Economics

Social Studies 30-1

Imagine that you are in charge of all the income for your home each month. What factors will you consider in deciding how the money will be spent? Maybe there isn't enough money to get what everyone needs to support the quality of life they want. Most likely, each person in your home will have their own views on how to spend the money — and that will create issues that you will need to explore and debate…

Economics is about decisions like that. It's about what to create, grow, eat, sell and buy, and how to respond to the different needs of people in society. It affects the incomes people make, the jobs they have, and the taxes they pay to the government.

Economics: the study of the production, distribution and consumption of goods and services

Focus Question

How do economic decisions about scarcity, supply and demand, and competition affect individuals and groups?

Key Concepts

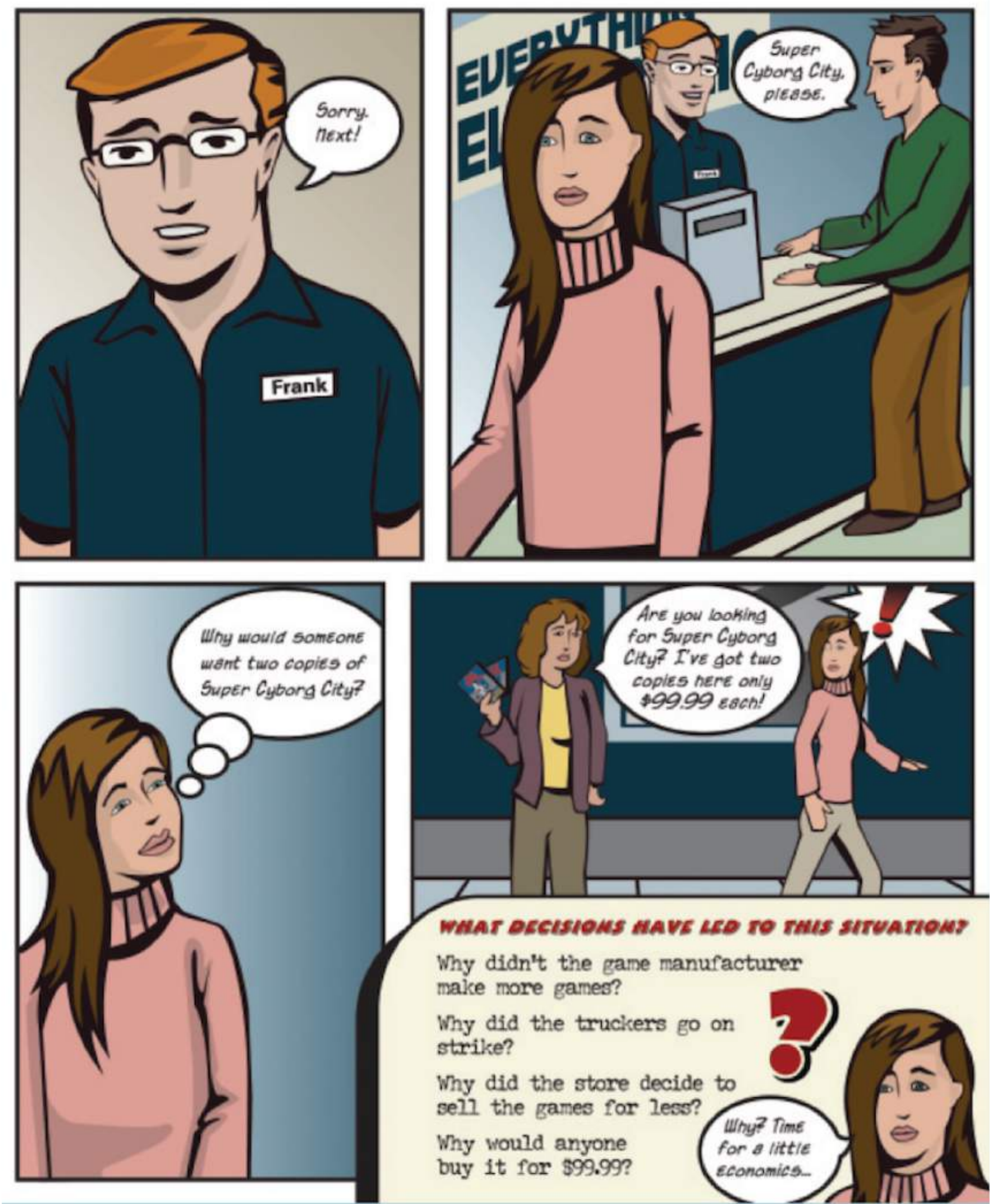
- Economy
- Scarcity and Factors of Production (Land, Labor, and Capital)
- The Economic Continuum: Planned Economy, Mixed Economy, and Market Economy
- Competition
- Supply and Demand

Vocabulary

Economy: the resources and processes involved in the production, distribution and consumption of goods and services

- As a consumer, you are part of Canada's economy. The things you own, such as the items your backpack, reflect what you value and your decisions about what to buy. They also reflect what is available for you to buy, based on how Canada's economy allocates resource.


EVERYTHING ELECTR
ECONOMICS IN ACTION
SUPER CYBORG CITY
Get it here for $49.99 Only
Almost there! Good thing I had nothing else to do this morning.
Super Cyborg City, please.
Sorry, we're sold out.
What?!! How did this happen?
Do you really want to know?
I just spent three hours in line. Yes, I really want to know!
Well...
Hey! Make it quick up there!
The demand for the game has been incredible.
So why didn't you stock lots of the game?
We tried, but we couldn't get any more copies.
Why?
The game manufacturer couldn't supply more.
Then, last week's truckers' strike meant we only got a partial shipment.
Because we discount prices more than other stores, we sell out faster.
And the customer who was ahead of you just bought the last two copies of Super Cyborg City in the store.
Okay?
Not really.



In the comic you just read, you saw **scarcity** at work. The demand for the hit game Super Cyborg City was so great — so many people wanted it — that the store could not supply enough copies to meet the demand.

- What could be done about this situation?
- What do you believe should be done?

Vocabulary

Scarcity:

- in economics, the idea that land (materials), labor and capital (money) limit the supply of what people want and need
- the tension between infinite wants and finite resources.
- *"Human wants will always exceed the resources available to fulfill those wants."* = we must make CHOCIES

- Some things people need are unlimited. For example, people need air. Air is usually freely available, unless — for example — you happen to be scuba diving.
- Most things that people need or want, however, are limited. This is because resources are limited. In economics, resources include the money, labor, and materials to supply what people want and need. Resources can be limited for a number of reasons.

Examples

Fresh Fruit

- Think of things you buy at the grocery store, like fresh berries. Many factors can limit the supply of fresh berries — for example, the growing season in Canada and trade agreements with other parts of the world In economics, the idea that resources are limited is called **scarcity**. The basic questions of economics are about how to solve scarcity:
  - What is needed or wanted?
  - How will it be produced?
  - Who will get it?
- The decisions we make about these questions create issues that affect our **quality of life.**

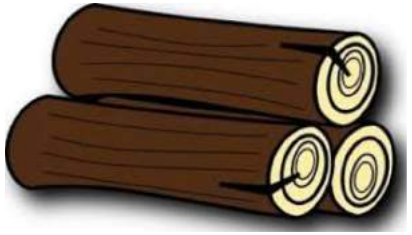
Water

- Even though about 71 percent of the Earth's surface is water-covered, is all of that safe to drink? Water scarcity is caused by a lack of investment in infrastructure or technology to draw water from rivers, aquifers or other water sources, or insufficient human capacity to satisfy the demand for water. One quarter of the world's population is affected by economic water scarcity.
  - How do we deal with issues of scarcity in terms of basic human needs?

What Creates Scarcity?

The three basic "**factors of production**" interact to limit the supply of what people need and want. These include **land, labor** and **capital**.

- **Land:** consists of all the materials found in the natural environment needed to produce goods and services, such as renewable resources (e.g., trees, raspberries) and non-renewable resources (e.g., oil, gold).

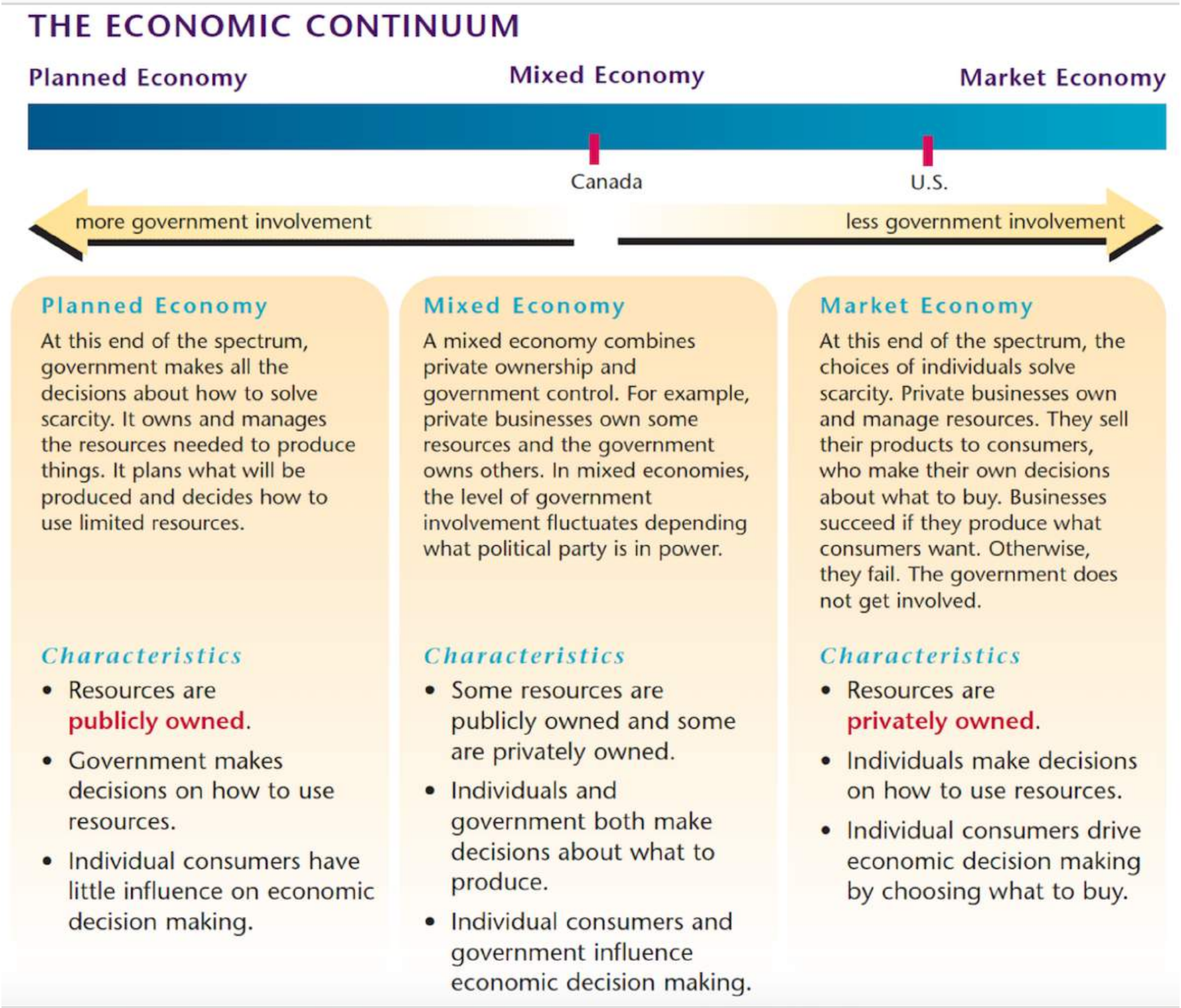


- **Labor**: consists of the physical and mental effort needed to produce goods and services (e.g., agricultural workers to produce foods, servers to staff restaurants.)

- **Capital**: consists of the money that people own or borrow, used to purchase equipment, tools and other resources to produce goods and services.

What’s an Economic System?

- An **economic system** is a way to solve the basic problem of scarcity. Different ideas about how best to organize an economy result in different economic systems. You can put them on a continuum, like the one on the next slide. An economic system’s position on the continuum is dynamic, and depends on the underlying values of a society and its government. The positions of Canada and the U.S. on the continuum below reflect a traditional perspective on differences between their economies. Their actual positions on the continuum shift right and left, depending on the political party in power.



Publicly Owned: in economics, the part of the economy owned and controlled by government and paid for by taxes

Privately Owned: in economics, the part of the economy owned and controlled by businesses and individuals

https://www.youtube.com/watch?v=sHkviUk_47k

Centrally Planned/Command Economy

- In planned economies, the government owns and controls and resources and means of production. Therefore, the government will decide how to allocate those resources to best meet the needs of the population. Typically exist in dictatorships.

- Karl Marx

Mixed Market Economy

- In a mixed market economy, there is a mixture of government planning/intervention and free enterprise in the private sector. The government will intervene when the need is present.

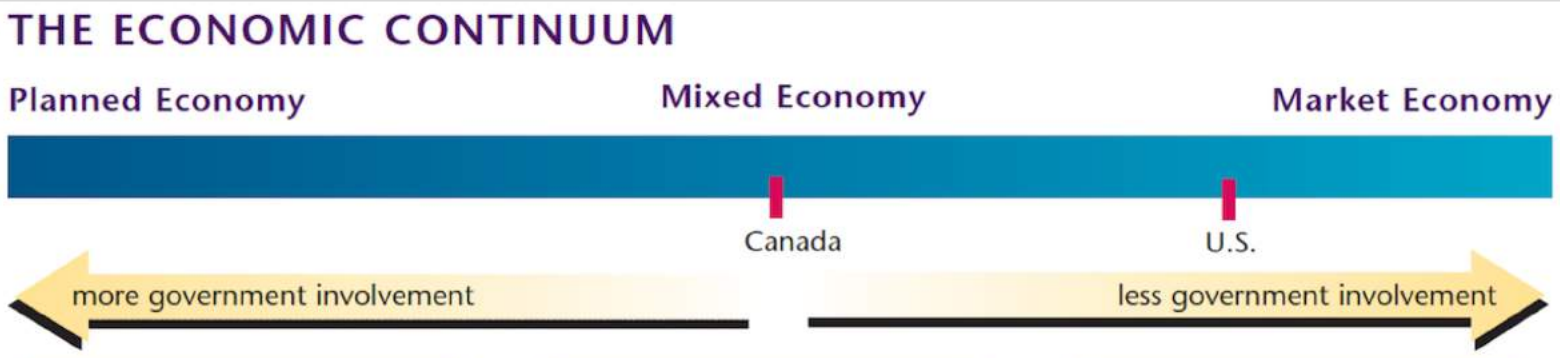
- John Maynard Keynes

Free Market Economy

- In free markets, **individuals** make economic decisions. This is characterized by **unobstructed competition** and only private transactions between buyers and sellers, with **no government involvement or interference.**

- **Adam Smith**
- **The Invisible Hand**
  - Self Interest + Competition
  - Supply and Demand
- The term “free market” is sometimes used as a synonym for ***Laissez-Faire*** Capitalism. The phrase *laissez-faire* is part of a larger French phrase and basically translates to "let (it/them) do", but in this context usually means to "let go."


CHARACTERISTICS OF FREE MARKET ECONOMY
$
THE PROFIT MOTIVE
MINIMAL GOVERNMENT INTERVENTION
COMPETITION
ADAPTABILITY



Planned Economy

At this end of the spectrum, government makes all the decisions about how to solve scarcity. It owns and manages the resources needed to produce things. It plans what will be produced and decides how to use limited resources.

Characteristics

- Resources are **publicly owned**.
- Government makes decisions on how to use resources.
- Individual consumers have little influence on economic decision making.

Mixed Economy

A mixed economy combines private ownership and government control. For example, private businesses own some resources and the government owns others. In mixed economies, the level of government involvement fluctuates depending what political party is in power.

Characteristics

- Some resources are publicly owned and some are privately owned.
- Individuals and government both make decisions about what to produce.
- Individual consumers and government influence economic decision making.

Market Economy

At this end of the spectrum, the choices of individuals solve scarcity. Private businesses own and manage resources. They sell their products to consumers, who make their own decisions about what to buy. Businesses succeed if they produce what consumers want. Otherwise, they fail. The government does not get involved.

Characteristics

- Resources are **privately owned**.
- Individuals make decisions on how to use resources.
- Individual consumers drive economic decision making by choosing what to buy.

Shift Left: a shift on the economic continuum towards more government involvement in the economy. A shift left is usually described as taking a more **liberal** position.

Shift Right: a shift on the economic continuum towards less government involvement in the economy. A shift right is usually described as taking a more **conservative** position.


THE BIRTH OF FREE MARKET ECONOMICS
I WISH I HAD A ROCK.
I WISH I HAD A STICK.
4-30-12
THAVES

The Public Good and Cooperation

Some people believe that individuals must consider each other and set aside their individual interests to achieve what's best for society. This worldview values equity: responding to others in a way that recognizes their needs and circumstances.

The Public Good and Individualism

Some people believe that what's best for each person individually adds up to what's best for society. This worldview values individual creativity and independence.

Crown Corporations

- A Crown corporation is a company owned by Canada's government to provide products and services to Canadians. The reasons for government to create Crown corporations include:
  - ✓To provide essential services.
  - ✓ To promote economic development
  - ✓To support Canadian culture and identity.
- Crown corporations are evidence of Canada having a **mixed economy**

- What examples of Crown corporations can you think of?

Crown Corporations

- **Air Canada** was originally Trans-Canada Airlines, established by Canada’s parliament in 1936, and owned and managed by the federal government. Parliament decided to privatize the airline — sell it to private investors — in 1988.
- **Petro-Canada** was established by Canada’s parliament in 1975. The purpose of Petro-Canada was to compete with foreign-owned companies in developing Canada’s oil and gas resources. Today, Petro-Canada is owned by private investors.

Crown Corporations

- CBC/Radio-Canada is Canada's public broadcaster, with an English-language network and a French-language network. CBC/Radio-Canada was created to promote bilingualism in Canada, and to promote Canadian culture as distinct from American culture.
- *Think critically: What's the connection between CBC/Radio-Canada and collective rights in Canada? What's the connection to identity?*

CBC

Canada lives here

Crown Corporations

CANADA POST
POSTES CANADA

BANK OF CANADA
BANQUE DU CANADA

DESTINATION CANADA

TELEFILM CANADA 50

http://www.cbc.ca/news/canada/what-are-crown-corporations-and-why-do-they-exist-1.1135699

Vocabulary

- **Consumers**: those who use products and services
- **Demand**: the wants and needs of consumers for products and services
- **Producers**: those who create products and services
- **Supply**: the products and services created by producers

- Supply and demand connect through a **cause-and-effect relationship** related to price. Each of the following diagrams show an example of this relationship and describes how it affects the economy. Supply and demand affect quality of life because they affect the prices of products we buy, the availability of products, and jobs connected to creating products.

Let's start with a state of equilibrium.

- In a state of equilibrium, the supply of a product can meet the demand for a product at a particular price.

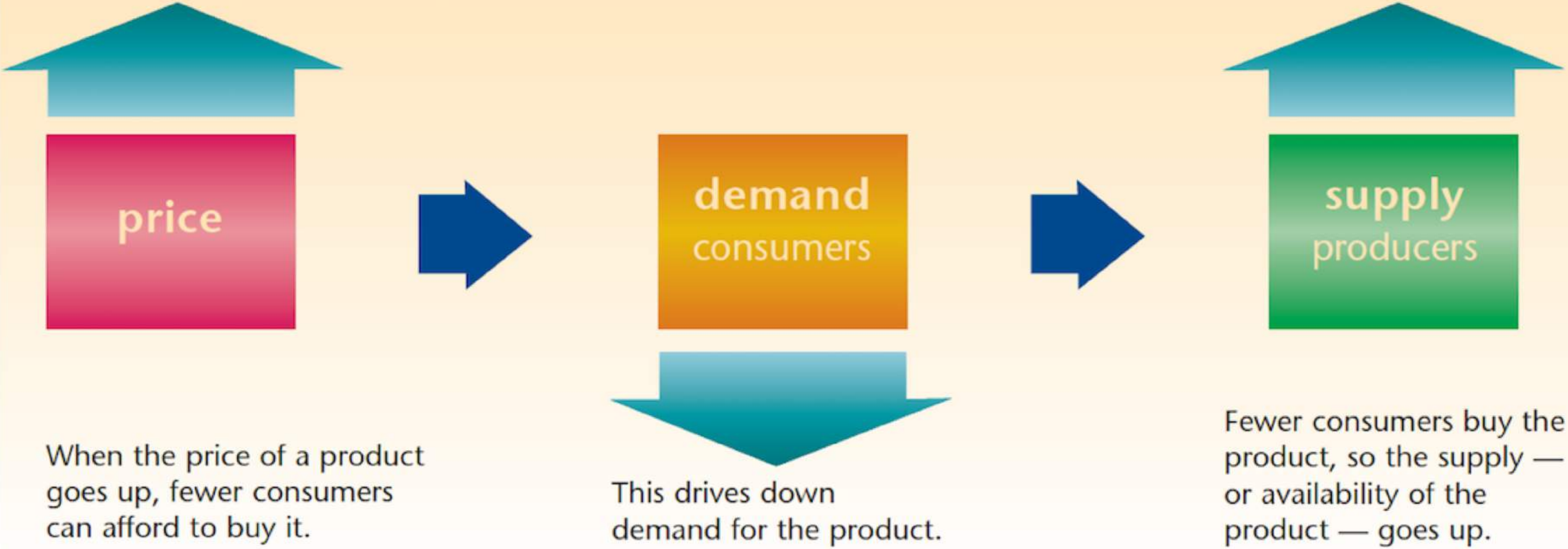
Demand goes up. What happens to supply? What happens to price?

When demand for a product goes up, it means more and more consumers are buying the product.

As consumers buy up the product, the supply — or availability — of the product drops.

This drives up the price of the product, because more consumers compete for the limited supply available.

**Price goes up. What happens to demand?
What happens to supply?**



Supply goes up. What happens to price? What happens to demand?

When the supply of a product goes up, more of the product is available.

If there are more products available than consumers want to buy, producers cut prices to encourage consumers to buy more.

The lower price encourages consumers to buy more, so demand for the product goes up.

Equilibrium is restored.

- Generally, producers want to supply as much of a product as consumers will buy, at a price that allows producers to make the most profit possible. This tends to make supply, demand and price stable over time.

Critical Thinking

- What if the supply of a product went down? How would that affect price and demand? What might cause the supply of a product to drop?
- Why might demand for a product go up? For example, what role might marketing play in demand?

Competition

- **Competition:** in economics, rivalry among producers to sell products to consumers

- Competition is about producers striving to get consumers to buy their products. Producers attract consumers in a variety of ways — through different prices and product quality, for example. Many factors can affect competition in an economic system, including the values of consumers and decisions by government to become involved in decisions about supply and demand.

CASE STUDY

Two Doughnut Shops

Imagine there are two doughnut shops in your neighbourhood. Each wants your business. What can they do?

AUTOMATIC DOUGHNUTS

This shop specializes in cheap, plentiful doughnuts. It makes large quantities of doughnuts — five kinds — with a machine. It uses bargain ingredients.

Baker's Dozen DOUGHNUTS

This shop specializes in hand-made doughnuts. It employs a staff of bakers and uses high-quality ingredients. It makes thirteen kinds of doughnuts for higher prices.

How has competition between the shops affected the variety and price of doughnuts available to you? How might this affect your quality of life?

How has competition affected the decisions the shops have made about resources — for example, ingredients and labor? What impacts might these decisions have on you and your family or friends?