17 d. list a variety of strategies for allocating scarce resources

Sample Resource Allocation Strategies

Strategy	Description	Advantage	Disadvantage
price	resource goes to those who use market mechanisms such as trade, barter, or price	*great for those who have money or a job with income*	*not good for those who have little or no income*
majority rule	resource goes to those who win an election; voting; consensus; largest number of people are satisfied	*great for those who are popular and those who have many members*	*not good for the unpopular; those who don't have the skills to form alliances*
contests	resource goes to the most competitive – winner of a race or arm wrestle; survival of the fittest	*great for those who are talented and skillful*	*not good for those who aren't competitive; unskilled*
Force	resource goes to the one who is strongest (physical, mental, political); most forceful	*great for those who are strong, powerful, bullish*	*not good for those who are weak, small, easily intimidated*
sharing	resource goes to multiple parties by dividing the resource	*great in that everyone gets an equal part; no one is left out*	*not good in that some resources can't be divided; no party may get enough; not everyone wants some of every resource*
Lottery	resource goes to the luckiest; random; fair	*great for those who are lucky and win things; everyone has an equal chance; random winners*	*not good for those who are unlucky or who "never win anything"*
command	resource goes where directed, ordered, told by another person	*great for those who are liked by the commander or if the planner is always fair*	*not good if the planner isn't fair*
first-come, first-served	resource goes to the early bird; first in line	*great for those who are quick, willing to get ahead of the crowd*	*not good for the procrastinator; those who are late in planning/ preparing*
personal characteristics	resource goes to the one with the greatest tenure, the longest hair, the oldest, the youngest, the bluest eyes, etc.	*great for those who are able to set the personal characteristic to be awarded the resource*	*not good for those unable to influence the selection of the characteristic category*

SSEF2 Give examples of how rational decision making entails comparing the marginal benefits and the marginal costs of an action.

SSEF6: Productivity, economic growth and future standards of living are influenced by investment in factories, machinery, new technology and the health, education and training of people.

21 a. define productivity as the relationship of inputs to outputs

Productivity is measured as the quantity of output per unit of input.

Productivity: Efficient use of factors of production are necessary since our supply is limited (scarcity).

An increase in productivity means producing more goods and services with the same amount of resources

OR producing the same amount of goods and services with fewer resources or a combination of the two possibilities.

Over time, productivity growth means that the average worker is producing more per hour, which means that the average **standard of living** in the economy will be higher.

Standard of living: quality of life base on the possession of necessities and luxuries that make life easier.

Ways to increase productivity

1. Specialization of Labor- labor can become an expert in one field allowing them to be more qualified for their specific job. This is best achieved through Division of Labor- labor is allowed to focus on one set of duties.

2. Human Capital-the total of the skills, abilities, health and motivation of people. Better quality human capital always results in more efficient production. Job training is an investment in capital.

Why do societies invest in human capital? Explain with specific examples.

What does automation do for human capital?

21 b. give illustrations of investment in equipment and technology and explain their relationship to economic growth

Economic growth refers to the ability of the economy to increase its total real output or real GDP, or its real output per person.

Economic growth comes from improvements in the education, experience and skill level of the workforce (human capital); greater amounts of physical capital, that is, plant and equipment per worker; and improved technology.

Economic growth is critical to job-creation and economic well-being. Economic growth slows down as the economy approaches its peak and becomes negative as it goes into recession. Economic growth begins increasing back toward zero as the economy approaches its trough and becomes positive as it begins its recovery.

21 c. give examples of how investment in education can lead to a higher standard of living

Economic development is facilitated by high investment levels in physical and human capital, higher productivity, competitive markets, low inflation, political stability and free trade.

17 f. Rational decisions occur when the marginal benefits of an action equal or exceed the marginal costs.

Marginal means additional or change.

Marginal Benefit = Marginal Cost

For example, we don't make decisions between spending the entire day watching TV or the entire day studying. Instead, we choose between spending a little more time studying and a little less time watching TV, or vice versa. So a decision between studying and watching TV involves comparing the marginal benefit of studying with the marginal benefit of watching TV, not comparing their total benefit. The total benefit of studying could be far greater than the total benefit of watching TV, but after several hours of studying, the marginal benefit of studying could be less than the marginal benefit of watching TV.

We make these choices based on utility.

Utility: Satisfaction.

18. a. give examples of how individuals and businesses specialize

Division of labor refers to the practice that the tasks of producing a good or service are divided up into separate tasks.

When workers focus on performing separate tasks, specialization occurs.

SSEF4 AKS 19:The student will compare and contrast different economic systems, and explain how they answer the three basic economic questions of what to produce, how to produce and for whom to produce.

What goods and services will be produced?
How will goods and services be produced?
Who will consume the goods and services?

Traditional Economy

Answers basic question based on custom and historical precedent. Individuals are not free to make decisions based on their wants. Roles are defined by the customs of their ancestors.

Strengths:

Everyone knows WHAT to produce, HOW to produce and FOR WHOM to produce.

Life is stable, predictable and continuous.

Weakness:

Discourages new ideas.

Lack of progress usually leads to a lower standard of living.

Traditional economies offer few choices.

Command Economy

A central authority (usually government) makes decisions. The people are expected to follow the commands of the authority. The central authority defines their needs and wants and sets the prices of the products.

Strengths:

If circumstance requires a quick change in allocation of resource it can meet this need rapidly.

Weaknesses:

They are not designed to meet the wants and needs of the people.

People have little incentive to work hard in a command economy because they will get paid by meeting quota.

Require huge bureaucracies to make decisions. This slows the day to day decisions. It also raises costs.

Little flexibility to deal with day to day problems. Decisions must be made with approval from above.

People have trouble getting ahead in a command economy.

Market Economy

Economic decisions are guided by the changes in price that occur as individual buyers and sellers interact in the market. Other names for a market economy are free enterprise, capitalism and laissez-faire.

Strengths

Markets can adjust over time. Adjusts to changes in **price**.

Producers can decide WHAT to produce and HOW to produce. This leads to greater efficiency in the market. Decision is made based on **profits**.

Small degree of Government interference.

Individual decisions direct the use of scare resources.

A very large variety of goods will be produced because there are buyers. **Competition.**

Both majority and minority get what they want.

	Command	**Market**	**Mixed**
Private Ownership			
Profit Motive			
Consumer Sovereignty			
Competition			
Government Regulation			
Who makes decisions			

Weakness:

The FOR WHOM part is weak.
Sometimes competition is not as great as it should be.

If market fail to meet needs and wants this system breaks down. It only rewards production, so those who do not produce suffer. (Young, old, sick.)

There are no pure command or market economies. Most are **mixed economies**. However, most economies are closer to one type of economic system than another.

19 a. compare command, market, and mixed economic systems with regard to private ownership, profit motive, consumer sovereignty, competition, government regulation

Most economic systems also contain elements of tradition or repeating decisions in ways made at an earlier time or by an earlier generation.

For each of the following, say yes or no as to if they meet the requirement on the left. For the last one, tell who makes the decisions.

19. **b. evaluate how well each type of system answers the three economic questions and meets the broad social and economic goals of freedom, security, equity, growth, efficiency and stability**

Economic Freedom: The right to choose your own occupation, employer, and use of your money (taxes?). Business owners have the right to produce what they want and how much they want.

Economic Security: protection from layoffs due to illness and such.

Economic Equity: The application of our concepts of what is "fair" or "unfair" and what is "right" or "wrong" to an economic policy.
For example: Illegal to discriminate based on age, race, sex or disability. Illegal to false advertising. Unfair pricing and dangerous products are prohibited.

Economic Growth: Increasing the production of goods and services over time.

Standard of Living: Quality of life based on possession of necessities and luxuries that make like easier.

Economic Efficiency: how well scarce productive resources are allocated to produce the goods and services people want.

	Command	**Market**	**Mixed**
Economic Freedom			
Economic Security			
Economic Equity			
Economic Growth			
Economic Efficiency			
Economic Stability			

Economic Stability: stable prices and full employment. Price stability means avoiding inflation or deflation. Full employment occurs when an economy's scarce resource, especially labor, are fully utilized.

For each of the following, rank on a scale from 1-10 how well each system meets the goal on the left. 1 being worst and 10 being best.

SSEF5 AKS 20: The student will describe the roles of government in a market economy.

Government has an active role in establishing a framework or rules of the game in economic life.

In the United States, this activity involves
- -preserving and fostering competition
- -regulating natural monopolies
- -providing information and services to enable the market to work better
- -regulating externalities
- -providing certain public goods
- -offering some economic security and income redistribution to individuals
- -assuring a sound monetary system
- -promoting overall economic stability and growth.

b. give examples of government regulation and deregulation and their effects on consumers and producers.

AKS: 24A: Compare and contrast three forms of business organizations (sole proprietorship, partnership, and corporation)

Sole Proprietorship: A business owned by one person

Advantages of sole proprietorships

- **Ease of start up**. An idea, hard work and a little bit of capital. Ex: lawn mowing service, baby sitting….

- **Ease of Management**: you make the decisions (flexibility). No need to consult anyone.
- **You keep all profits**
- You **do not have to pay any business taxes**. Your income is taxed as personal income.
- **Psychological advantages**: freedom, you are the boss, personal satisfaction of ownership
- **Ease of exit**: If you want out you close the door

Economic Weakness of sole proprietorship:

- **Unlimited Liability**: you have total responsibility for all debts and liabilities of the company
- **Difficulty in raising financial capital**: Bankers are not eager to loan money without collateral
- **Limited size and efficiency**: larger business usually are more productive due to specialization
- **Limited managerial experience**: Proprietor must be the idea man, operator, accountant, salesman…
- **Difficulty in attracting qualified employees**: Larger firms have and advantage because they can afford better benefits.
  Fringe Benefits: paid vacation, sick leave, retirement, health insurance…
- **Limited Life**: the business dies with the owner. All contracts expire when he dies. Estate taxes must be paid. Bank loans become due.

Partnerships: Businesses jointly owned by two **or more** people

Advantages of Partnerships:

Ease of establishment: includes lower start up cost because spread between partners.

Ease of Management: each partner has different things to offer

No special business taxes

Easier to raise financial capital (than a corporation)

Larger than sole proprietorship

Easier to attract qualified workers

Disadvantages of Partnerships

- **Unlimited liability**: (even responsible for your partners mess ups!)
  Limited partner is only responsible for his initial investment. He has limited liability.
- **Limited Life**: If one person quits or dies the partnership ends and either company dies or new one must be made up.

- **Conflict between partners**

Corporation: a form of business set up by state law. It is an artificial person having the right to do business.

<u>Advantages of a corporation</u>:

- **Ease of raising financial capital** (main advantage)
  - Selling stock to investors
  - Selling bonds: a written promise to repay a loan on a specific date
    - Principal: the amount borrowed
    - Interest: the price paid for the use of another's money
  - Borrowing money from banks.

- **Ability to hire good management**

- **Limited liability**: In a sole proprietorship or partnership a creditor can seize all of your personal assets as a claim against company debt. They can take your house, car, boat, and savings account… If a corporation goes under all you lose is your investment in the corporation. Your personal property can not be touched.

- **Unlimited life**: A corporation never dies. Unlike sole proprietorships a corporation can continue to do business for hundreds of years. It does not have to pay estate taxes or lose contracts due to the death of an owner (Wendy's is still open)

- **Ease of transferring ownership**. Buying and selling stock is easy and is done millions of times a day

<u>Disadvantages of a corporation</u>:

- **Start up expenses are high**. Must pay for a charter, have an attorney file it ….

- **Stockholders (owners) have a limited voice in running the company** because they do it through an elected board of directors

- **Profits are taxed twice**. The corporations are treated as an individual and taxed before dividends are given out. When that money is distributed to stockholders (in the form of dividends) the stockholders are taxed on that money again.

- Corporations are subject to **more government regulations** than sole proprietors or partners

Under Laissez Faire the belief is that the government should only
- Protect private property
- Enforce contracts
- Settle disputes
- Protect business

AKS 24 c: Identify the basic characterstics of monopoly , oligopoly, monopolistic competition and pure competition. Activity 30

Pure Competition: independent and well-informed buyers and sellers of exactly the same economic product.

Pure competition does not exist in reality but agriculture products come closest to being an example.

Imperfect Competition: any market situation that lacks one or more conditions of pure competition.

Monopolistic Competition: has all of the conditions of pure competition except for identical product.

Why is it called Monopolistic Competition?
Monopolistic because seller can raise price and still keep customers.
Competitive because if seller raises prices too much customers will substitute other goods.

Oligopoly: a market in which a few large sellers dominate the market.
Almost impossible for new firms to enter the market.
When one firm does something the others follow
Collusion: a formal agreement to set prices
Price Fixing is an agreement to charge the same price (it is illegal but hard to prove)

Pricing behavior in oligopolies:
When one firm lowers price the others must follow or lose business
Price Wars: a series of price cuts by all producers. The price can sometimes fall below the cost of production in a war.
Price Leadership: One firm sets the price and others follow.

Monopoly:

Natural Monopoly: A market situation where costs are minimized by having a single firm produce the product.
Natural monopolies are regulated by government. Ex: Electricity.
The government grants these companies a <u>Franchise</u>: exclusive rights to do business in a certain area without competition.
Large size allows them to achieve <u>economies of scale</u>: a situation in which the larger the firm grows, the more efficiently it uses its personnel, plant and equipment

Geographical Monopoly: no competitors in the geographical area.

Technical Monopoly: A firm or individual has discovered a new manufacturing technique or has invented or created something entirely new.
<u>Patent</u>: an exclusive right to manufacture, use ore sell any new and useful art, machine, manufacture, or composition of mater, or any new and useful improvement thereof.
Inventions are protected for 17 years
Designs patented for shorter periods of time.
<u>Copyright</u>: exclusive right to publish, sell or reproduce a work of art or literature for lifetime plus 50 years.

Government Monopolies: a business the government owns and operates. Usually things that are not being provided for by private firms.

Antitrust Legislation:

Trust: legally formed combinations of corporations or companies

Antitrust legislation arose in late 1800's because people began to fear powerful business.

Sherman Antitrust Act of 1890:

To protect trade and commerce against unlawful restraint and monopoly

Main purpose is was to promote competition

Trusts found loopholes

Clayton Antitrust Act of 1914:

Written to strengthen the Sherman Act

Gave government greater power against monopolies

Outlawed Price Discrimination: charging customers different prices for the same product

Market Structure	No. of Firms	Type of Product	Conditions of Entry	Type of Price-Setting Behavior	Nonprice competition
Perfect Competition	Many	Homogeneous	Free or very easy	Determined by market	None
Monopolistic Competition	Many	Differentiated	Relatively Easy	Determined by market plus small amount of discretion	Some
Oligopoly	Few	Either	Substantial barriers	Determined by market plus large amount of discretion. Possible price leadership.	Extensive
Monopoly	One	Only one	Blocked	Established price at most profitable level possible	