

Economic Competition



Trade Off

The choices when faced with economic decisions where one has to choose one thing over another → they create opportunity costs

Every decision involves trade-offs

Today's choice



Buying a \$7 strawberry smoothie

Now



Spending \$7 another way

Later



Benefiting from \$7 saved regularly

Opportunity Cost

Whenever you make a trade-off, the thing that you choose not to do is your opportunity cost; the lost benefits an individual, investor, or business misses out on when choosing one alternative over another → what is given up; “the path not taken”

(e.g., you spend three hours and \$20 at the movies the night before an exam → the opportunity cost is time spent studying and that money to spend on something else)

What is your **opportunity cost**?

+1 hour of sleep



Theory of Comparative Advantage

When one nation is better able to produce a good or service at a lower opportunity cost to them than another nation

(e.g., oil-producing nations have a comparative advantage in chemicals because many raw ingredients are produced in the oil distillery process; so Saudi Arabia, Kuwait, and Mexico are competitive with U.S. chemical production firms)

-In the past, comparative advantage occurred more in goods than services because products are easier to export; however, telecommunication technology is making services easier to export (e.g., call centers, banking, and entertainment)

-Theory argues that a country boosts its economic growth the most by focusing on the industry in which it has the most substantial comparative advantage (e.g., England's was cloth, Portugal's was wine in the 18th century) →



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Nothing contributes so much to the prosperity and happiness of a country as high profits.

DAVID RICARDO

Every Country's **BIGGEST EXPORTS**



FUEL
FOOD AND PRODUCE
TRANSPORTATION
ELECTRONICS
METAL, MINERAL & ORGANIC
TEXTILES
MEDICAL
WEAPONS
N/A

Productivity

The amount of a good or service that can be produced in a given amount of time

-Specialization or division of labor: dividing the production process into different stages, enabling workers to focus on specific tasks

-Popularized by Adam Smith in *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776)

Framing Siding Painting Inspection Shipping



Why is the division of labor more efficient?

- Workers need less training as they only must master a small number of tasks
- It is faster to use one particular tool and do one job
- Time isn't wasted with a worker dropping a tool and then picking up another
- Workers can gain loyalty and a sense of achievement from their branch of production
- There is no need to move around the factory; the half-finished good comes to them
- Workers can concentrate on those jobs which best suit their skills and temperament

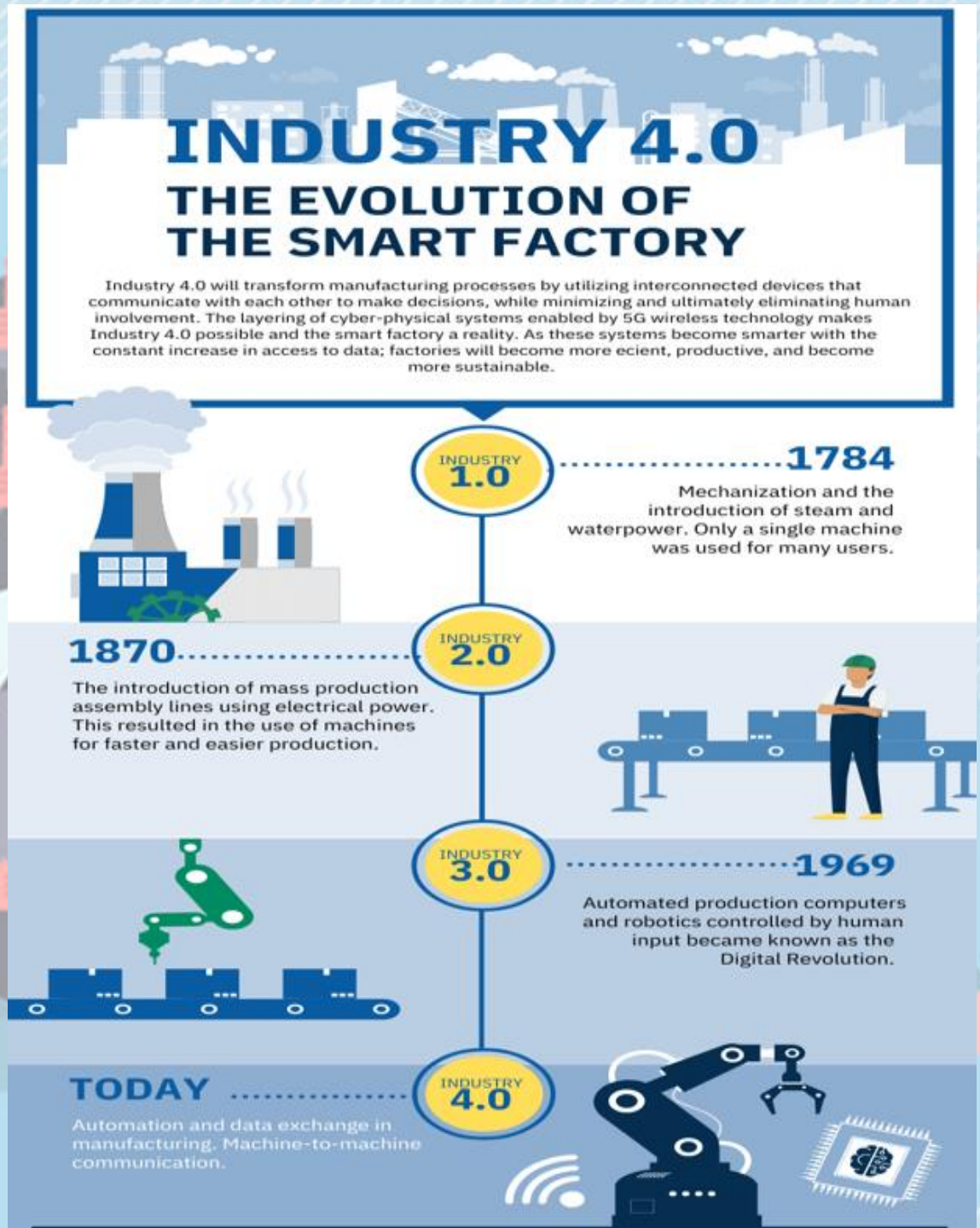


Labor-intensive work:
task/job that requires a lot of human effort and physical contact;
typically pays less (e.g., farming, factory work)

-Many labor-intensive jobs are sourced in other countries by the U.S.

-Mechanization: the use of machines, either wholly or in part, to replace human or animal labor; sometimes the result is the loss of jobs → increased unemployment

Advantage: increases productivity and profit



Mechanization

GUN MAKING. PLATE CCLXXXVI.

Fig. 5.



Fig. 6.

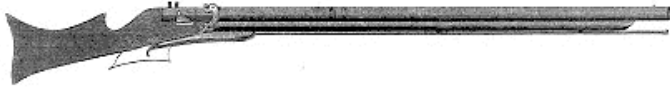


Fig. 9.



Fig. 7.



Fig. 1.

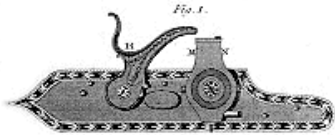
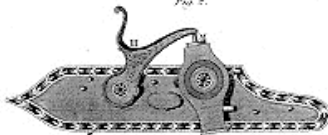
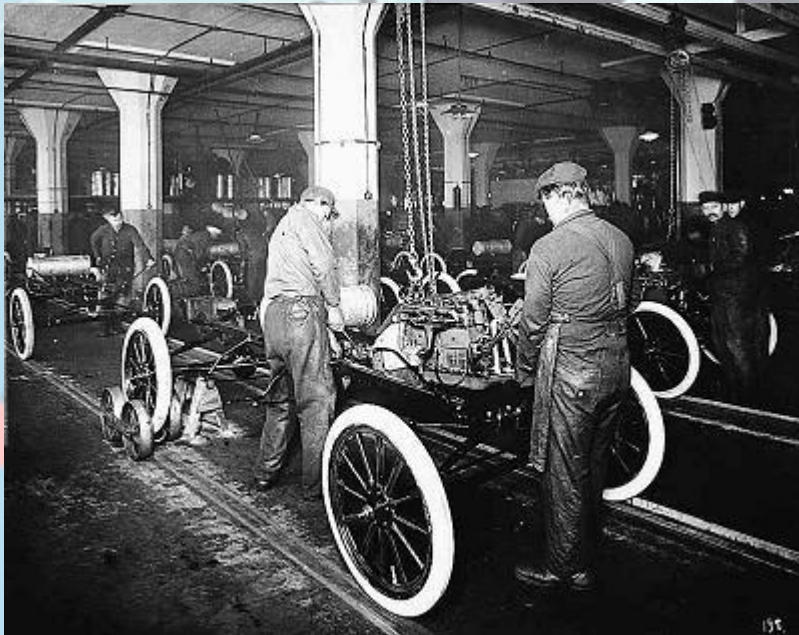


Fig. 2.



- Interchangeable parts: replacement parts for equipment that allows one part of a machine to be interchangeable, thus not having to replace the entire machine
- Brought to America with the musket by Eli Whitney in 1798
- Mass production: producing a large quantity of goods



Assembly line: specializes labor to mass-produce goods in short period of time

Henry Ford (1914) revolutionized by reducing cost of production and providing a living wage to retain workers (\$5/day for a 40 hour workweek)

Growing Businesses

-Economies of scale: a larger business is more efficient than a smaller one because of its ability to do things in larger volume

Economies of Scale

An economics term that describes a competitive advantage that large entities have over smaller entities.



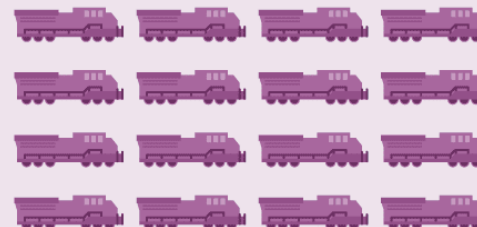
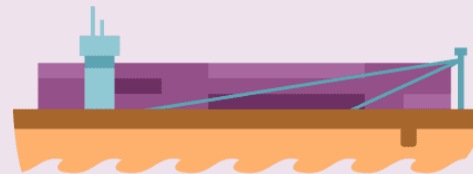
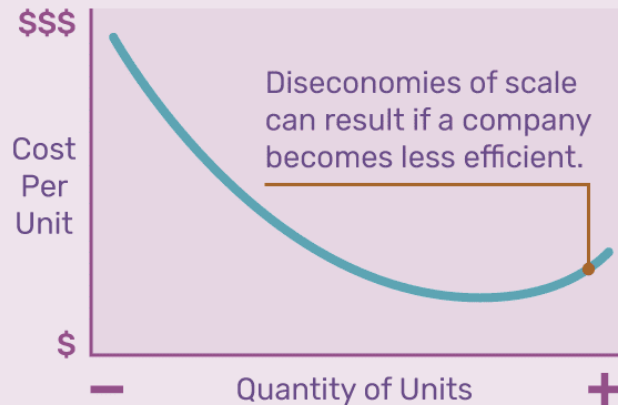
Internal

The sheer size of the company allowing bulk purchases.



External

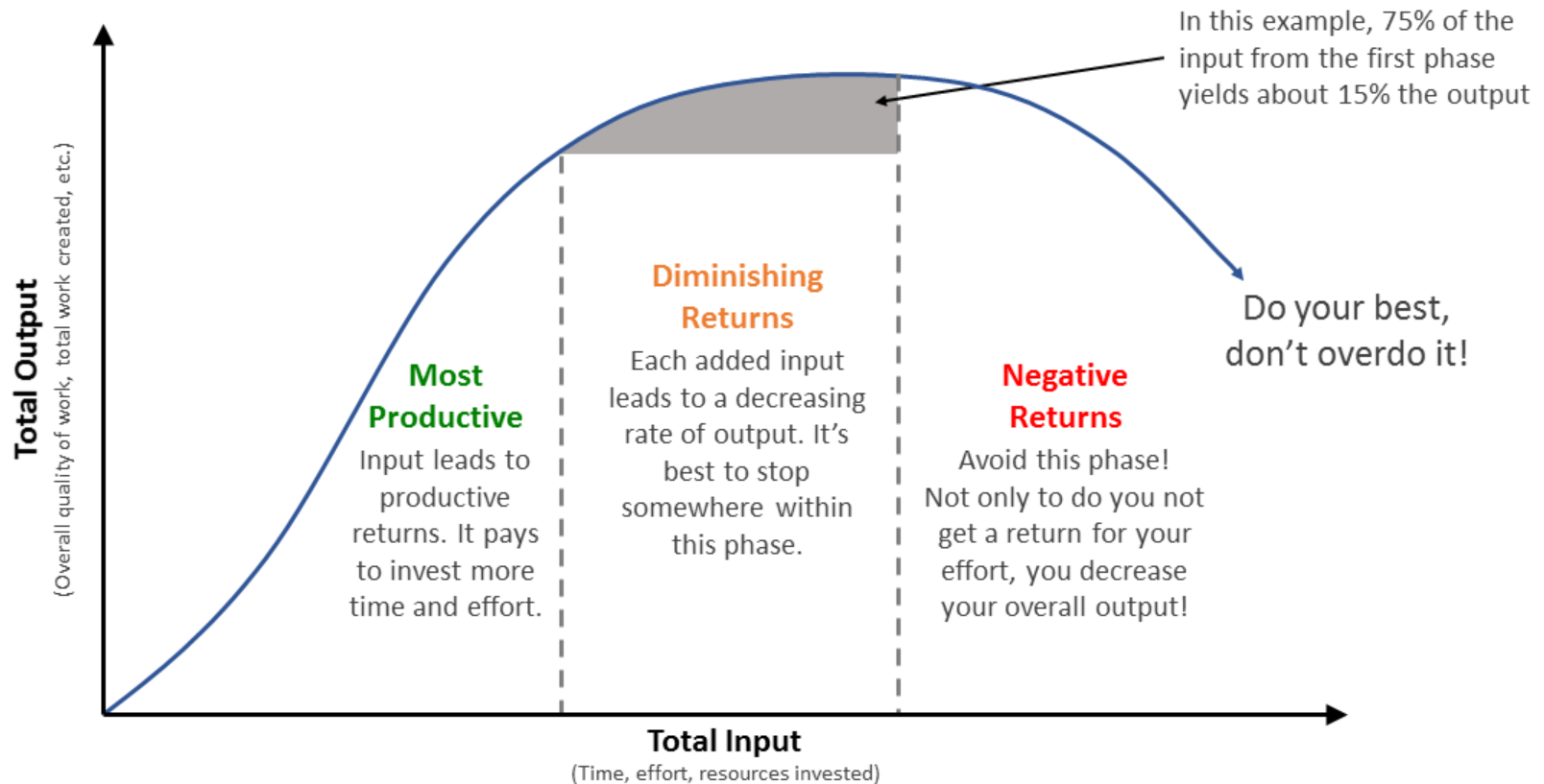
Receiving preferential treatment from government or other external sources.



Large shipping companies can use ships that carry as many goods as 16 freight trains.

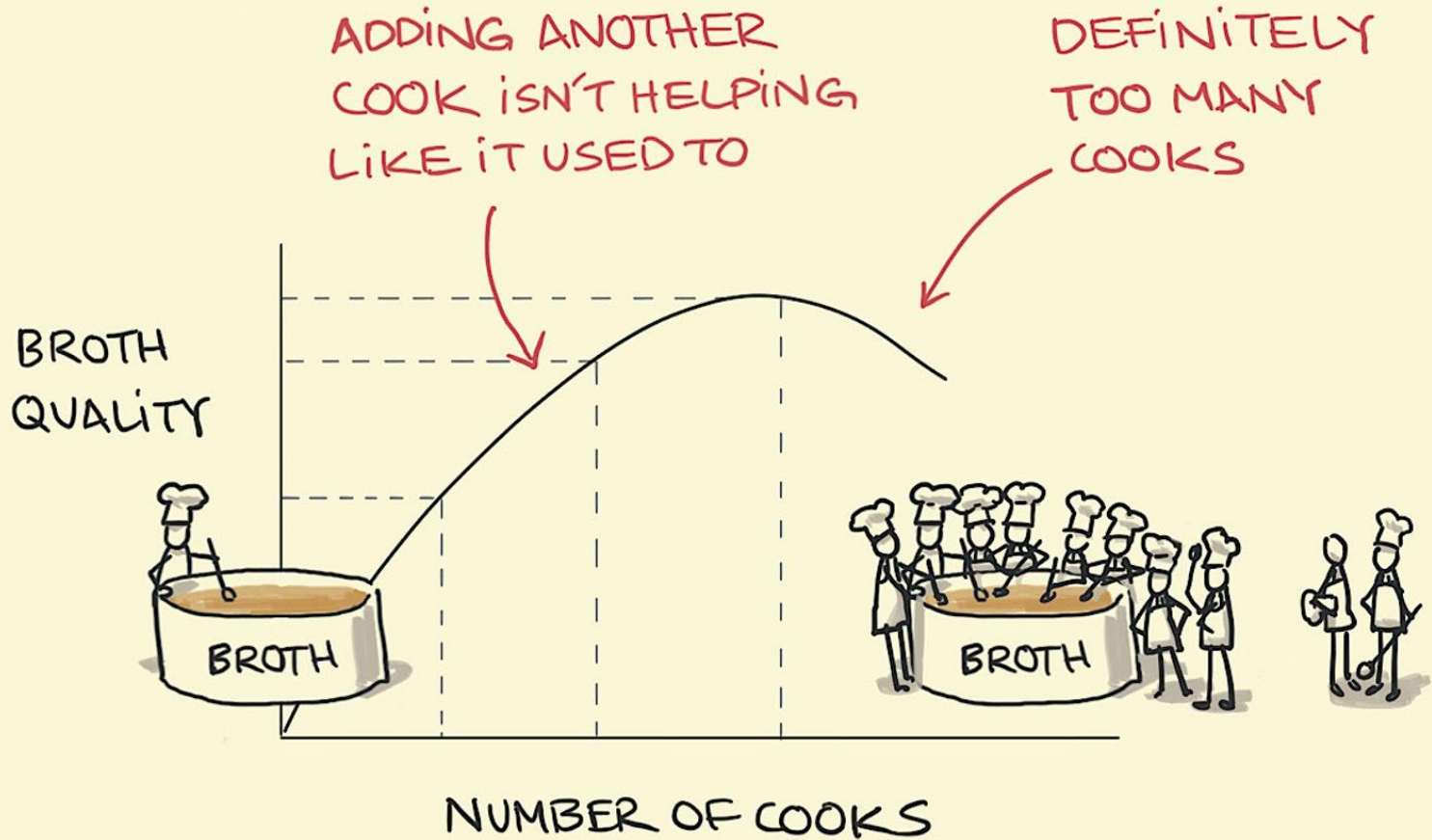
Law of diminishing returns: the level of return (profit) for additional labor or work will decrease at some point and continue to decrease

The Law of Diminishing Returns



LAW OF DIMINISHING RETURNS

AT SOME POINT MORE OF THE SAME STOPS PAYING OFF



sketchplanations