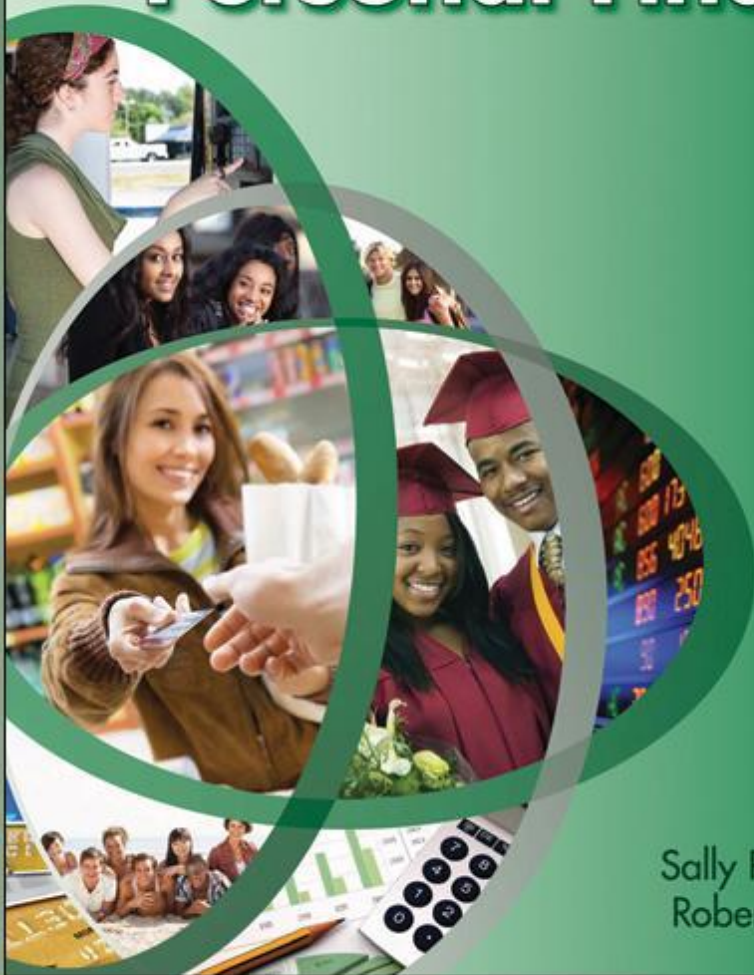


G-W Goodheart-Willcox Publisher

Foundations of Personal Finance

Ninth Edition



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PowerPoint Presentations for

Foundations of Personal Finance

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G-W
PUBLISHER

The Goodheart-Willcox Co., Inc.
Tinley Park, Illinois

Chapter 18

Economic Principles

Section 18.1

WHAT IS ECONOMICS?

Objectives

- Compare different types of economic systems.
- Explain the challenge of scarcity.

Terms

- goods
- services
- economic system
- traditional economy
- market economy
- free enterprise system
- consumer
- producer
- marketplace
- command economy
- mixed economy
- scarcity
- nonhuman resource
- human resource
- trade-off
- opportunity cost

Economic Systems

- An **economic system** is the structure in which limited resources are turned into goods and services to address unlimited needs and wants
 - Traditional economy
 - Market economy
 - Command economy
 - Mixed economy

Economic Systems (Continued)

- A **traditional economy** is a system in which economic decisions are based on a society's values, culture, and customs
 - Mostly exists in developing nations governed by strong cultural, religious, or tribal leadership
 - Change comes slowly

Economic Systems (Continued)

- A **market economy** is a system in which privately owned businesses operate and compete for profits with limited government regulation or interference
 - It is also called a **free enterprise system** or *capitalism*
 - Businesses react to consumer demands

Economic Systems (Continued)

- A **consumer** is a buyer and user of goods and services
- A **producer** is an individual or business that provides the supply of goods and services to meet consumer demands
- The **marketplace** is not a physical space, it can refer to all, or a limited segment of, goods and services in a selected segment in an economy

Discussion

How many times have you acted as a consumer today? Think about all of the different goods and services you have used.

Economic Systems (Continued)

- A **command economy** is a system in which a central authority (usually government) controls economic activities by deciding what will be produced, how much to produce, by whom it will be produced, and what prices will be charged
- A **mixed economy** is a system in which a combination of the market and command systems in which the government may regulate certain industries (most economies are mixed)

The Challenge of Scarcity

- **Scarcity** is the challenge of stretching resources to cover needs and wants
- **Nonhuman resource** is an external resource, such as money, time, equipment, or a possession
- **Human resource** is a quality or characteristic that a person has

Trade-Offs and Opportunity Cost

- **Trade-off** is the choice you give up when you make one choice over another (example: the money you spent on the option could have been used for something else)
- **Opportunity cost** is the value of the option you gave up (can be measured in dollars, time, enjoyment, or something else of value)

Scarcity and Economic Systems

- The scarcity of resources leads to three problems for all societies:
 - What and how much to produce
 - How to allocate resources in producing goods and services
 - How to divide the goods and services produced

Review 18.1

- What is the challenge of stretching resources to cover needs and wants?
 - Scarcity
- What is another name for a market economy?
 - Free enterprise system or capitalism

Section 18.2

HOW THE US ECONOMY WORKS

Objectives

- Describe the factors of production.
- Discuss the qualities of a market economy.

Terms

- factor of production
- land
- natural resource
- labor
- productivity
- capital
- capital good
- innovation
- profit
- supply
- demand

Factors of Production

- **Factor of production**—an economic resource
 - Land
 - Labor
 - Capital
 - Entrepreneurship

Factors of Production (Continued)

- **Land** is all of the natural resources of a nation
- **Natural resources** are raw materials, such as soil, water, minerals, plants, animals, and climate
- **Labor** is work performed by people who turn resources into products
- **Productivity** is a measure of the amount of work a person can do in a specific amount of time

Factors of Production (Continued)

- **Capital**—manufactured products that are used to make other products
- **Capital good**—a manufactured product that is used to make a final product

Entrepreneurship

- Inventors create a totally new product, process, or idea
- Innovators find new ways to use and improve existing products and processes
- Entrepreneurs find a way to produce and market a product or process, and assume financial and other risks in starting businesses

Market Qualities

- Private ownership of resources
- Economic freedom to make choices
- Market forces

Market Forces

- Economic competition occurs when two or more sellers offer similar goods and services
- **Innovation** is the process of creating something, such as new or improved products and new ways to do things and solve problems
- Profit motive is the promise of earning money
 - **Profit** is the total amount of money earned after expenses are subtracted from income
 - Profit motive drives businesses to produce goods and services to meet consumer demand

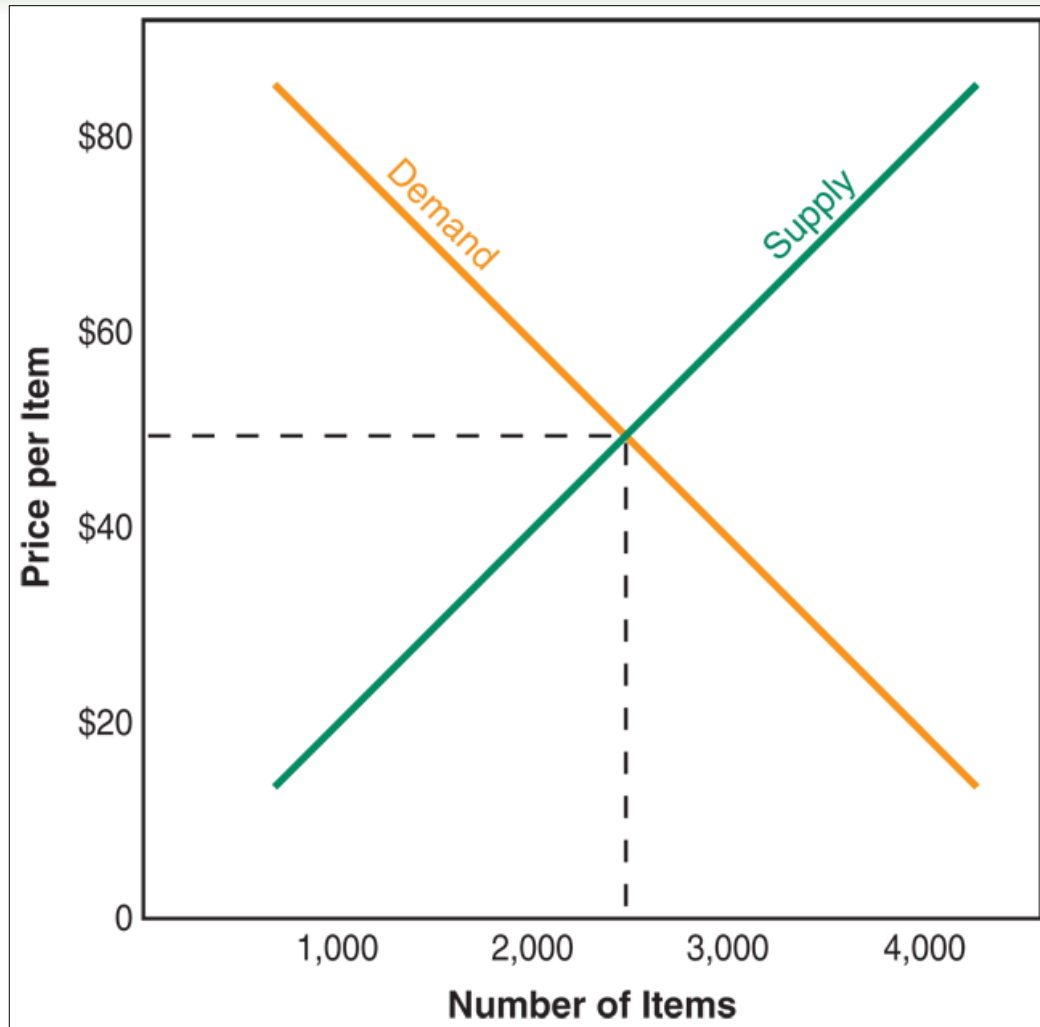
Discussion

What are some examples of businesses that are in competition in this community?

Market Forces (Continued)

- Supply and Demand
 - **Supply** is amount of a product or service producers are willing to provide
 - **Demand** is the quantity of a product or service consumers are willing to buy

Market Forces (Continued)



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Review 18.2

- What is a measure of the amount of work a person can do in a specific amount of time?
 - Productivity
- What is the process of creating something, such as new or improved products, and new ways to do things and solve problems?
 - Innovation