

Economic Resources and Systems

Chapter Objectives

After completing this chapter, you will be able to:

▶ Section 2.1 Economic Resources

- **Explain** how scarcity requires individuals and nations to make decisions about resources.
- **Describe** the four factors of production.

▶ Section 2.2 Economic Systems

- **Describe** the three basic economic questions each country must answer to make decisions about using its resources.
- **Contrast** the way a market economy and a command economy answer the three economic questions.

Ask

STANDARD & POOR'S

Getting Your Financial Life in Order: The Proper Use of Credit Cards

Q: I know that many people have too much credit card debt. Why is credit card debt such a problem, and when is it appropriate to use a credit card?

A: The effect of compounding interest is to seriously increase the rate you are actually paying on credit card debt. For example, if you borrow \$40,000 at an annual percentage rate of 5%, you'll pay almost \$6,400, or 16% of the total if you make the minimum payment of \$644 each month. Debt is generally a barrier to financial success. Use debt as an alternative to taking money out of savings or money tied up in another investment that earns more interest than the rate at which you are borrowing. When buying a home, keep in mind that interest on a mortgage loan is often tax deductible, allowing you to better manage a large loan.

Mathematics Franco borrowed \$40,000 for four years at an annual percentage rate of 5%. He is scheduled to make a payment each month. His first payment includes interest due on the unpaid portion of the debt. The interest due is found by multiplying the unpaid amount by the annual rate divided by the number of payments made in a year.

How much of Franco's first payment is interest?

CONCEPT **Percents and Decimals** When solving real-life problems, it is often easier to convert percents to decimals. To convert, move the decimal point two places to the left, and drop the percent sign.

Photo Credit: David Young-Wolff/PhotoEdit



● **Scarcity** Many people have to deal with scarcity issues, such as having few funds to make purchases. Countries also deal with scarcity of resources. **How do nations deal with the problem of scarcity and determine how resources are to be used?**

Economic Resources

Reading Guide

Before You Read



Think about the resources you use every day. Consider which resources are limited and which are not.

Read to Learn

- Explain how scarcity requires individuals and nations to make decisions about resources.
- Describe the four factors of production.

The Main Idea

Both people and countries must deal with the problem of scarcity. Nations do not have enough factors of production to produce everything that their population wants. Factors of production are all the economic resources necessary to produce a society's goods and services.

Key Concepts

- Making Economic Decisions
- Factors of Production

Vocabulary

Key Terms

scarcity
 factors of production
 natural resources
 labor resources
 capital resources
 entrepreneurial resources
 entrepreneurship
 entrepreneur

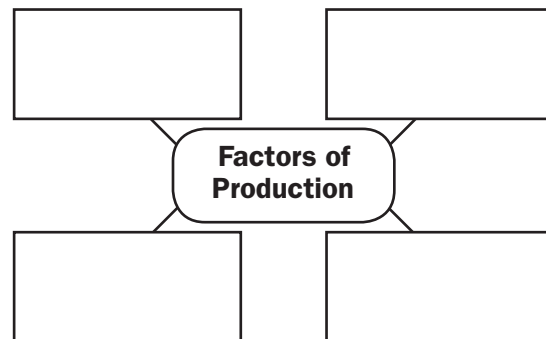
Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

factors
 processed
 labor
 individuals

Graphic Organizer

Write the four factors of production in a figure like the one below.



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards

English Language Arts

NCTE 1 Read texts to acquire new information

NCTE 9 Develop an understanding of diversity in language use across cultures

Mathematics

Data Analysis and Probability Formulate questions that can be addressed with data and collect, organize, and display relevant data to answer them

Making Economic Decisions

Just as individuals have to deal with a shortage of resources, so do societies. In this case resources are the items that go into the making of goods and services. This lack of resources is called **scarcity**. The principle of scarcity states that there are limited resources for satisfying unlimited wants and needs.

Because resources are in limited supply, to have one thing may mean giving up something else. For example, a restaurant owner may forgo plans for a costly new décor to have more money to put into kitchen equipment. A city government might decide to cut expenses for most services to be able to hire more police officers. When dealing with scarcity, it is important to think of the best way to use the item that is in short supply.

 **Reading Check** Identify What is scarcity?

Factors of Production

Factors of production are all the economic resources necessary to produce a society's goods and services, such as the wheat that grows in the ground, the tractor that harvests it, the labor that turns it into flour, and the distribution system that delivers it to the marketplace. There are four **factors** of production: natural resources, labor resources, capital resources, and entrepreneurial resources.

As You Read

Think of a product you own. What factors of production were involved in creating it?

International Business

Global Marketplace

More businesses that used to operate exclusively within the United States now market their products around the world. From farmers to fast-food franchisees to theme-park operators, businesspeople in every sector of the economy are considering entering the global marketplace. Even though companies may operate successfully in the U.S. market, an increasing number of them are thinking about “going international.”

Examples of Language Across Cultures

Q: In Italian, how do you say: “Hello, how are you?”

A: **Salve, come sta?** (pronounced: Sălvă, kōmă stă?)

What are some reasons a company might choose to enter a foreign market? What are some questions companies should ask before they enter a foreign market?

Being Resourceful

Like the United States, Japan is dependent on outside sources for oil.

During the world oil crisis in 1973, Japan was able to reduce its dependence on oil and enhance productivity through conservation and alternative sources of industrial energy.

Describe some ways that the U.S. government could ease American dependence on foreign oil.

Natural Resources

Natural Resources are raw materials from nature that are used to produce goods. Trees, water, and grains are natural resources. Natural resources can often be **processed** in various ways to create goods. Even synthetic or artificially produced materials are made by combining or changing natural resources. For example, nylon is a synthetic material derived from coal, water, and air.

The economy of many countries is primarily based on its natural resources. For example, some Latin American countries rely on their coffee and banana crops. Other countries, such as Japan, have little land and scarce natural resources and must get them from somewhere else.

Some natural resources, such as wheat and cattle, are *renewable*. They can be reproduced. You can breed cattle to make more cattle. Other resources are limited, or *nonrenewable*. Coal, iron, and oil are nonrenewable. The amount of natural resources available to a society has a direct effect on its economy.

**Reading Check**

Contrast How are renewable resources different from nonrenewable resources?



BusinessWeek Reader and Case Study

Graphing the Development Gap

Hans Rosling's brainchild, a nonprofit called Gapminder, uses interactive design to render global statistics comprehensible.

In the late 1990s, Dr. Hans Rosling became frustrated by the x-axis, which—as all middle-schoolers know—is the part of a graph used to measure time. But for Rosling's global-development students at the Karolinska Institutet in Stockholm, it was also the obstacle to their understanding of the health and economic trends that were shaping the globe.

“The students didn't have a fact-based worldview,” says Rosling, who helps kick off this year's TED conference—that's technology, education, and design—on Feb. 22. “They talked about ‘we’ and ‘them’ the whole time—and even the official terminology of ‘industrialized’ and ‘developing’ countries failed to communicate that there is a continuity from the world's poorest nations to the richest.”

So Rosling did what any medical doctor and public-health researcher who had spent countless hours playing video games with his children would do: He enlisted his son's help in creating a short animated movie, with floating bubbles representing nations' progress along both health and economic indicators.



CASE STUDY Go to the *Introduction to Business* Online Learning Center through glencoe.com for the *BusinessWeek* Reader Case Study.

Active Learning

Gapminder is a nonprofit organization dedicated to better communicating and disseminating global-development statistics—as a means to “mind the gap” between the world's rich and poor, sick and healthy. Make a set of charts to compare the key development statistics of two nations.



Labor Resources

Every type of business needs labor resources to produce goods and provide services. **Labor resources** are people who make the goods and services for which they are paid. Labor can be skilled or unskilled, physical or intellectual. Teachers, coal miners, bank managers, and farm workers are all human resources. Whether you are a cashier or a news anchor, you are a labor resource.

Capital Resources

Capital resources make up another factor of production. Capital resources are not the same as capital, or money. **Capital resources** are the things used to produce goods and services, such as buildings, materials, and equipment. They are also called capital goods. They include delivery trucks, supermarkets, cash registers, and medical supplies. A tractor that a farmer uses to harvest wheat is a capital resource. The headquarters of a major firm is a capital resource. If you are a writer or an accountant, the computer you use is a capital resource.



Reading Check

Contrast How are capital resources different from capital?

● An American Pastime

Capital goods are things used to create goods and services. The capital goods needed to create and sell the entertainment service of baseball include bats, balls, uniforms, and a ballpark.

Name two other capital goods in this picture.

Entrepreneurial Resources

Entrepreneurial resources meet society's changing wants and needs. **Entrepreneurial resources** are used by the people who recognize opportunities and start businesses.

Entrepreneurship is the process of recognizing a business opportunity, testing it in the market, and gathering the resources necessary to start and run a business. An **entrepreneur** is an individual who undertakes the creation, organization, and ownership of a business. He or she accepts the risks and responsibilities of business ownership to gain profits and satisfaction. Being *entrepreneurial* means acting and thinking like an entrepreneur.

Entrepreneurial resources are different from **labor** resources, even though people provide both. Entrepreneurial resources are **individuals** who start and direct businesses to produce goods and services to satisfy needs or wants. Labor resources are people who produce the goods or services.

Section 2.1

After You Read



Review Key Concepts

1. Why do all nations face the problem of scarcity?
2. Identify one similarity and one difference between labor and entrepreneurial resources.
3. List five different natural resources.

Academic Skills

4. **Mathematics** Jeanne makes costume jewelry and sells it at art fairs. She has tried different pricing strategies and gets different results. Here is a chart of results over the last seven months:

Month	Price	Number of items sold
April	\$10	300
May	\$12	290
June	\$14	280
July	\$20	250
August	\$15	280
September	\$13	320
October	\$12	340

Describe a graph that you might make from this data. Write a sentence or two about what it would show.

CONCEPT Data Analysis and Probability:

Line Graphs A line graph is useful in displaying information about quantities that change over time. In this case, there are three variables to analyze: time, price, and quantity sold.



For math help, go to the Math Appendix.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Economic Systems

Reading Guide

Before You Read

Consider the way you make decisions about how you will use your resources.

Read to Learn

- Describe the three basic economic questions each country must answer to make decisions about using its resources.
- Contrast the way a market economy and a command economy answer the three economic questions.

The Main Idea

Scarcity of economic resources forces every country to develop an economic system that determines how resources will be used. Each economic system has its advantages and disadvantages.

Key Concepts

- Basic Economic Questions
- Different Types of Economies

Vocabulary

Key Terms

economics	demand
economic systems	equilibrium price
market economy	command economy
price	mixed economy
supply	

Academic Vocabulary

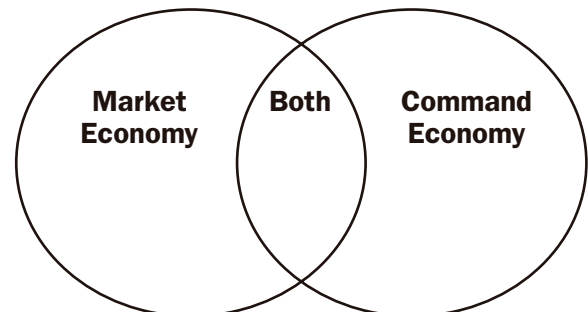
You will find these words in your reading and on your tests. Make sure you know their meanings.

relationship
interact

observed
control

Graphic Organizer

In the left oval, write notes about market economies. In the right oval, write notes about command economies. In the overlapping section, write notes that apply to both.



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards

English Language Arts Correlation

NCTE 4 Use written language to communicate effectively

NCTE 7 Conduct research and gather, evaluate, and synthesize data to communicate discoveries

NCTE 8 Use information resources to gather information and create and communicate knowledge

Science

Content Standard D Students should develop an understanding of energy in the earth system, geochemical cycles, origin and evolution of the earth system, origin and evolution of the universe

Basic Economic Questions

Economics is the study of how individuals and groups of individuals strive to satisfy their needs and wants by making choices. All societies have to make choices to deal with some form of scarcity. No society has enough productive resources available to produce everything people want and need. Societies make economic decisions about how to meet the needs of people by answering three basic economic questions.

What should be produced? Deciding to use a resource for one purpose means giving up the opportunity to use it for something else. This is called an *opportunity cost*.

How should it be produced? The methods and labor used as well as the quality of items produced are important factors. In a country with many workers but few capital resources, it is likely that little equipment and larger amounts of labor are used in producing goods.

Who should share in what is produced? In most societies, people can have as many goods and services as they can afford to buy. The amount of income people receive determines how many goods and services they can have.

As You Read

People make choices every day. What economic decisions have you made recently?

Science/TechTRENDS

Finding Natural Resources

Earth's crust contains more than 100 naturally occurring elements. For example, gold can be concentrated with other minerals in veins that form in igneous rocks deep underground. Forces related to plate tectonics uplift these rocks and form mountain ranges. Weathering and erosion expose the veins at Earth's surface, and some of the gold is eventually deposited as nuggets, flakes, or flour-size material in stream and river sediment. The gold is sometimes extracted directly from sedimentary rocks in the streambed. The use of satellite imagery has become a valuable tool for geologists. Geologists are now able to perform large-scale surveys of remote, unexplored regions for the presence of geologic structures and key minerals that may indicate areas favorable for mineral deposits.

Web Quest

Go to the *Introduction to Business* Online Learning Center through glencoe.com for links to Web sites where you can find satellite images of Earth's geologic structures. Look for companies whose business involves extracting natural resources from Earth's crust. List at least three companies. Write a paragraph or two about one of them, discussing how they might use satellite imagery to support research and exploration. Include a discussion about types of geologic structures.

Different Types of Economies

Economic systems are the methods societies use to distribute resources. Different economic systems answer the three basic economic questions in different ways. Two basic types of economic systems are a market economy and a command economy.

Market Economies

A **market economy** is an economic system in which economic decisions are made in the marketplace. The marketplace is where buyers and sellers meet to exchange goods and services, usually for money. A market economy can also be called a private enterprise system, the free enterprise system, or capitalism.

In a market economy, resources are privately owned. Citizens can own their own homes, land, and businesses. Business owners decide how their businesses will be run, what to produce and sell, and how much to charge. The government works to promote free trade and prevent unfair trade practices. Consumers choose their occupations and decide where to live, where to shop, and what to buy. People who have labor skills that are in demand earn higher incomes than those who do not. There is an uneven distribution of income. In a market economy, individuals are responsible for being informed and making careful decisions.



Explain What is the role of the individual within the free enterprise system?

Price, Supply, and Demand There is a **relationship** between price, supply, and demand. The price for an item is determined through the interactions of supply and demand. **Price** is the amount of money given or asked for when goods and services are bought or sold. **Supply** is the amount of goods and services that producers will provide at various prices. Producers want a price for their goods and services that will cover their costs and result in a profit. **Demand** is the amount or quantity of goods and services that consumers are willing to buy at various prices. The higher the price, the less consumers will buy. The lower the price, the more consumers will buy.

Supply and demand **interact** with each other, as shown in **Figure 2.1** on page 30. The **equilibrium price** is the point at which the quantity demanded and the quantity supplied meet.

Competition and Profit In a market economy, competition is **observed**. Competition between similar businesses is one of the basic characteristics of a free enterprise system. It encourages businesses to produce better products at lower prices to attract more customers. Entrepreneurs take risks to make profits. *Profit motive* is the desire to make a profit, and profit is the reward for taking a risk and starting a business.



Supply and Demand

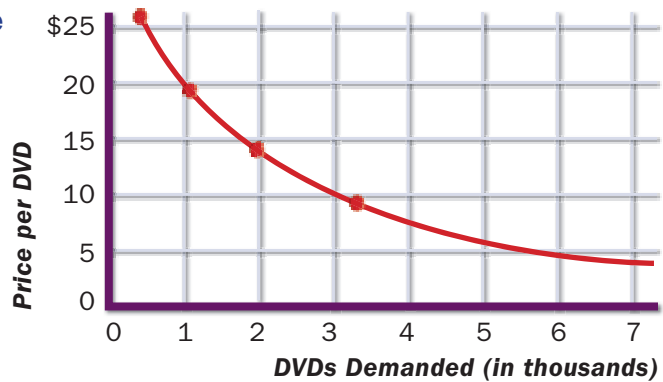
The price of a TV set with a 3-inch screen was \$125 in 1938, which would equal approximately \$1,721 today. The cheapest model with a 12-inch screen was \$445 (\$6,256 today). Only 0.5% of U.S. households had a TV set in 1946, 55.7% had one in 1954, and 90% by 1962. *What factors do you think contributed to the large increase in TV ownership?*

The Effect of Price

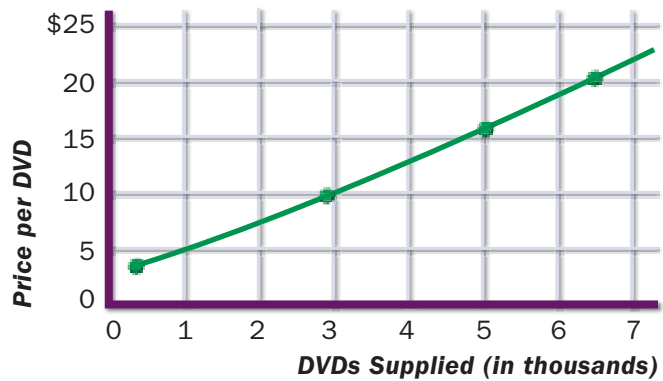
There is a direct relationship between price and the number of items produced and purchased. **What is the equilibrium price for DVDs? At that price, approximately how many DVDs will consumers demand?**

Figure 2.1 — Supply, Demand, and Equilibrium

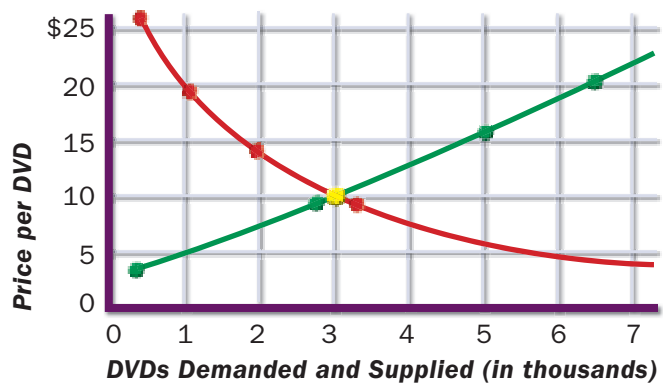
Demand Curve for DVDs



Supply Curve for DVDs



Demand and Supply Curve for DVDs



Command Economies

A **command economy** is an economic system in which a central authority makes the key economic decisions. The government dictates what will be produced, how it will be produced, and who will get the goods. The government owns and controls all the resources and businesses. There is little choice of what to buy. Goods that are not considered necessities are often unavailable. Prices are controlled by the state. There is no incentive to produce a better product since there is no competition. Highly skilled workers may earn the same wages as low-skilled workers.

In a moderate command economy, also called *socialism*, there is some form of private enterprise. The state owns major resources, such as airlines and steel companies and makes the key economic decisions. Individuals own some businesses.

Mixed Economies

In reality, few nations have a pure market economy or a pure command economy. Most nations have a mixed economy in which private ownership of property and individual decision making are combined with government intervention and regulations. A **mixed economy** is an economy that contains both private and public enterprises. A mixed economy combines elements of capitalism and socialism. In the United States, for example, the government provides things such as defense, education, and aid to those with lower incomes. These are characteristics of a command economy. Yet the United States is primarily a market economy. That means the market makes more of the decisions regarding the allocation of resources than the government. This is also true of Japan. France, Germany, and Sweden are also classified as market economies. However, many of their major industries, such as steel and health care, are owned by the government. In other words, their governments have more **control** of the resources than U.S. and Japanese governments. These economies are considered more socialistic because of greater governmental control of resources.

As You Read

Think about the freedoms you enjoy by living as a citizen in a market economy.

Section 2.2

After You Read

Review Key Concepts

1. How does a market system decide what will be produced?
2. In a market system, what determines how many goods and services an individual can buy?
3. Some nations can produce more goods with fewer workers than other countries that have more workers. How can that be true?

Academic Skills

4. **English Language Arts** An economy is not only affected by the decisions that are made in the marketplace. Factors such as natural disasters, war, or political changes can also impact an economic system. Observe a news program, or read a newspaper, magazine, or Internet article on a current event. Write a one- or two-page paper on how the event has impacted a national economic system.
5. **English Language Arts** Choose a country with a different economic system than the U.S. system. Use reference materials such as encyclopedias, Internet sources, history books, and magazines to gather research on the economic systems of both countries. Then prepare a three-minute presentation comparing and contrasting the systems. Illustrate at least one or more of the points you make using a visual aid.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Chapter 2 Review and Activities

Section 2.1 Summary

Economic Resources Just as individuals have to deal with a lack of resources, so do societies. Resources are necessary to make what people want and need. A shortage of resources is called scarcity. Individuals and groups of individuals have to deal with the problem of scarcity. Nations do not have enough economic resources or factors of production to satisfy all of the wants and needs of their people. Factors of production that go into making goods and services include natural, labor, capital, and entrepreneurial resources.

Section 2.2 Summary

Economic Systems Because all nations must deal with the scarcity of economic resources, each must set up an economic system that determines what and how much will be produced, how items will be produced, and who will receive what is produced. There are two primary types of economic systems. A market economy focuses on individuals answering the three economic questions through the interaction of supply and demand. In a planned economy, the government makes those decisions. Each country has attributes of both.

Vocabulary Review

1. On a sheet of paper, use each of these key terms and academic vocabulary terms in a sentence.

Key Terms

scarcity	economic systems
factors of production	market economy
natural resources	price
labor resources	supply
capital resources	demand
entrepreneurial resources	equilibrium price
entrepreneurship	command economy
entrepreneur	mixed economy
economics	

Academic Vocabulary

factors
processed
labor
individuals
relationship
interact
observed
control

Review Key Concepts

2. Explain how scarcity requires individuals and nations to make decisions about resources.
3. Describe the four factors of production.
4. Describe the three basic economic questions that each country must answer to make decisions about using their resources.
5. Contrast how a market economy and a command economy answer the three economic questions.

Critical Thinking

6. Why does a country need an economic system?
7. In the last 10 to 20 years, several nations have moved toward having a market economy with less emphasis on planned economies. Why do you think some nations choose to adopt a more market-based economy?
8. Explain the reason for the difference between capital and capital goods.
9. Why is the profit motive considered an incentive in a market system?
10. Are some natural resources more valuable than others? Explain.
11. Countries have different levels of scarcity of their economic resources or factors of production. Think of two countries with different levels of scarcity for the same item. How does that affect the economic choices the nations make?
12. A company produces a new toy that is in great demand. It raises its price because there is no competition. Supplies cannot keep up with demand, so the company raises its price again. Are such price increases allowed in a market system? Should the government control the price? What are other toy producers likely to do?

Write About It

13. Write a diary entry about a career you might be interested in pursuing. What capital resources would you need?
14. In a one-page essay, describe at least two situations in which competition has been beneficial to you.
15. Which factor of production do you believe is the most important in the production of goods and services? Write an e-mail to your teacher. Give reasons for your opinion.
16. Write a paper either supporting or rejecting the following statement: "The market system in America focuses too much on individual achievement and not enough on the needs of society."
17. How does recycling help bridge the gap between renewable and nonrenewable resources? Write two or more paragraphs explaining your answer.
18. Create a table that compares and contrasts the quality differences between machine-made products and handmade products.
19. Write two or more paragraphs discussing reasons that trade-offs between labor and capital resources might impact the supply and demand for a product.

Technology Applications

Web Page Design

20. Research a country that has recently moved from a command economy to a mixed or market economy. Prepare a Web page that includes a report on the transitional process. Describe the conditions that led to it. Discuss the rights and responsibilities of businesses, consumers, and the government before and afterward.

Business Ethics

Ethics and Economies

21. Economists study how society distributes scarce resources to produce goods and services. They conduct research, collect and analyze data, monitor economic trends, and develop forecasts. Do you think ethics should be considered when making economic decisions? Explain your answer.

Chapter 2 Review and Activities

Applying Academics to Business

English Language Arts

22. The main part of the word *capitalism* is *capital*, which has several meanings and can be used in different contexts. Research the original word in Latin and tell what it means. Then read its various definitions and write a few sentences to demonstrate the meanings of the English word. Finally, list synonyms and a few related words.

Mathematics

23. List five things you buy often, several places where you can buy them, and the price charged at each place. Find the range and median of the prices for each item, and write a ratio comparing the range to the median. How would a ratio for a product with a small range of prices differ from the ratio for a product with a large range of prices?

CONCEPT Data Analysis and Probability

The range of a set of data is the difference between the greatest and smallest elements in the set. The mean is the average of the elements in the set, the median is the middle number—or the average of the middle two numbers—when the elements are listed from least to greatest, and the mode is the most frequently occurring number.

English Language Arts

24. Select a current economic event that you are familiar with from reading the newspaper or watching the news. Think about how the economic event impacts the lives of those directly involved and those who are related to the event in some way. Try to find information about the positive and negative economic impacts of the event. Write two or three paragraphs summarizing the economic event and its impacts.

Mathematics

25. Because of warmer-than-expected weather in the winter months, the demand for heating oil has decreased. Sketch a graph showing what a demand curve for heating oil might look like.

CONCEPT Algebra/Graphing/Quantitative Relationships Two-dimensional line graphs can be used to show how two changing values act relative to one another. In this case, as time progresses, demand for heating oil declines.

Active Learning

Community Survey

26. Develop a list of five goods or services. Use a local business directory to determine how many firms in the community offer those goods or services. Rank the goods or services from those with the most competition to those with the least competition.

Business in the Real World

Competition and Product Differentiation

27. Select an article from a recent business publication on how one business is trying to differentiate its products or services in order to attract more customers. Write a letter to your teacher about how each competitor differentiates its products from others in the market.

Real LIFE skills

ASSESSING YOUR WORKPLACE BASIC SKILLS

28. The skills and qualities essential for success in the workforce include basic skills (reading, writing, mathematics, listening, and speaking), thinking skills, and personal qualities. Create a table of these skills and qualities. Then use a 1–5 ranking scale to evaluate your proficiency at these skills. Write an essay that describes how you plan to improve your greatest weakness.

Cool Business CAREERS

FIND YOUR DREAM JOB

29. Go to the *Introduction to Business* Online Learning Center through glencoe.com for a link to the Occupational Outlook Handbook Web site. Click on the “OOH Search/A-Z Index” link and enter the job title “customer service representative.” Then write a one-page report about this type of occupation. Conclude your report with a list of things you could do now to prepare yourself to pursue the occupation.

Role Play

THE ADVANTAGES OF MARKET ECONOMIES

30. **Situation** You are an economist who consults politicians and other economists in a country that wants to move from a command economy to a market economy.

Activity Prepare and give a presentation on the differences between a command economy and a market economy.

Evaluation You will be evaluated on how well you meet the following performance indicators:

- Explain the characteristics of a market economy, including: profit; competition; private ownership; the ability of individuals to start businesses; freedom of the individual to make career, consumer, and business decisions.
- Explain the characteristics of a command economy.
- Prepare a logical outline of the talk with correct grammar and punctuation.

Standardized Test Practice

Directions Choose the letter of the best answer. Write the letter for the answer on a separate piece of paper.

1. In the sentence below, which underlined word or phrase contains a spelling error?

Cheryl's paper comparing capitalism and socialism was written hurriedly, but she recieved a high mark from the teacher.

- | | |
|----------------------------|--------------|
| A Cheryl's | C hurriedly, |
| B capitalism and socialism | D recieved |



TEST-TAKING TIP Study for tests over a few days or weeks, and continually review class material. Do not wait until the night before and try to learn everything at once.



READING Go to the *Introduction to Business* Online Learning Center through glencoe.com for a list of outside reading suggestions.