**FUNDAMENTAL ECONOMIC CONCEPTS**

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| **SSEF 1 – Productive Resources**  **Scarcity** – unlimited wants with limited resources  **Four Factors of Production** – Land, Labor, Capital, Entrepreneurship  **Strategies for allocation** – lotteries, first come – first served, prices, command, merit based  **Opportunity Cost** – next best alternative use of time, money and/or resources when making choices | **SSEF 2 – Decision Making**  **Production Possibilities Curve –** graph showing the production possibilities of two goods when all resources are employed.  **Rational Decision Making** – when the marginal benefit of a decision is equal to or greater than the marginal cost | **SSEF 1 Graphs/Charts:** Identify the Opportunity Cost of moving from various points |
| **SSEF 3 - Trade**  **Specialization –** becoming skilled at one particular task to improve efficiency  **Voluntary Exchange** – trade between parties that is voluntary and non-fraudulent | **SSEF 4 – Economic Systems**  **Economic Questions** – what gets made, how’s it get made, for whom is it made?  **Command** – answered by government  **Market** – answered by producers and consumers  **Traditional** – answered by the past  Market systems have greater **private ownership, profit motive, consumer sovereignty and competition** | **SSEF 4 – Economic/Social Goals:**  **Freedom –** Private ownership and control of resources  **Security –** Some safety net for health, retirement, income, etc.  **Equity –** People free to make decisions but no guarantee of success. Market dictates income  **Growth –** Incentives for more production and avoid waste of resources. Investments in human and physical capital  **Efficiency –** Allocation decisions made by consumers and producers  **Stability** – Economic system does not have undue fluctuations with control of inflation |
| **SSEF 5 – Roles of Government**  **Provide public goods and services –** able to provide through taxes  **Redistributes income -** FICA  **Protects property rights**  **Resolves market failures** – maintain competition, assists in the movement of resources and help provide information to buyers and sellers | **SSEF 6 – Productivity**  **Productivity** – output increases with equal number of inputs  Investing in human capital (education and training) and physical capital (factories, machinery and technology) will improve productivity, economic growth and increase standard of living. | **Student Questions:** |

**MICROECONOMIC CONCEPTS**

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| **SSEMI 1 – Circular Flow of Economic Activity**  The interaction between buyers (households/individuals) and sellers (businesses/firms) through the product and factor markets  Money flows in one direction while goods and services and resources flow in the other  Money is exchanged for goods and services | **Diagram of the Circular Flow** |
| **SSEMI 2 – Supply/Demand**  **Law of Supply** – price goes up, quantity supplied goes up and vice versa  **Law of Demand** – price goes up, quantity demanded goes down and vice versa  Producers (sellers) and Consumers (buyers) work together to find equilibrium price and quantity  High prices tell producers to supply more but tells consumers to buy less and vice versa  **SSEMI 3 – Changes in Supply and Demand**  **Change in Demand – S.E.P.T.I.C**  **Change in Supply – T.I.N.T**  **Price Floors** – a price control by the government at the request of producers. Fixed above equilibrium price creating a surplus **(Upside Down House)**  **Price Ceiling** – a price control by the government at the request of consumers. Fixed below equilibrium price creating a shortage **(Upside Down House)**  **Price Elasticity** – the degree to which a change in price will create a change in demand | http://theapplepeeled.com/wordpress/wp-content/uploads/2011/04/supply_and_demand.gifhttp://www.raybromley.com/notes/noteimages/equilibrium/incrdemsup1.jpg |
| **SSEMI 4 – Business Organizations**  **Sole Proprietorship –** one owner (unlimited liability)  **Partnership** – two or more (unlimited liability)  **Corporations –** ease of raising capital through selling stock. Requires Charter from government (limited liability) | **SSEMI 4 – Market Structures**  **Pure Competition –** same product/ease of entry  **Monopolistic Competition –** product differentiation  **Oligopoly –** few businesses (Airlines)  **Monopoly –** one business (Natural, Technological, Geographic, Government) |

**MACROECONOMIC CONCEPTS**

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| **SSEMA 1 – Measures of Economy**  Three measures of economic performance – economic growth (GDP), Unemployment (unemployment rate), Inflation (CPI)  **GDP= C + I + G + (X-M)**  Spending by these sectors improves overall GDP and increases economic growth  **Unemployment Rate** – percentage of labor force without work but are actively seeking employment  **CPI** – comparing prices of consumer market basket from year to year  **Deficits** – the government annually spending more than is received in revenue  **Debt** – the total accumulation of deficits | **SSEMA 1 (cont)**  **Aggregate Demand –** Total quantity of goods and services demanded at different price levels. Total spending of consumers, business, government and net exports. Any increase in spending, increases AD and vice versa  **Aggregate Supply** – Total value of goods and services that all firms would produce at various price levels. Anything causing an increase in production costs will cause a decrease in AS and vice versa.  **Types of Unemployment**  **Frictional –** in between jobs  **Structural –** change in consumer tastes  **Cyclical –** result of recession or downturn in economy  **Technological –** replaced by machines, etc.  **Seasonal –** change in season no longer requires services | **SSEMA 1 (cont) – Business Cycle**  **Expansion –** increase in GDP, increase in CPI, decrease in Unemployment  **Peak –** highest point of GDP  **Recession (Contraction) –** decrease in GDP, decrease in CPI, increase in unemployment  **Trough –** lowest point of GDP  http://www.informationbible.com/inc-media/The-phases-of-business-cycle.gif |
| **SSEMA 2 – The FED**  **Federal Reserve System** 7 board of governors, 12 district banks orchestrate monetary policy.  **Monetary Policy** – the expansion or contraction of the money supply | **SSEMA 2 – Tools of the FED**  **Discount Rate** – decreasing the interest rate expands the money supply and vice versa  **Open Market Operations** – buying of bonds expands the money supply and vice versa  **Reserve Requirement** – lowering the reserve requirement expands the money supply and vice versa | **SSEMA 3 – Fiscal Policy**  **Fiscal Policy** – the taxing and spending decisions of the federal government  In a recession the government would decrease taxes and/or increase spending |

**INTERNATIONAL ECONOMICS**

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| **SSEIN 1 – International Trade**  **Absolute Advantage –** the ability to produce more of a good than anyone else  **Comparative Advantage –** the ability to produce a good at a lower opportunity cost than another  Trade between nations occurs because of comparative advantage  **Balance of Trade** – difference between the exports and the imports of a nation  **Balance of Payments** – difference between money paid to, and received from, other nations in trade  **Trade Deficit** – when spending on imports exceeds revenues received from exports  **Trade Surplus** – when value of a nation’s exports exceeds the value of its imports | **SSEIN 2 – Trade Barriers**  **Tariffs –** tax placed on imported goods  **Quotas –** limit on number of goods allowed in to country  **Embargoes –** stoppage of trade  **Standards –** safety or health requirements placed on foreign goods  **Subsidies –** money given to domestic companies to help production  Trade barriers are beneficial to domestic industries however they can eliminate competition  Free trade encourages competition yet can hurt domestic companies and infant industries  **Trading Blocs**  **EU** – free trade among members of European Union  **NAFTA** – free trade among members of North American Free Trade Agreement  **ASEAN** – free trade among members of Association of Southeast Asian Nations | **SSEIN 3 – Exchange Rates**  **Exchange rate –** value of one nation’s currency in relation to another nation’s currency  Exchange rates are published daily and tell how much of a currency would be received in exchange for another  When the dollar appreciates, exports decline and imports increase  When the dollar weakens, exports increase and imports decline |
| **Student Questions:** |

**PERSONAL FINANCE ECONOMICS**

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| **SSEPF 1 – Incentives**  People respond to incentives in predictable ways  When creating a financial investment plan one should follow the investment principles of starting early, buying and holding and diversifying | **SSEPF 2 – Financial Institutions**  Credit Unions provide certain benefits (better interest rates, etc.) due to being open to select members as opposed to commercial banks that accept all  Banks are businesses trying to turn a profit. Therefore, they will charge higher interest on loans than the interest offered on deposits  When investing, give thought to how much risk you are willing to assume. The lower the risk the less the return and vice versa  Savings Accounts; CDs; Bonds; Stocks; Mutual Funds (diversified investment) | **SSEPF 3 – Impact of policies**  Those on fixed incomes and lenders are hurt from inflation because they are paid with and paid back in dollars that have lower purchasing power  **Types of taxes**  **Progressive** – more you make, the more they take  **Proportional** – everyone pays equal percent  **Regressive** – tax that is heavier burden on lower income  Sales tax is proportional and regressive. Although it is the same percent for all, it is a heavier burden on the poor since a greater portion of their income is spent |
| **SSEPF 4 – Credit**  **Factors of Credit Worthiness** – opening accounts in your name, paying debts on time, make regular deposits, maintain low balances on credit cards  **Simple interest** – interest paid only on principal investment  **Compound interest** – interest paid on top of interest already paid | **SSEPF 5 – Insurance**  **Automobile –** covers for accidents and damage  **Health –** for major medical and preventive care  **Disability –** to cover wages in case of accidents and unable to work  **Property –** protects against theft, fire and other damages  **Premium** – annual cost of coverage  **Deductible** – out of pocket responsibility when filing a claim | **SSEPF 6 – Skills**  Investment in education, training and skill development will improve productivity and increase success in the workplace |
| **Student Questions:** |