

Economic Fundamentals



Economics

Study of how people make decisions in a world where resources are limited

-The fundamental question of economics is how individuals, firms (businesses), and nations can best allocate their limited resources to get the most of what they want or need

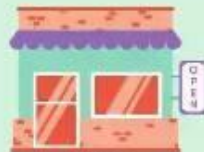
Microeconomics Vs Macroeconomics



Individual



Household



Firm



National Income



Government



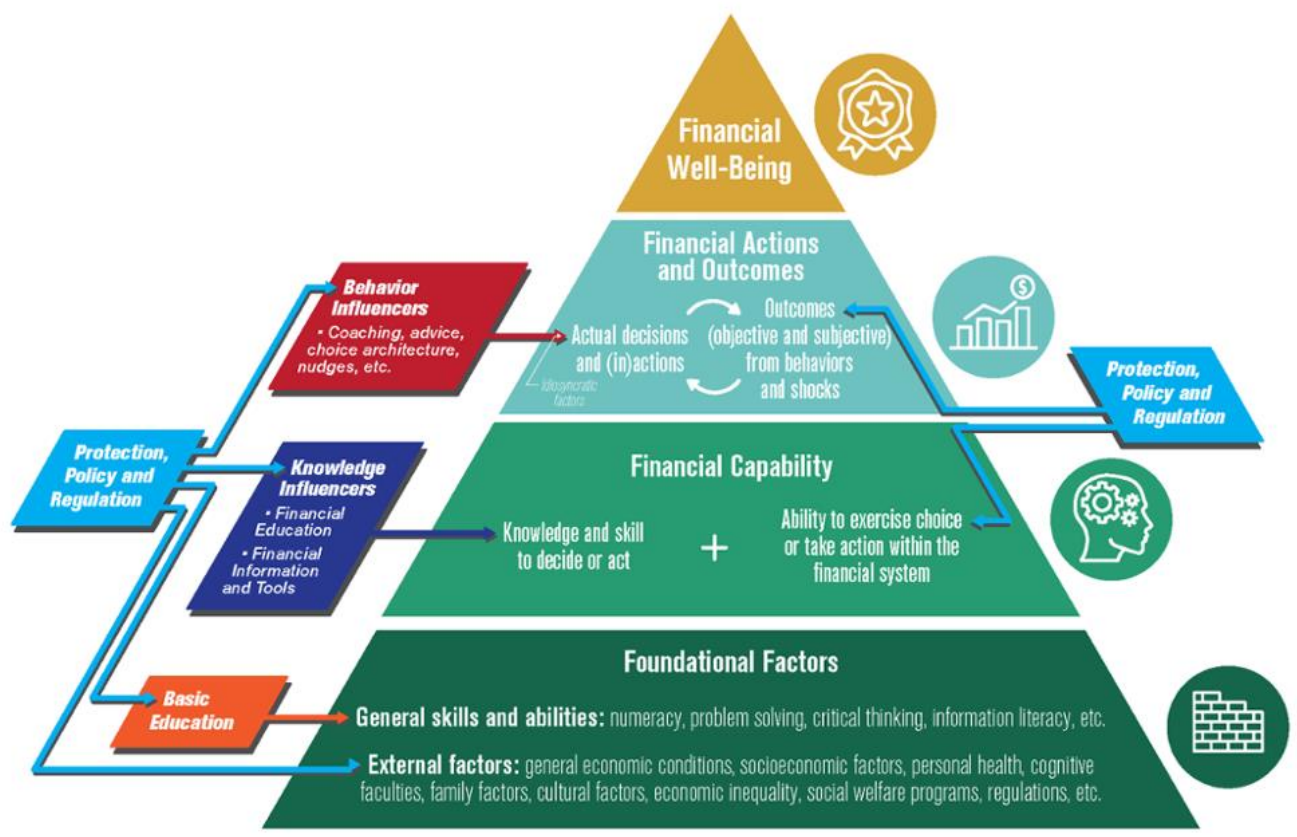
Nation/World

Financial Forbes

Often divided into two categories:

1. Microeconomics: study of decisions that people and businesses make regarding the allocation of resources and prices of goods and services

- Study of small-scale economics
- Individual economic decisions
- Comparing how people make economic decisions
- Personal finances



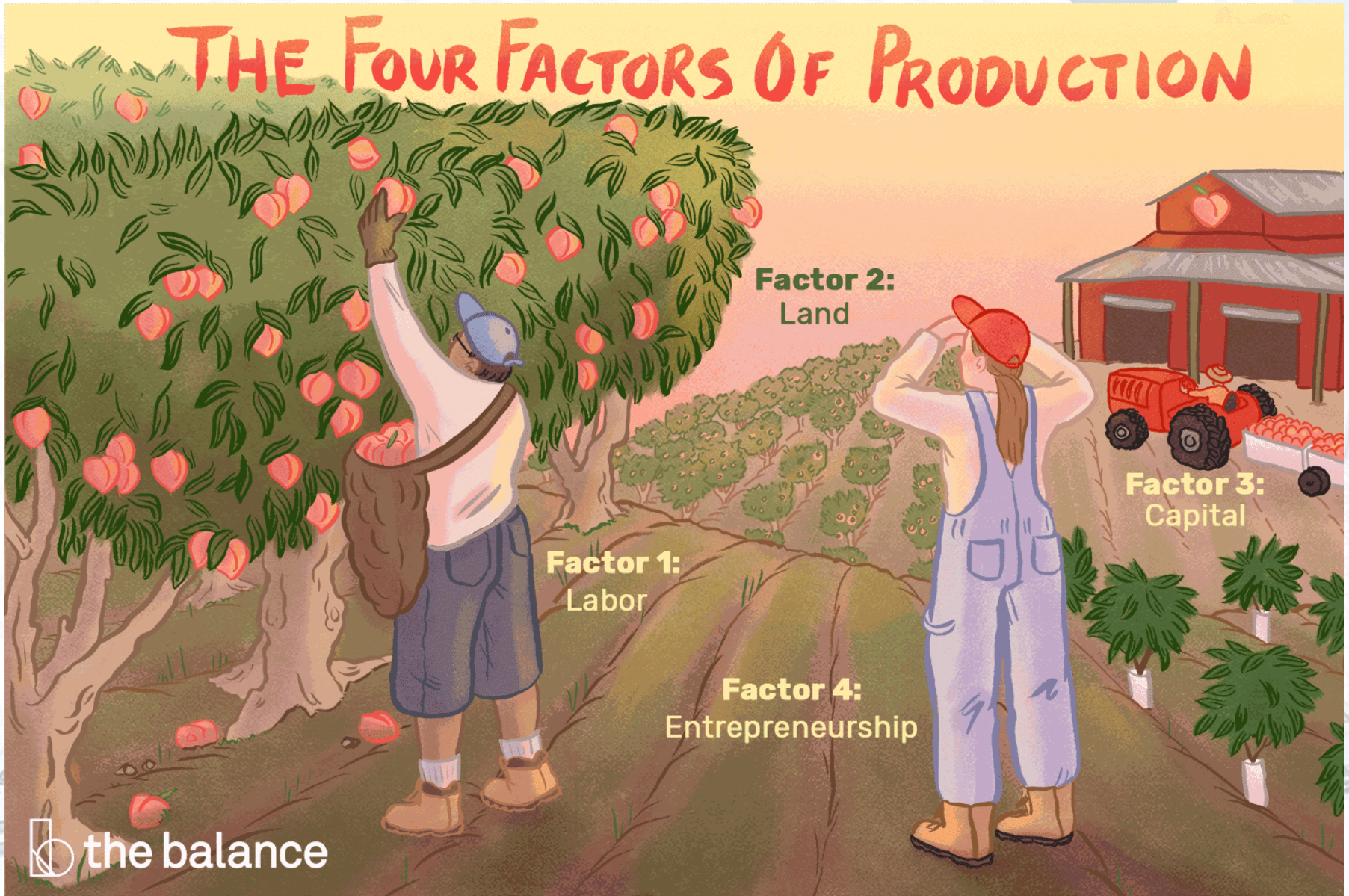
2. Macroeconomics: study of the behavior of the economy as a whole and not just on specific companies, but entire industries and economies
- Study of large-scale economics
 - Societal economic problems
 - Comparing economies
 - Government involvement in the economy

Variable	Macroeconomic objective
Economic growth	A steady rate of increase of national output
Employment	A low level of unemployment
Price stability	A low and stable rate of inflation
External stability	A favourable balance of payments position
Income distribution	An equitable distribution of income



Factors of Production

CELL (Capital, Entrepreneurship, Land, Labor)



Capital

Enables entrepreneurs and company owners to purchase capital goods or land or to pay wages; capital refers to the purchase of goods made with money in production

-Modern economists do not consider plain old money as a factor of production because they see it as facilitating the process used in production

(e.g., a tractor purchased for farming is capital; desks and chairs used in an office are also capital)

EXAMPLES OF CAPITAL



Company cars



Stocks



Machinery



Patents



Software



Bonds

What Are Capital Goods?



Tools



Buildings



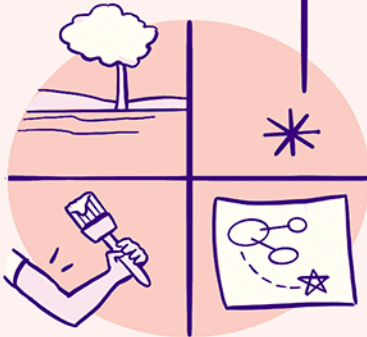
Machinery



Equipment



Vehicles



- Capital goods are one of the four primary factors of production



- They are man-made, durable items that businesses use to provide goods and services



- In accounting, they are treated as fixed assets



- Production is measured by the monthly durable goods report, one of the most important leading economic indicators

Entrepreneurship

Those that assume the risk for the success or failure of a business and combine the other three factors of production to generate profit

-Entrepreneurs are also the ones that raise capital (\$) to rent office space, hire more employees, purchase additional resources as the business grows

(e.g., a tractor purchased for farming is capital; desks and chairs used in an office are also capital)

BEING AN ENTREPRENEUR: 7 THINGS THEY DON'T TELL YOU IN SCHOOL

3. YOU WON'T GET RICH (AT LEAST NOT RIGHT AWAY)



Your goal is to build a profitable business. Avoid self-indulgence and keep yourself on a low salary.

2. YOU HAVE TO BE INSANELY SELF-MOTIVATED



You will be wearing every hat under the sun. Prepare to be challenged!

1. DROPPING OUT WON'T MAKE YOU THE NEXT STEVE JOBS



You'll be much better off if you finish school before starting your entrepreneurial journey.

4. PROCRASTINATION IS A DEATH SENTENCE



Keep real work hours, establish routines, and stick to them!

5. FINDING YOUR DREAM IS TOUGH



Demonstrate your company's value so people feel confident that your venture is reliable.

6. YOUR PRIDE COULD BE SERIOUSLY WOUNDED



Accept education and insight from your mistakes. Check your ego at the door.

7. SUCCESS NEVER TASTED SO GOOD



Being an entrepreneur can be tough, but the rewards are tremendous.



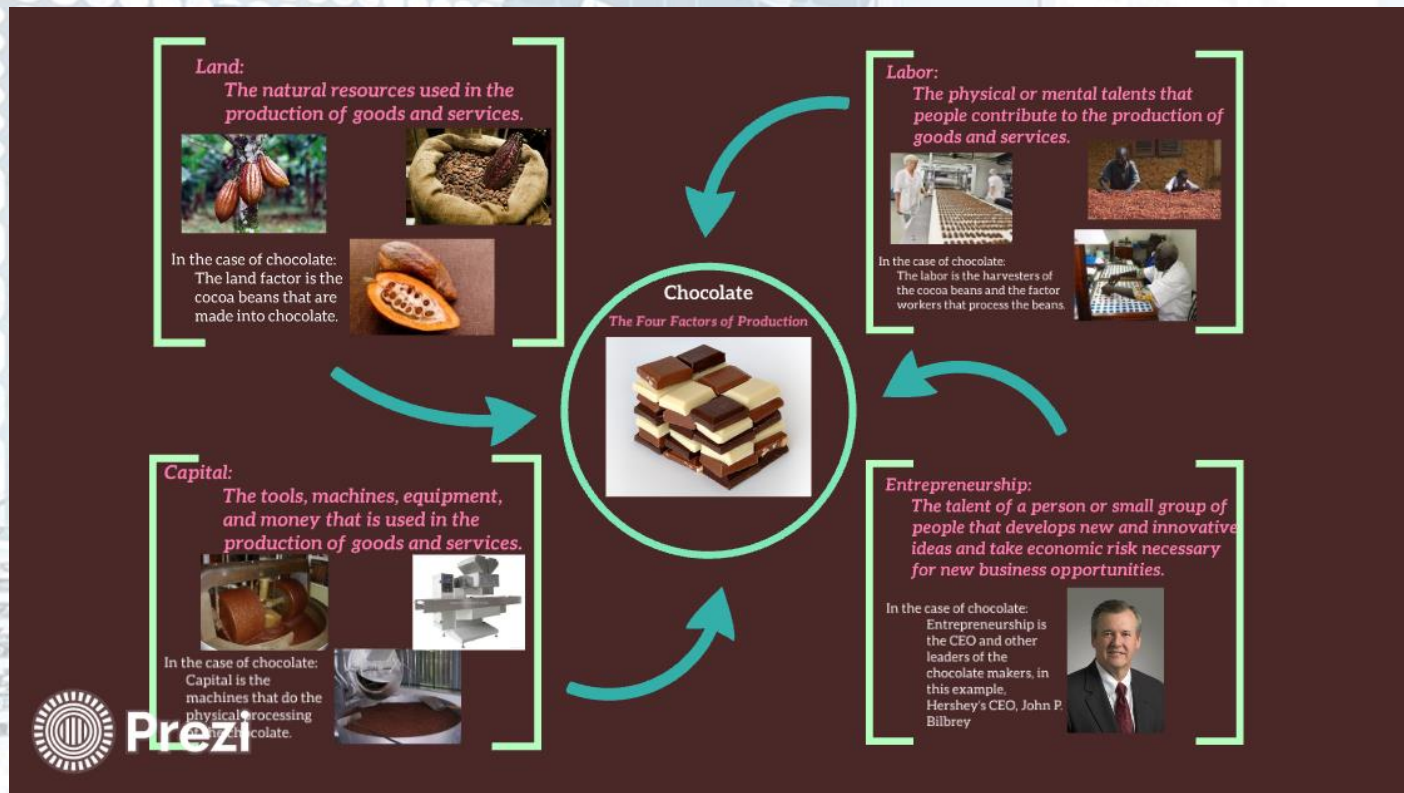
Presented by Larry Kim
@larrykim

Land

Includes not only the property on which a factory is built but also all other natural resources needed to produce goods or provide services

-Everything from agricultural land to commercial real estate to the resources available from a particular piece of land

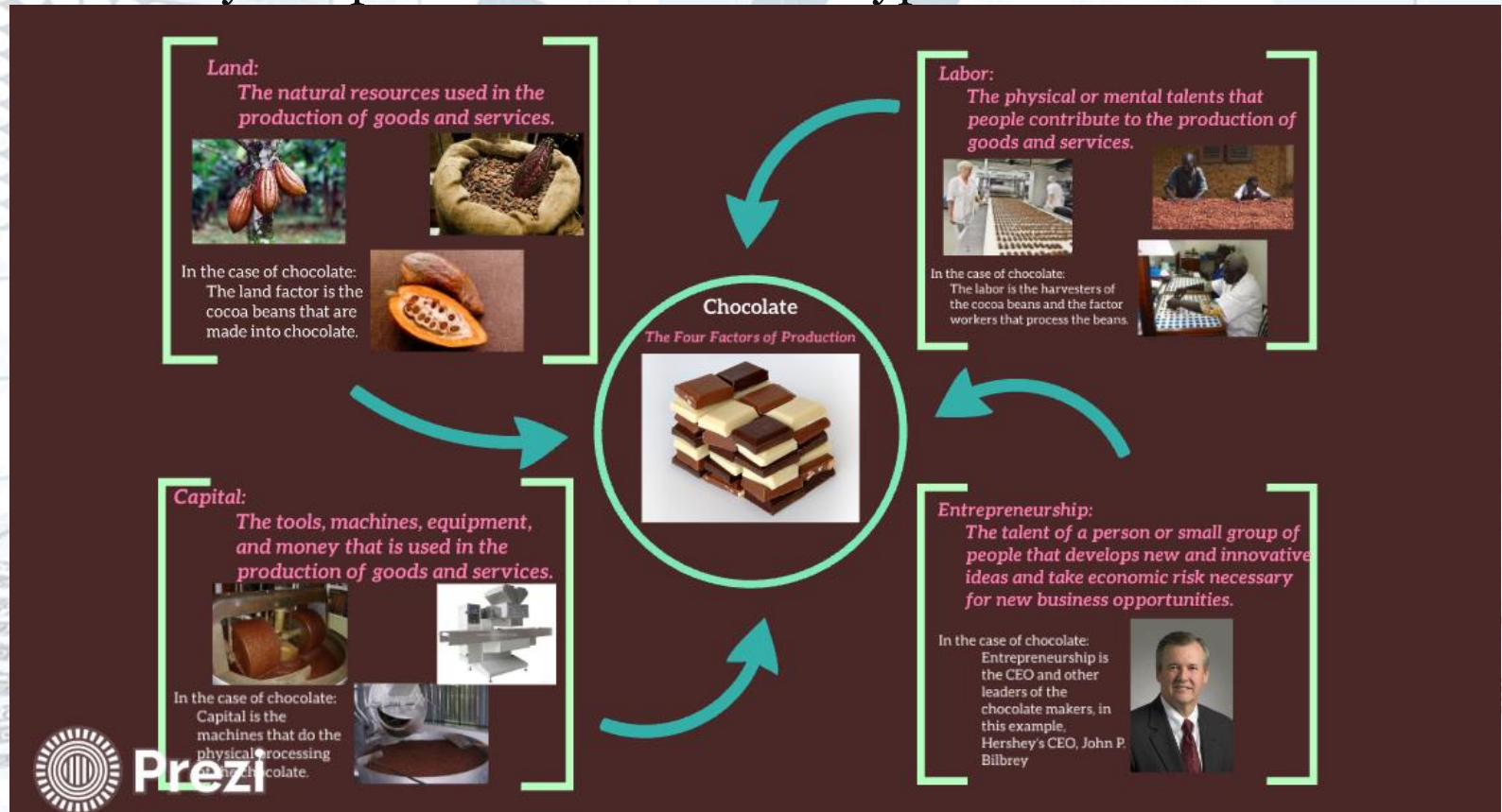
-Land's importance can diminish or increase based on industry (e.g., a tech company can begin operations with no investment in land, but for some industries like real estate, it's critical)



Labor

The effort expended by an individual to bring a product or service to the market

- Everyone from the construction worker at a hotel site is part of labor, as is the waiter who serves guests or the receptionist who enrolls them into the hotel
- Skill and trained workers are known as “human capital” and are paid higher wages because they can perform tasks that the typical unskilled laborer cannot



Blue Collar Workers

Tend to perform jobs that require more physical labor and technical training; tend to work with actual objects or machines and generally produce a tangible product or provide a service

Examples:

Electrician

Plumber

Factory workers

Construction

Farmer



[Top 10 Blue Collar Jobs in 2020](#)

White Collar Workers

Tend to perform jobs that require more mental tasks; work with ideas instead of physical objects

-Usually require at least some college experience and often require an advanced degree

Examples:

Doctors
Lawyers
Teachers
Accountants
Managers



[Top White Collar Jobs in 2020](#)

Wants: goods or services which people would like to have (also known as luxury goods)

Needs: goods or services required for survival (e.g., food, shelter, clothing)

-People in a society will make choices on which needs and wants they will spend their money

Needs

"I MUST HAVE..."

**THINGS I NEED TO LIVE
AND SURVIVE:**

CLOTHES

SHELTER

SHOES

MEDICINE

FOOD

EDUCATION

TRANSPORTATION

BED

BLANKET

COAT

FAMILY

JOB

Wants

"I DESIRE TO HAVE..."

**THINGS I WOULD LIKE TO
HAVE, BUT DON'T NEED TO
LIVE AND SURVIVE:**

FANCY SUITS

4 BEDROOM HOUSE

LEATHER SHOES

POOL

PHD DEGREE

COMPUTER

FERRARI

FRIENDS

A JOB WITH A TITLE

A TELEVISION

A P/T SIDE-BUSINESS

Goods: material items you can purchase

1. Consumer goods: final goods sold to consumers to satisfy needs and wants (e.g., clothing, food, jewelry)
2. Capital goods: physical assets that a company uses in the production process to manufacture goods and services that consumers will use later in the form of their final product (e.g., buildings, machinery, equipment, tools, etc.)

****Capital goods help to make consumer goods****

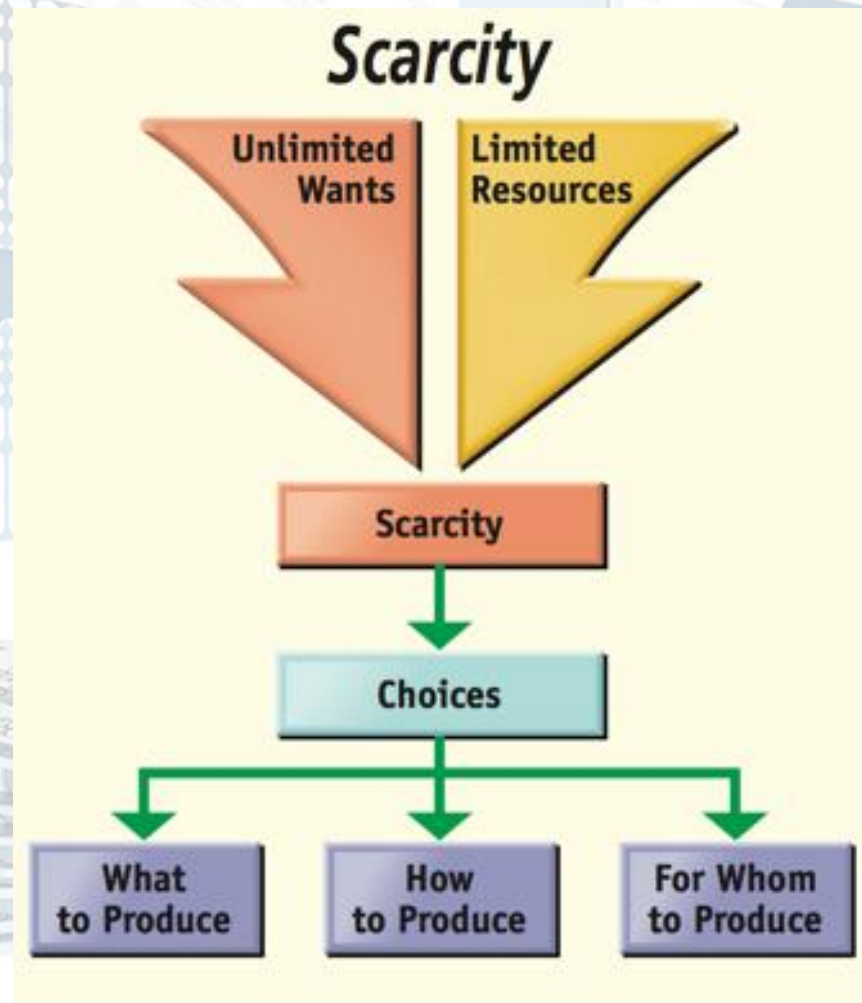
Services: economic activity that creates value and provides benefits to consumers in exchange for money (e.g., haircuts, home repairs, entertainment)



Limited Availability

Goods and services are produced using resources with natural resources and human resources

Scarcity: the demand for a good or service is greater than the availability of the good or service; gives goods and services value



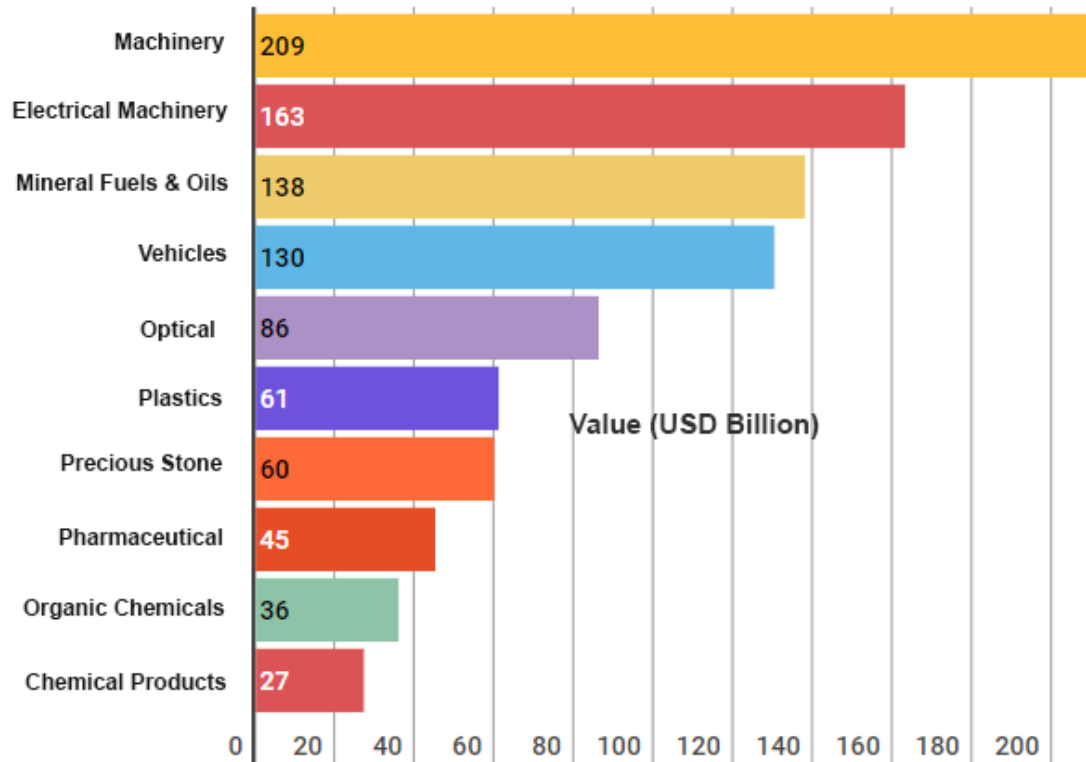
-Many societies, regions, continents, or countries do not have all the resources people need and want – which is why trade is important to study

3 questions every society must answer:

1. What to produce? (Also, in what quantities?)

2. How to produce it? (Also, what materials and methods will we use? More labor-intensive or machine-intensive? Shipping?)

3. Who consumes these goods and services? (Also, how will we distribute them? Divide goods equally? Should those who produce more receive more? Are we producing for other countries, or ourselves?)

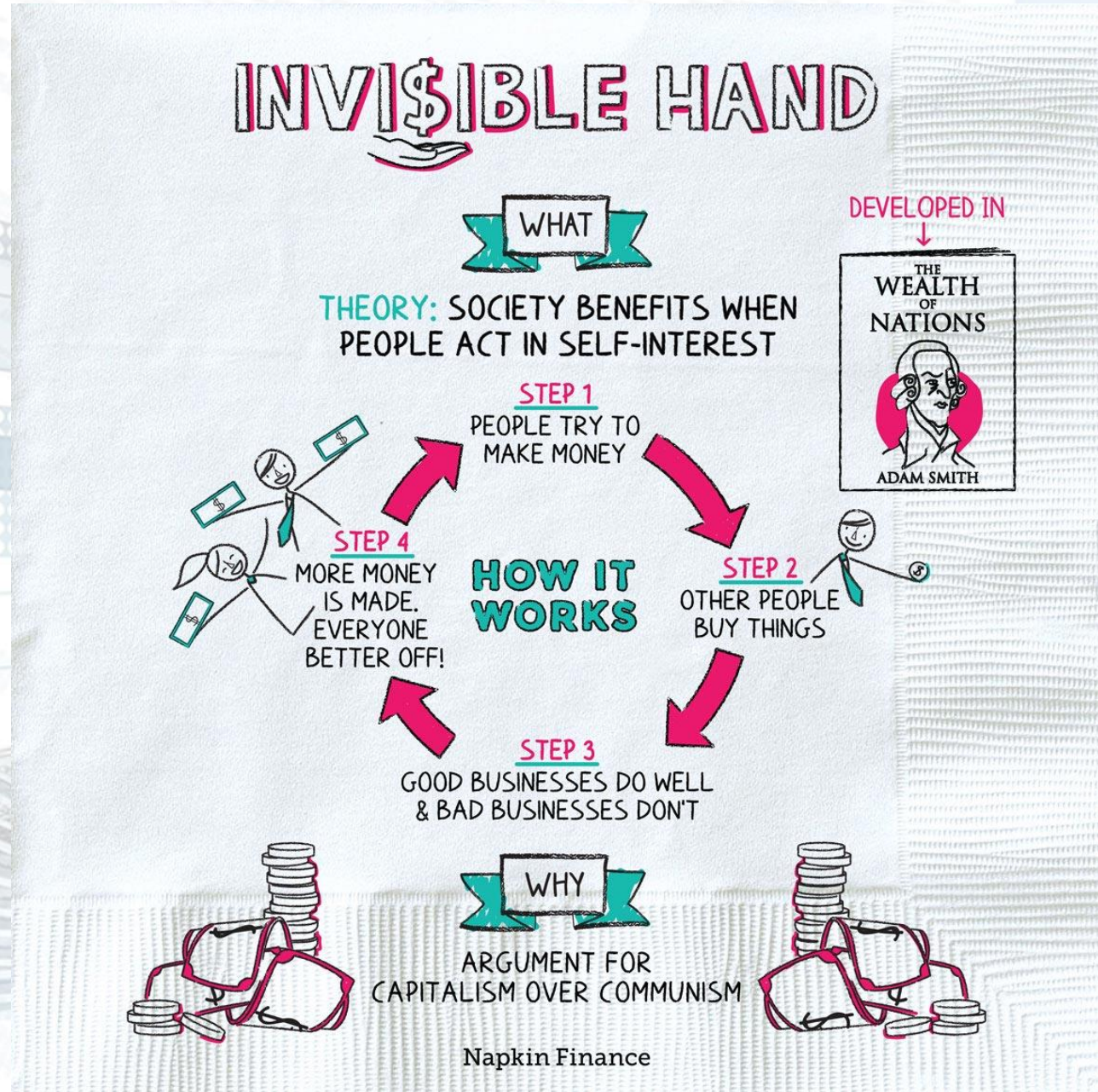


Supply and Demand

Supply (S): the amount of a good or service made available for consumers to buy by producers

Demand (D): the amount of a good or service that consumers are willing to buy

Price (P): value given to products & determined by two basic factors; supply and demand; also known as set price

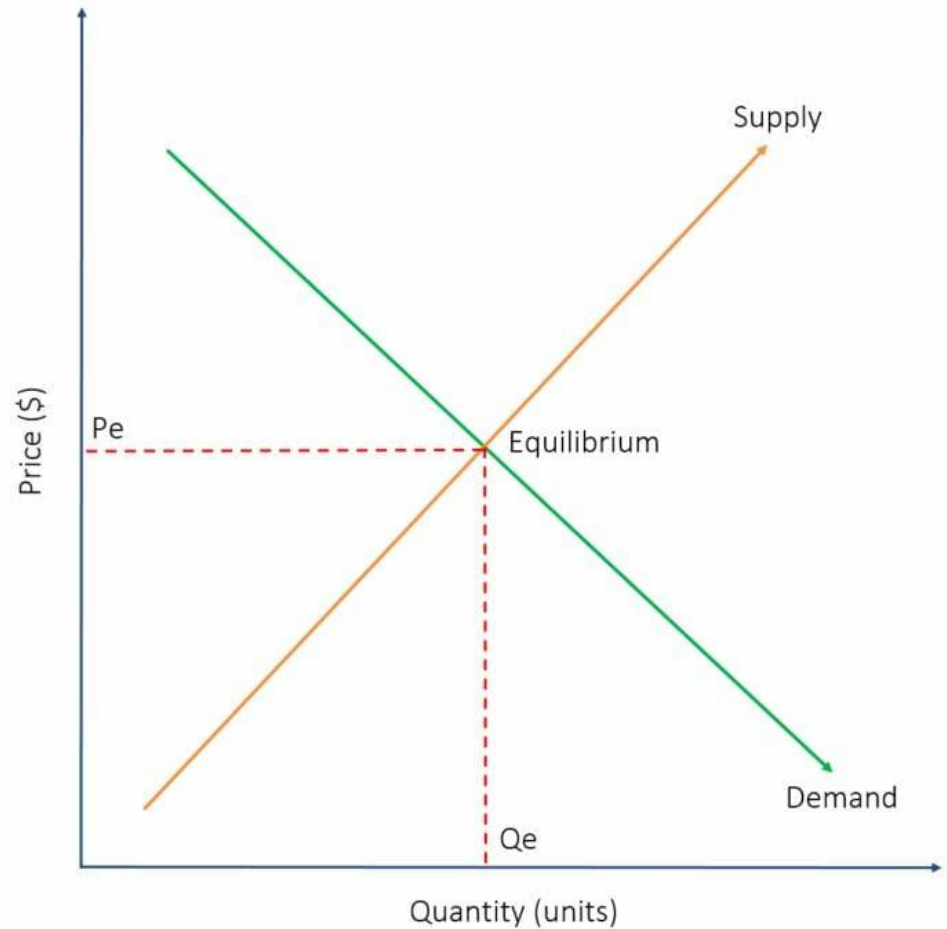


Determining Price

Price is determined by comparing the amount of demand to the amount of supply then finding where they “match”

Market or Equilibrium Price (EP): the point where supply and demand meet, and the price is determined for the market

*Price is the most significant factor that influences the quantity supplied of any product



Effects of Price

Shortage: when demand (how much we want) is greater than supply (how much we have)

$$D > S$$

What happens to price?

$P \uparrow$ Increases

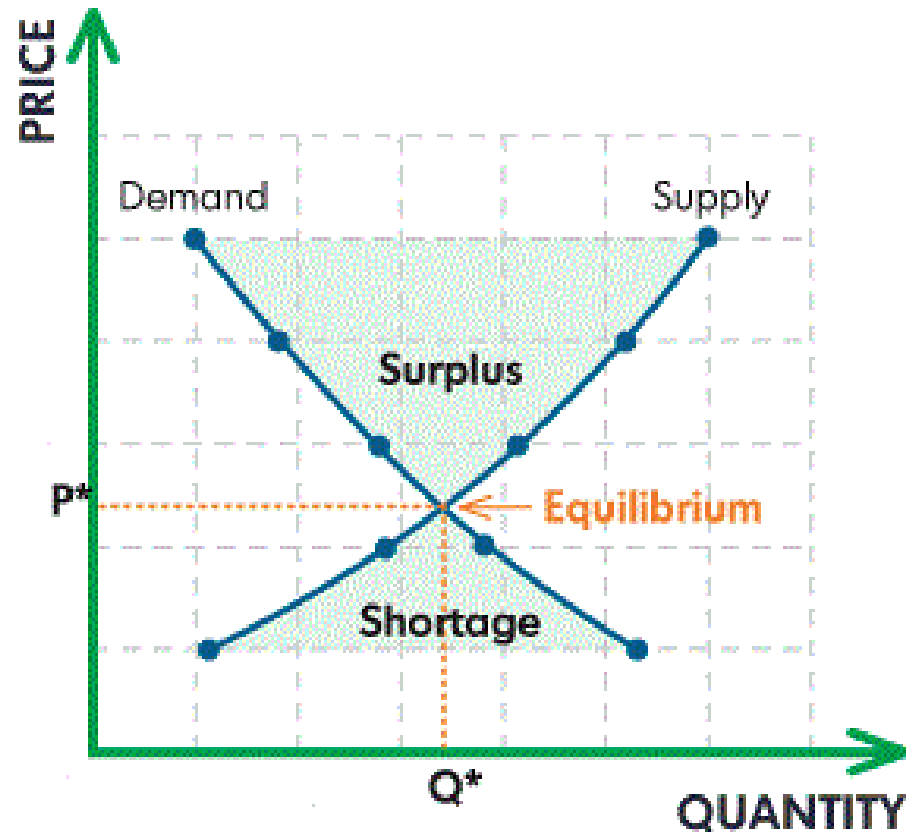
Surplus: when supply (how much we have) is greater than demand (how much we want)

$$S > D$$

What happens to price?

$P \downarrow$ Decreases

Many times, a surplus means that the price is too high



In the United States, prices are established primarily through the forces of supply and demand