior of private households and companies. **Macroeconomics** concentrates on society and the country as a whole.

There are three types of economies:

- 1) **Command economy** is when the government makes all the decisions about what to produce and how to produce it. The government owns a majority of the inputs of production.
- 2) **Market Economy** is when private households and private companies make the major decisions about what to produce. The people and private companies are the ones that decide what to produce and how to produce it. They own the majority of the means of production.
- 3) **Mixed Economy** - all societies are mainly mixed economies. Both the government and the market that is represented by the people and private companies decide what is to be produced. The government makes decisions on the needed regulations for businesses and sets laws and rules to govern how the market works. However, the extent of how much the government is involved varies in each society.

Economics Answers

Multiple Choice:

1. The father of Modern Economics who wrote “The Wealth of Nations” is:
 - a. John Keynes
 - b. Karl Marx
 - c. Adam Smith
 - d. Thomas Malthus

2. Economies in which the government makes the major decisions and owns the majority of the inputs of production is called:
 - a. Command Economy
 - b. Market Economy
 - c. Mixed Economy
 - d. None of the above

3. Microeconomics focuses on:
 - a. The society and country as a whole
 - b. The resources of a country
 - c. The behavior of private households and companies
 - d. Trade between governments

4. The main questions in economics are:
 - a. What goods and services will be produced?
 - b. How will the goods and services be produced?
 - c. For whom will the goods and services be produced?
 - d. All of the above

True or False:

- ____ 5. Most societies are mixed economies.
- ____ 6. The law of scarcity states that companies must choose what to produce when faced with limited resources.
- ____ 7. Outputs of production are natural resources, human resources, and capital resources.
- ____ 8. Services are things you can touch, such as CDs and books.
- ____ 9. Economics is the study of how societies use scarce resources to produce valuable goods and services to distribute them among people.

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