ECONOMICS 101

WHAT IS ECONOMICS?

1) Fundamental Economic Concepts

   a) **Scarcity**
      i) Unlimited Wants v Limited Resources
      ii) **Need** – what we need for survival
      iii) **Want** – Something we would like to have
      iv) Goods
         (1) **Durable**: lasts three + years
         (2) **Nondurable**: lasts fewer than three years
         (3) Consumer: Final use by an individual
         (4) **Capital**: Used by a business to produce other products
      v) Service – worked performed for someone
      vi) Value - the worth of a good or service expressed in dollars
      vii) **Adam Smith**: *The Wealth of Nations*
         (1) **Paradox of Value** – necessities have low value, nonnecessities have high value
         (2) **Utility** – the capacity to be useful to provide satisfaction
            (a) Varies from person to person
            (b) Explains value of nonnecessities (diamonds)
            (c) VALUE = SCARCITY + UTILITY
      viii) Wealth: Accumulation of products that are:
         1. Tangible
         2. Scarce
         3. Have utility
         4. Are transferable

   b) **Societies Questions**
      i) What to produce?
      ii) How to produce?
      iii) For whom to produce?

2) Economic Choices and Decision Making

   a) **Factors of Production (FOP)**
      i) **Land** – natural resources
         (1) Land forms
         (2) Deposits
         (3) Climate
         (4) Plants and Animals
      ii) **Capital** – tools and equipment used for production
      iii) **Labor** – people with skills, efforts, and abilities
         (1) What impacts quality of labor?
      iv) **Entrepreneurs** – risk-takers who do something new
         (1) Businesses
         (2) Products
         (3) Services

   b) **Opportunity Cost** – The value of the next best thing given up
      i) If you make a choice, what did you give up and what is its value?

   c) Circular Flow of Economic Activity (see Circular Flow Chart)
      i) Market – place where buyers and sellers exchange
      ii) Factor Markets – buying and selling of factors of production
      iii) Product Markets – producers sell their goods and services

ECONOMIC SYSTEMS AND DECISION MAKING

1) Economic Systems

   a) **Traditional Economy**
      i) Stems from rituals, habits, and customs
      ii) Elders and ancestors define the roles
      iii) Advantages
         (1) WHAT? - Everyone knows their role
         (2) HOW? - Little uncertainty exists
         (3) FOR WHOM? – you know who you are producing for
      iv) Disadvantages
         (1) Discourages new ideas
         (2) Strict rules/punishments
         (3) Lack of progress –leads to stagnation

   b) **Command Economy**
      i) Central authority makes the major decisions: WHAT? HOW? FOR WHOM?
         (1) Socialism – liberal version
            (a) Government owns some, but not all, FOP
      ii) Characteristics
         (1) Makes all major economic decisions
         (2) Doles out or plunders wealth
         (3) Limited private property
         (4) Decisions are made for the people, not by them
      iii) Advantages
         (1) Can change quickly
         (2) Citizens can receive goods and services they can't afford
      iv) Disadvantages
         (1) Leaders provide for themselves at others expense
         (2) Loss of freedom to choose
         (3) Low-quality goods: quotas over quality
         (4) Large bureaucracy
         (5) Rewards are rare – no incentives
         (6) Lack of flexibility – dealing with problems
         (7) Too many decisions required for growth – central authority can't

c) **Market Economy**
   i) People make their decisions based on self-interest
   ii) Buyers and sellers come together to trade
   iii) Characteristics
      (1) Freedom
      (2) Consumer choice answers WHAT?
      (3) Businesses decide HOW?
      (4) Income decides FOR WHOM?

d) **Capitalism** – Private citizens own and use FOP for their own profit/gain
   i) Advantages
      (1) Individual Freedom
      (2) Adjusts gradually to change
      (3) Little government interference (?)
      (4) Decision making is decentralized – consumers
      (5) Variety of goods and services
      (6) Consumer satisfaction
      (7) Privately owned goods – lasts longer
   ii) Disadvantages
      (1) Does not provide for all: old, sick, poor
      (2) Basic goods and services may be in short supply – low profit motive
      (3) Employee uncertainty – relocation due to production costs

2) Mixed Economies

a) **Communism**
   i) **Karl Marx and Friedrich Engels**: *Communist Manifesto*
      (1) Working class would overthrow the property owners
      (2) Everyone contributes based on abilities
      (3) Everyone consumes based on needs
   ii) Ideal – no government exists
      (1) Extreme government needed to reach
   iii) Not possible with unlimited wants and limited resources

b) **Socialism**
   i) System needed to reach communism – per Marx
   ii) Government controls some, but not all, FOP
   iii) Provides basic needs: Education, jobs, transportation, health care

c) Mixed Market

- i) Most democracies in the world today

d) Advantages of Mixed Economies

- i) Provides assistance for some who may be left out
- ii) Voters can exercise their power in elections
- iii) Fast growing

e) Disadvantages

- i) Provided goods and services can be expensive
- ii) Services may be limited and deteriorate over time
- iii) Less efficient than capitalism
- iv) Market reforms threaten government leadership

3) Free Enterprise Capitalism

a) **Free Enterprise** – Free market with little government interference

- i) Five Important Characteristics:
  - (1) Economic Freedom – Freedom to make choices
  - (2) Voluntary Exchange – Buyers and sellers willingly engage in transactions
  - (3) Private Property – Individuals own property
    - (a) Incentive to work and save
    - (b) Can borrow against the property – collateral
    - (c) Protected by the 14th Amendment
  - (4) Profit Motive – Encourages risk-taking to improve material wealth
  - (5) Competition – Allows capitalism to thrive
    - (a) Improves efficiency
    - (b) New products
    - (c) Better products
    - (d) Less expensive products

b) Benefits of Free Enterprise

- i) Individual Freedom
- ii) Variety of goods
- iii) Adaptive to change – mainly through pricing changes
- iv) Promotes progress
- v) Creates wealth

c) Disadvantages of Free Enterprise
    i) Uneven economic growth – periods of economic recessions
    ii) Gaps between rich and poor
    iii) Rights and Responsibilities of Businesses
        (1) Same rights as individuals except the right to vote
        (2) Responsibilities often dictated by government regulations

4) Roles within the Free Enterprise Economy

a) **Entrepreneur** – one who organizes FOP in an attempt to seek a profit
    i) Most fail
    ii) Some find success
    iii) Few become very wealthy
    iv) Dream of success is the temptation
    v) Economic Benefits
        (1) Profit and satisfaction
        (2) Workers gain jobs and wages
        (3) Consumers receive newer and better products
        (4) Government receives taxes

b) **Consumer** – ruler of the market via decision to buy/not buy

c) Government
    i) Protector – makes and enforces laws against abuse
    ii) Provider – of goods and services to the citizenry
    iii) Regulator – monitors and regulates business activities
    iv) Consumer – of scarce resources
    v) Government involvement leads to a Mixed Economy

DEMAND

1) **Demand** – desire, ability, and willingness to buy a product

   a) The two variables that effect demand are price and quantity

   b) Demand Schedule
      i) Shows the quantity/price relationship
      ii) **Law of Demand** – inverse relationship between demand and price
         (1) Price increases = demand decreases
         (2) Price decreases = demand increases
         (3) "Law" because the theory proves itself true over and over
      iii) Incentives can influence demand

   c) Demand Curve – charts the demand schedule
      i) Individual Demand Curves – personal choices
      ii) Market Demand Curve – combines individual demand curves

   d) **Marginal Utility** – usefulness and satisfaction one gets from additional purchases of the same product.
      i) Diminishing Marginal Utility – satisfaction declines with additional quantities
         (1) Willingness to pay decreases

2) Factors That Affect Demand

   a) Change in quantity demanded
      i) Only price can change demand
      ii) Income Effect – when price goes up, consumers become “poorer”, impacts demand
      iii) Substitution Effect – when a price change in one good or service makes other “replacement” goods or services appear more or less costly

   b) Change in Demand – factors other than price that causes the curve to shift
      i) Consumer Income – both increases and decreases
      ii) Consumer Tastes – advertising, peer pressure
      iii) Substitutes – products that can be used in place of
      iv) Complements – products that are related to others
         (1) The use of one product causes a use of a second/third product
      v) Expectations – what does the future hold?
      vi) Number of Consumers – population shifts

3) Elasticity of Demand
   a) **Elastic Demand** – When a change in price causes a change in quantity demanded
   b) **Inelastic Demand** – When a change in price DOES NOT cause a drastic change in quantity demanded (Examples: gasoline, specialty drugs)
   c) Factors of Demand Elasticity
      i) Can the purchase be delayed?
         (1) Yes – elastic
         (2) No – inelastic
      ii) Are substitutes available?
         (1) Yes – elastic
         (2) No – inelastic
      iii) How large is the purchase with respect to income?
         (1) Large – elastic
         (2) Small – inelastic

SUPPLY

1) **Supply** – desire, ability, and willingness to produce and sell a product

   a) The variable that effects supply is price

   b) Supply Schedule
      i) Shows the quantity/price relationship
      ii) **Law of Supply** – relationship between demand and price
         (1) Price increases = Supply increases
         (2) Price decreases = Supply decreases
         (3) “Law” because the theory proves itself true over and over

   c) Supply Curve – charts the supply schedule
      i) Individual Supply Curves – shows an individual supplier
      ii) Market Demand Curve – combines individual supply curves

2) Change in Supply

   a) Amount offered for sale at a given price

   b) As price changes, so does supply

   c) Factors that impact change in supply
      i) Cost of resources – FOP: land, labor, capital
      ii) Productivity – usually increases
         (1) Training
         (2) Motivations
      iii) Technology – improves efficiency
         (1) Initial technology may not work at first – shift to the left
      iv) Taxes
      v) Subsidies – government payments to protect certain activities
         (1) Usually agriculture
      vi) Government regulations
      vii) Number of Sellers
      viii) Expectations

3) Elasticity of Supply

   a) **Elastic Supply** – When a change in price causes a proportional large change in quantity supplied
      i) Double price = triple supply
      ii) More likely in firms that can react quickly

   b) **Inelastic Supply** – When a change in price causes a proportional smaller change in quantity supplied
      i) Double price = 50% increase in supply
      ii) More likely in firms that cannot react quickly – long term change

4) Theory of Production

   a) Production Function – how output changes when an input is changed
      i) Production Period
         (1) Short Run - Usually the change is labor
         (2) Long Run – All variables can change
      ii) Total Product – total output
      iii) Marginal Product – Additional output due to additional worker added

   b) The Three Stages of Production
      i) Stage 1 – Increasing Marginal Returns
         (1) Each added worker contributes more to total production
      ii) Stage 2 – Decreasing Marginal Returns
         (1) Each added worker is making diminishing output
            (a) Diminishing Returns – Output increases at a diminishing rate
      iii) Stage 3 – Negative Marginal Returns
         (1) When total output starts to fall with added workers

5) Cost, Revenue, and Profit

   a) **Marginal Cost** – Additional cost of producing an additional unit
      i) **Fixed Costs**: AKA Overhead – cost that occur regardless of activity
         (1) Taxes
         (2) Salaries
         (3) Rent
         (4) Interest charges
         (5) Depreciation
      ii) **Variable Cost** – costs that change with output
         (1) Labor
         (2) Energy
         (3) Raw materials
      iii) Total Cost = Fixed Costs + Variable Costs
      iv) Marginal Cost = Addition Cost of Worker/Additional Output Generated

   b) **Marginal Revenue** – Extra revenue from the sale of additional unit
      i) Average Revenue = average price that each unit sells for
      ii) Total Revenue = average price * units sold
      iii) Marginal Revenue = change in total revenue/change in total output

   c) Profit Maximization and Break-Even
      i) Profit Maximizing Quantity of Output
         (1) Marginal Costs = Marginal Revenue
      ii) Break-Even Analysis – how much to sell to cover costs
         (1) Total Costs = Total Revenues

PRICES

1) How Prices Work

   a) Importance of price – the monetary value of a product
      i) Prices as a signal – gives information to buyers and sellers
      ii) Advantages of Prices
         (1) Neutrality – prices represent the compromise between buyers and sellers
         (2) Flexibility – consumption and/or production can adjust to unforeseen events
         (3) Familiarity – We understand prices
         (4) Efficiency – prices set themselves

   b) Rationing – allocating goods and services without prices
      i) Used by U.S. during WWII
      ii) Problems with:
         (1) Perceived Fairness
         (2) Administration
         (3) Distorted Incentives – impacts output if costs kept low
         (4) Abuse – Black Markets

2) Effects of Price

   a) How Prices Adjust
      i) Markets
         (1) Buyers and sellers have opposite goals
         (2) Buyers – Lower prices
         (3) Sellers – Higher prices
         (4) Compromise between the two sets the price
      ii) Supply and Demand
         (1) Use economic models
            (a) Supply Curve
            (b) Demand Curve
            (c) Supply and Demand Curves

(2) **Equilibrium Price** – The price where the number supplied equals the number demanded
(a) Also called Market Clearing Price – no surplus nor shortage exists
(b) Equilibrium Quantity = Quantity Purchased

iii) Surpluses – prices are too high
(1) Quantity Supplied > Quantity Demanded
(2) Surplus is the unsold units
(a) Price tends to drop
(b) The higher the surplus, the larger the price drop
(i) Sales
(ii) Clearances

iv) Shortages – Prices are too low
(1) Quantity Demanded > Quantity Supplied
(a) Demand exists after selling out of a product
(b) Sellers wish they had more to sell
(c) Next run of product will see a rise in price

v) Equilibrium – Prices are just right
(1) The price clears the market
(a) No further demand exists
(b) No supply exists

b) Why Do Prices Change? Factors that influence equilibrium
i) Changes in supply – example: farming
(1) Weather
(2) Additional suppliers
ii) Changes in demand
(1) Income levels
(2) Umber of consumers
(3) Prices of related products
iii) Changes in both supply and demand
(1) Due to the size of our economy, both usually occur together

3) Prices and Market Efficiency

a) Controlling Prices – government interference for societal goals
   i) **Price Ceilings** – Price is set BELOW the equilibrium price
      (1) A shortage will always exist
   ii) **Price Floors** – Minimum legal price a seller can charge
      (1) A surplus will always exist

b) Examples of Fixed Price Policies
   i) Price Floor for Sugar
      (1) Government attempts to stabilize prices from year to year
      (2) Target Price – price the government thinks is fair
      (3) USDA Loan
         (a) Future sugar crop as collateral
         (b) Sugar sold at price higher that the target price
            (i) Proceeds repay the loan
         (c) If sugar falls below the target price
            (i) Farmer or processor keeps the proceeds of the loan
            (ii) Government takes possession of the sugar
         (d) Nonrecourse loan
            (i) No penalty for nonpayment
            (ii) No obligation to repay
      (4) Helps competition with foreign producers
      (5) Can raise prices for consumers
         (a) U.S. prices are double world prices
         (b) Ripple effect in other industries: candy, beverages
   ii) Price Ceiling in Rent Control – sets maximum price one can charge
      (1) Helps protect middle- and low-income families
      (2) Price is set below the equilibrium price
         (a) Demand rises
         (b) Supply falls (landlords)
            (i) Long waiting lists
            (ii) Exclusions: pets, smokers
            (iii) Lack of upkeep on property
         (c) What happens when taxes rise? Who pays?

MARKET STRUCTURE

1) Competition

a) **Pure Competition** – theoretical market structure with three conditions
   i) Very large numbers
      (1) Large numbers of buyers and sellers
      (2) None large enough however to individually affect price
   ii) Identical products
      (1) No brand names
      (2) No advertising needed
   iii) Freedom of Entry and Exit
      (1) Prevents suppliers within an industry from keeping the market for themselves
      (2) Keeps prices competitive
   iv) Other conditions
      (1) Well informed, perfect knowledge of all buyers
      (2) Well informed, perfect knowledge of all sellers
   v) Pure, or perfect, competition is a utopia. It does not exist.
   vi) Profit Maximization
      (1) Supply and Demand set the market price
      (2) Firms must find a level of production to maximize profits

b) **Monopolistic Competition** – lacks identical products
   i) Products are similar but not identical
   ii) Sellers attempt to convince buyers of uniqueness
      (1) Safety
      (2) Reliability
      (3) Trustworthiness
      (4) Popularity
   iii) Brand Names are VERY important
      (1) Consumers will pay higher prices
   iv) Competition
      (1) Product Differentiation – real or perceived differences between products

(2) Non-price Competition – ways to convince buyers (Marketing)
(a) Advertising
(b) Giveaways
(c) Promotions
(d) Testimonials

c) **Oligopoly** – A few large sellers dominate an industry
i) Independent behavior
(1) When one firm acts, the others follow (Airline prices)
(2) Try to attract or not lose customers
ii) Competition
(1) Introduction of new models
(2) Product enhancements
(3) Collusion – illegal price-fixing within an industry
(a) Limits outputs
(b) Divides markets
(c) Reduces competition

d) **Monopoly** – only one seller of a product
i) Rarely exist today
ii) **Laissez-faire** – no government interference in business
(1) Adam Smith
iii) Types of Monopolies
(1) Natural Monopoly
(a) A single firm can produce much cheaper than another
(b) Example: utilities
(c) Company must accept government regulations
(2) Geographic Monopoly
(a) Absence of competition within a geographic area
(b) Typical to small towns
(c) Only one seller: gas station or grocery store
(3) Technological Monopoly
(a) Ownership of:
(i) Manufacturing method
(ii) Manufacturing process
(iii) Scientific method
(b) **Patent** – legal exclusive right
(i) Inventions – covered for 20 years
(ii) Become public property

- (c) **Copyright** – legal exclusive right
  - (i) Artwork
  - (ii) Written work – literature
  - (iii) Covers publishing, selling, reproducing
  - (iv) Lifetime + 70 years
- (4) Government Monopoly – government owned and operated
  - (a) Product and services that private business cannot supply
    - (i) Water authorities
    - (ii) Radioactive material for weapons

2) Why Markets Fail

a) Lack of Competition
- i) Reduced efficient use of resources
- ii) Special political treatment
- iii) "Fat Cats" – owners become wealthy

b) Lack of Information
- i) Kept from consumers
- ii) Supplier uses information to set prices – insurance

c) Resource Immobility
- i) FOP refuses to move to another location
- ii) Common with large factories: Steel, Auto

d) Too Few Public Goods
- i) Public Good – consumed by everyone
  - (1) Infrastructure: roads, bridges, dams
  - (2) No profit in production
  - (3) Government is left to control
- ii) Typically underfunded

e) **Spillover** Effects (Externalities)
- i) Unintended side-effects – impacts third-parties
  - (1) Negative spillover – uncompensated harm, cost, or inconvenience
  - (2) Positive spillover – unreimbursed benefit

f) Dealing With Spillovers
    i) Taxing: Example of pollution
        (1) Factories pollute ecosystems, impacting the population
        (2) Government standards
            (a) Tax on pollution
            (b) Raises cost of production
            (c) Paid for by consumer
            (d) Pollution decreases
    ii) Subsidizing – typical with positive spillovers
        (1) Health care
        (2) Education
        (3) Improves standards of living
        (4) People are more productive

3) Role of Government

a) Ensuring Competition
    i) Breaking up Monopolies
        (1) Trusts – Combinations of firms
            (a) Restricts competition
            (b) Controls prices
        (2) Standard Oil – John D. Rockefeller
            (a) Controlled 90% of domestic market
            (b) Sherman Anti-Trust Act (1890)
                (i) Protect trade and commerce
            (c) 1911 – Supreme Court Case forced breakup into 34 companies
    ii) Preventing the Formation of Monopolies
        (1) Clayton Anti-Trust Act (1914)
            (a) Outlawed price discrimination – selling the same product to different consumers at different prices
            (b) Federal Trade Commission (FTC) – Enforces the law
                (i) Cease and Desist – ruling that forces a company to stop unfair practices
            (c) Robinson-Patman Act (1936) – no more special discounts
    iii) Regulating Monopolies
        (1) Economies of Scale – the larger the company, the lower the cost of production
        (2) Raising of rates or prices must be approved by regulatory agencies (utilities)

BUSINESS ORGANIZATIONS

1) Forms of Business

   a) **Sole Proprietorships** – a business owned and run by a single person
      i) How to form
         (1) Easiest type of business to start
         (2) Almost no requirements
         (3) Fast start-up
      ii) Advantages
         (1) Easy to start
         (2) Ease of management
         (3) Owner keeps the profits
         (4) No business income tax
         (5) Personal satisfaction
         (6) Easy to close
      iii) Disadvantages
         (1) Unlimited Liability – owner is fully responsible
            (a) Personal possessions are at risk
         (2) Raising financial capital is difficult
         (3) Limited inventories
         (4) Possible lack of management skills
         (5) Difficult to attract employees
            (a) Benefits
            (b) Wages
         (6) Limited life – business dies with the owner

   b) **Partnerships** – a business jointly owned by two or more people
      i) Types of Partnerships
         (1) General Partnership
            (a) Most common
            (b) All partners are responsible for management and finances
         (2) Limited Partnerships
            (a) At least one partner is not active
            (b) Has limited obligations

ii) Advantages
   (1) Easy to start-up
   (2) Ease of management
      (a) Each partner brings experience
   (3) Taxes – each partner pays his/her profit tax as an individual
   (4) Easy to attract capital
   (5) Efficient
iii) Disadvantages
   (1) General Partnerships
      (a) Each partner is fully responsible
   (2) Limited Partnerships
      (a) Responsibility is limited to the size of the individual investment
      (b) Limited life – when one leaves, the partnership is dissolved
   (3) Conflict between partners

c) **Corporations** – a business recognized by law as a separate legal entity
   i) Forming a corporation
      (1) Formal and legal arraignment
      (2) Government must grant a charter – permission to create
      (3) Stock – ownership certificates
         (a) Sold to investors
         (b) Dividends – corporate earning given to the stockholders
   ii) Corporate Structure
      (1) Stockholders become owners in the company
         (a) Common Stock
            (i) Basic ownership
            (ii) Each share = 1 vote for Board of Directors
         (b) Preferred Stock
            (i) Nonvoting ownership
            (ii) Receive their dividends before common stockholders
            (iii) Receive investment back before common if corporation goes out of business
      (2) Majority stockholder controls the company
   iii) Advantages
      (1) Ease of raising capital
         (a) Sale of stock
         (b) Issue bonds – borrow money with a promise to repay
            (i) Principal + interest

(2) Limited Liability – corporation is fully responsible, not the owners
    (a) Promotes risk taking
(3) Professionals are hired to run the business
(4) Unlimited Life
(5) Easy ownership transfer – sale of stock

iv) Disadvantages
    (1) Double taxation
        (a) Corporation is taxed
        (b) Stockholders are taxed
    (2) Difficulty and expense of charter
    (3) Owners have little to no voice
    (4) Government regulations

d) **Franchises** – renting or leasing another firm's business model
    i) Franchisor – the actual owner of the business
    ii) Franchisee – The investor who rents/leases the business
    iii) Advantages
        (1) Established business model
        (2) Product lines
        (3) National advertising
        (4) Professional advise
    iv) Disadvantages
        (1) Expensive
        (2) Time limit of franchise

e) **Mergers** – a combination of two or more business that form a new firm
    i) **Horizontal** – when firms that produce like products join together
    ii) **Vertical** – when firms of different stages of production join together
        (1) Raw material suppliers
        (2) Manufacturers
        (3) Transportation
        (4) Retail
    iii) Why Merge?
        (1) Fast growth
        (2) Synergy – bringing together of strengths
        (3) Economies of Scale
        (4) Diversification – new product lines
        (5) Eliminate rivals
        (6) Change corporate identity

f) **Conglomerates** – firm with four or more businesses in unrelated fields/products
   i) Diversification
   ii) Protection from economic events

g) **Multinationals** – corporations with operations in more than one country
   i) Pays taxes to all countries associated with
   ii) Respects all laws
   iii) Ease of movement over borders
   iv) Transfers technology
   v) Job creation
   vi) Possible abuse
      (1) Workers
      (2) Taxes
      (3) Alters customs

h) Start-ups
   i) **Incubators** – entrepreneurs receive training and/or financing
      (1) Universities
   ii) **Venture Capitalists** – provider of investment funds
      (1) Receives partial ownership
      (2) Provides experience
   iii) **Angel Investor** – informal and affluent investors
      (1) More interested in helping the entrepreneur
      (2) Not as concerned about ROI – return on investment
   iv) **Crowdfunding** – using social networking
      (1) Kickstarter

i) Nonprofits
   i) Community Organizations
      (1) Unlimited Life
      (2) Limited Liability
      (3) Do not pay taxes
      (4) Examples:
         (a) Schools
         (b) Churches
         (c) Hospitals
   ii) **Cooperatives** (co-op) – voluntary association
      (1) Three types

(a) Consumer co-op – buys in bulk and sells to its members
(b) Service co-op – provides services to its members
(i) Credit union
(ii) Insurance
(c) Producer co-op – helps members promote and sell products
(i) Farmers

j) Government
i) Direct Role
(1) Agencies that provide direct goods and services
(a) TVA – Tennessee Valley Authority
(i) Provides power
(b) FDIC – Federal Deposit Insurance Corporation
(i) Insures bank deposits
(c) USPS – U.S. Postal Service
(i) Delivery of mail and packages
(2) Local examples
(a) Community Colleges
(b) Fire/EMS/police
(c) Schools
ii) Indirect Role
(1) Antitrust Laws
(2) College Scholarships
(3) Social Security

LABOR AND WAGES

1) Labor Movement

    a) History
        i) Early Union Development
            (1) First attempt – printers in NYC – 1778
                (a) Demanded higher wages
                (b) Followed by:
                    (i) Shoemakers
                    (ii) Carpenters
                    (iii) Tailors
                (c) Skilled workers with strong bargaining power
            (2) Arrival of immigrants posed a threat
                (a) Cheap
                (b) Unskilled
            (3) Public opinion was mostly against unions
        ii) Civil War – 1930s
            (1) Manufacturing expanded
            (2) Industrial jobs = ¼ of all jobs
            (3) Labor became more unified
        iii) Types of Unions
            (1) Craft Unions
                (a) AKA Trades
                (b) Association of skilled workers
                (c) Samuel Gompers – Cigar Makers Union
            (2) Industrial Union
                (a) Association of workers within an industry
                (b) Mostly unskilled workers
        iv) Union Actions
            (1) Strike – refusal to work until demand met
            (2) Picket – protest marching outside of business
            (3) Boycott – refusal to purchase a company's products
        v) Employer Response
            (1) Lockout – refusal to let employees in to work
            (2) Scabs – workers hired to replace striking workers
            (3) Company Unions – organized by the company

b) Current powerful unions
  i) AFL-CIO
  ii) FOP
  iii) NEA

c) Labor Today
  i) **Closed Shop** – Employer only hires union members
  ii) **Union Shop** – Workers must join the union after hire
  iii) **Modified Union Shop** – Workers do not have to join the union
  iv) **Agency Shop** – Worker not required to join but must pay dues
    (1) Subject to negotiated contract terms

2) Wages and Disputes

a) Wage rate – pay given for work performed

b) Categories of Labor
  i) **Unskilled labor** – no special training and/or skills
  ii) **Semiskilled labor** – minimal training needed
  iii) **Skilled labor** – high levels of education/training
    (1) Carpenters
    (2) Electricians
    (3) Computer fields
  iv) Professional Labor
    (1) Highest level of education
      (a) TEACHERS
      (b) Doctors
      (c) Lawyers
      (d) Executives

c) Wage Determination
  i) Market Theory – supply and demand determines wages/salaries
  ii) Negotiated Wages – Bargaining strength of organized labor
    (1) Unions can force higher wages
    (2) Seniority – length of time on the job can increase wages
  iii) Signaling Theory – degrees and certificates = higher wages

d) Resolving Labor Disputes
   i) Collective Bargaining
      (1) Negotiations between labor and management
      (2) Grievance – provision for resolving issues
   ii) Mediation – neutral third person helps to settle dispute
   iii) Arbitration – third person rules on dispute
      (1) Binding – both sides agree to any final decision to be made
      (2) Non-binding
   iv) Fact-Finding – third party collects facts to present to both sides
   v) Injunction – court order
   vi) Seizure – government takeover
   vii) Presidential Intervention
      (1) Public appeals
      (2) Fire federal workers
      (3) Emergency powers – use existing laws to end strikes

3) Employment Trends and Issues

a) Decline of Unions
   i) Businesses attempt to keep unions out
   ii) Part-time jobs
   iii) Success of unions increase prices

b) Lower pay for women
   i) Human Capital
      (1) Experience
      (2) Education
   ii) Gender and occupation
      (1) Type of job/work performed
   iii) Discrimination
      (1) Glass Ceiling – stops movement up the corporate ladder

4) Government intervention

    a) Equal Pay Act (1963)

    b) Civil Rights Act (1964)
        i) Prohibits discrimination
            (1) Gender
            (2) Race
            (3) Color
            (4) Religion
            (5) National origin
        ii) Applies to businesses with 15+ employees

    c) Set-Aside Contracts
        i) Certain % of contract work must go to minorities

    d) Minimum Wage – lowest wage paid allowed by law
        i) Supporters
            (1) Equity and security are consistent
        ii) Opponents
            (1) Interferes with economic freedom
            (2) Discriminates against the youth

MONEY AND BANKING

1) Money

   a) **Characteristics of Money**
      i) Portable – easily transferable
      ii) Durable – will not deteriorate quickly
      iii) Divisible into smaller units
      iv) Scarcity or "limited supply" – accounts for value

   b) **Three Functions of Money**
      i) Medium of Exchange – accepted by all parties
      ii) Measure of Value – expression of worth
      iii) Store of Value – can be saved

   c) Creation of the FED
      i) Federal Reserve System created by Congress – 1913
      ii) Central Bank – Bank to the banks
      iii) Great Depression
         (1) 10,000 + banks closed by 1934
            (a) Run on banks
            (b) Bank Holiday – March 5, 1933 (FDR)
      iv) FDIC – Federal Deposit Insurance Corporation
         (1) Banking Act of 1933
         (2) Insured bank deposits up to $2,500.00
         (3) Today - $250,000.00 per customer per bank
         (4) Power over weak banks
            (a) Seize the bank
            (b) Sell bank to another bank
            (c) Liquidate and pay depositors
      v) Federal Reserve Notes – today's money

2) Banking Today

   a) Deposits
      i) Savings
      ii) Checking Accounts
      iii) CD's – Certificates of Deposit
   b) How a bank makes money
      i) Loans
         (1) "**Spread**" – Difference between interest paid on deposits and interest charged on loans
      ii) Investments
         (1) Purchase of U.S. bonds
         (2) Stocks/Mutual Funds
      iii) Fees

   c) Banking Services
      i) Checking Accounts
      ii) Savings Accounts
      iii) Debit Cards
      iv) Credit Cards/Smart Cards
      v) EFT – Electronic Funds Transfer

FINANCIAL MARKETS

1) Saving and Growth

    a) Circular Flow of Finance
        i) Savings
        ii) Financial Intermediaries
            (1) Banks
            (2) Credit Unions
                (a) Nonprofit cooperative
                (b) Owned and operated for the benefit of its members
            (3) Finance Companies
                (a) Makes loans directly to consumers
            (4) Life Insurance Companies
                (a) Provides financial protection in case of death
                (b) Premium – monthly payment for coverage
            (5) Pension Funds
                (a) Income security for:
                    (i) Retirement
                    (ii) Old age
                    (iii) Disability
        iii) Borrowers
        iv) Financial Assets – Documents that show borrowing has taken place

    b) Investment Considerations
        i) Consistency – long-term
            (1) Invest every month/pay
        ii) Simplicity – stay with what you know
        iii) Risk-Return: Low to High:
            (1) CD's
            (2) U.S. Treasury Bills
            (3) Investment Bonds
            (4) Preferred Stock
            (5) Common Stock
            (6) Speculative Stock
            (7) Junk Bonds

iv) Objectives – Why are you investing?

2) Financial Assets and Markets

a) **Bonds** – formal long-term contract
   i) Par Value – amount borrowed and amount that must be paid back
   ii) Maturity – life of the bond – time to pay back
   iii) Coupon Rate – rate of interest paid on par value
   iv) Current Yield = Coupon Interest ÷ Purchase Price
   v) Bond Ratings – Range from AAA to D (Bond in default)

b) **Certificates of Deposit** (CD's)
   i) Loan from investor to financial institution
   ii) Low cost

c) Corporate Bonds

d) **Municipal Bonds** – "munis"
   i) Used to finance public construction projects
   ii) Tax-exempt

e) **Savings Bonds** (EE Savings Bonds)
   i) Issued by the U.S. Government
   ii) Purchase directly from the Treasury
   iii) Low-denomination
   iv) Non-transferable
   v) Beneficiary – inherits the bond when investor dies
      (1) No inheritance tax

f) Treasury Notes/Bonds
   i) Notes mature between 2 – 10 years
   ii) Bonds between 20 – 30 years
   iii) Interest paid every six months
   iv) Denominations of $100.00

g) **Treasury Bills** (T-Bill)
   i) Short-term – up to 52 weeks
   ii) Purchase at a discount
   iii) Matures at term

h) **Individual Retirement Accounts** (IRAs)
   i) Long-term
   ii) Deposits are from pre-tax income
   iii) Taxes paid upon withdrawal (retirement)

i) Types of Markets:
   i) Capital Markets: 1+ year on loaned/borrowed capital
   ii) Money Market: 1 year or less on loaned/borrowed capital
   iii) Primary Markets: Only original issuer can sell/repurchase
   iv) Secondary Markets: Financial assets can be sold to new owners

3) Equities and Options

a) Buying and Selling
   i) Stockbroker: one who buys and sells for his/her clients
   ii) Discount Brokerage
      (1) Typically on-line
      (2) Charge less than stockbrokers
      (3) Investor completes the transactions
      (4) Plethora of diagnostic tools available

b) Supply and Demand effects prices

c) Stock Summaries:
   i) 52 weeks: Hi and Low prices shown
   ii) Stock (SYM): Stock and symbol
   iii) DIV: annual dividend paid
   iv) Yld% = DIV ÷ LAST
   v) PE: Price to earnings
      (1) How much one is willing to pay for $1.00 of current earnings
   vi) 100s: Volume traded that day
   vii) LAST: Closing stock price
   viii) NET CHG: Daily change in closing prices

d) Portfolio Diversification: Holding various investments to protect against risk

e) **Mutual Funds**
   i) A company that sells stock in itself
   ii) Used funds to buy stocks and bonds of other companies
   iii) Can be sold by the investor for profit (loss)

f) **401(k):** Tax-deferred investment and savings plan
   i) Personal pension fund
   ii) Invest through payroll deductions
   iii) Employer matches some or all of employee contribution
   iv) Vesting – time required in order to claim employer's contributions

g) Stock Exchanges
   i) New York Stock Exchange (NYSE)
   ii) American Stock Exchange (AMEX)
   iii) Performance Measures
      (1) Dow Jones Industrial Average (DJIA)
         (a) The 30 most popular stocks
      (2) Standard & Poor's 500 (S & P 500)
         (a) Price changes of 500 stocks
   iv) **Bull Market** – Rising market
   v) **Bear Market** – falling market

h) **Futures**
   i) Agree to buy or sell at a set future date at a predetermined price
   ii) Hope that value of the future is higher at set date

i) **Options**
   i) Future where the buyer has the right to cancel the contract
   ii) Call Option – option to cancel in order to buy
   iii) Put Option – option to cancel in order to sell

EVALUATING THE ECONOMY

1) Measuring Output and Income of the Nation

   a) **Gross Domestic Product (GDP)**
      i) Total market value of all goods and services produced within a nation's borders during a 12-month period
      ii) Exclusions
         (1) Intermediate Products – goods used to make other products included in GDP
         (2) Secondhand Sales – sale of used goods
         (3) Nonmarket Transactions – activities that do not generate market expenditures
            (a) Mowing your own grass
            (b) Repairing your own home/auto
         (4) Underground Activities – activities not reported for legal/tax purposes
      iii) Current GDP – Current prices, unadjusted for inflation
      iv) Real GDP – after adjustments for inflation
         (1) Allows for year-to-year comparisons
      v) GDP per Capita – GDP per person
      vi) GDP does not tell:
         (1) What is outputted
         (2) Quality of life
         (3) Nonmarket activities
         (4) Product quality improvements

   b) Economic Sectors
      i) Consumer Sector
         (1) Household – all who occupy a house/apt.
         (2) Unrelated Individual – person living alone
         (3) Family – two or more living together and are related
      ii) Investment Sector
         (1) Proprietors
         (2) Partnerships
         (3) Corporations
      iii) Government Sector
      iv) Net Foreign Sector – consumers and producers outside the U.S.

2) Population Growth and Trends

   a) Importance of a population
      i) Labor
      ii) Consumers

   b) Census – population count
      i) Constitution requires a count every ten years
      ii) Urban – people living within cities, towns, villages of 2500+
      iii) Rural – people in sparsely populated areas

   c) Growth
      i) Center of population has shifted west and south
      ii) Consequences
         (1) Growth can outpace outputs
         (2) Slow growth can reduce available workers
         (3) Strain on resources
         (4) Infrastructure needs

   d) Future Population Trends
      i) Age and Gender
         (1) Baby Boom (1946 – 1964)
            (a) Population bulge
            (b) Currently aging/retiring
         (2) Dependency Ratio: number of children and elderly per working adult
         (3) Women outlive men
      ii) Race/Ethnicity
         (1) Minorities are become larger segments
            (a) Hispanic Americans
            (b) Asian Americans
            (c) African Americans

iii) Future Growth Factors – studied by Demographers
   (1) Fertility Rate: Approx. 2.119
   (2) Life Expectancy
      (a) Currently 77.7
      (b) By 2050: 83.9
   (3) Net Immigration: Difference between those leaving the country and those entering
      (a) Current: + 1.4 million/year

3) Poverty and Income Distribution

   a) **Poverty Threshold** – benchmark used to determine poverty line
      i) Focused on food budget
      ii) Guidelines help determine Food Stamp and Head Start recipients

   b) Reasons for Income Inequality
      i) Education
      ii) Wealth
         (1) Top 1%
         (2) Bottom 80%
      iii) Tax Laws
      iv) Decline of Unions
      v) Service Jobs (Loss of Manufacturing)
      vi) Technology Advances
      vii) Monopoly Power – Restricting workforce within an industry
         (1) Doctors
      viii) Discrimination
      ix) Family Structure

c) Antipoverty Programs
   i) Welfare – government programs that help the needy
   ii) Income Assistance
      (1) Temporary Assistance for Needy Families (TANF)
         (a) Cash payments due to:
            (i) Death of Parent
            (ii) Absence of Parent
            (iii) Disabled Parent
      (2) Supplemental Security Income (SSI)
         (a) Cash payments to:
            (i) Blind
            (ii) Disabled
            (iii) 65 +
   iii) General Assistance
      (1) Supplemental Nutrition Assistance Program (SNAP)
         (a) "Food Stamps"
         (b) Based on income
      (2) Medicaid – government paid health-care
   iv) Tax Credits: Earned Income Tax Credit (EITC)
      (1) Offsets payroll taxes
      (2) Must be working to file
   v) Enterprise Zones
      (1) Tax breaks to businesses that open in depressed areas
   vi) Workfare – providing labor in exchange for benefits
   vii) Negative Income Tax: Payments to people earning below the poverty line

INSTABILITY

1) Business Cycles

   a) Phases
      i) **Recession** – GDP declines for two quarters in a row
         (1) Begins at “peak”
         (2) End in “trough”
      ii) **Expansion** – Recovery from recession
      iii) **Depression** – severe recession
         (1) High unemployment
         (2) Shortages
         (3) Excess capacity in plants

   b) Causes
      i) External Shocks
         (1) Wars
         (2) Oil prices
      ii) Changes in investment spending
         (1) Production expansion/shuttering
         (2) Hiring/layoffs
      iii) Changes in monetary policies
         (1) FED Interest rates increase/decrease
      iv) Fiscal Policy
         (1) Government shut downs
      v) Speculation
         (1) Future projections – Bubble burst

2) **Inflation** – Rise in general level of prices

   a) Measuring
      i) Price Index – a statistical series used to measure the change in prices over time
      ii) Consumer Price Index (CPI)
         (1) **Market Basket** – a representative selection of goods and services
            (a) CPI uses approx. 300
            (b) Prices sampled monthly to get total cost
            (c) Comparisons made to Base Year

iii) Inflation = annual % change in price level
  (1) Creeping Inflation = 1% - 3% per year
  (2) Hyperinflation = 500% and above
  (3) Stagflation – stagnant growth + inflation

b) Causes of Inflation
  i) Demand-Pull: attempt to buy more goods than produced
    (1) Prices are "pulled" by demand
  ii) Cost-Push: rising input cost drive up prices
  iii) Wage-Price Spiral: rising wages become hard to stop
  iv) Excessive Monetary Growth
    (1) Money supply grows faster than GDP
    (2) People have more money to spend

c) Consequences of Inflation
  i) Reduced purchasing power
  ii) Changing spending habits
  iii) Speculation practices
  iv) Creditors are hurt more than debtors

3) Unemployment

a) Measuring
  i) Civilian Labor Force – labor force
    (1) 16 years and up employed or seeking employment
    (2) Excludes military, jailed, mental health facilities
  ii) Unemployed
    (1) People available for work
    (2) Made an effort to find a job within the last month
    (3) Worked less than 1 hour for pay
  iii) Unemployment Rate
    (1) Number of Unemployed Persons ÷ Civilian Labor Force
  iv) Uneven Burden
    (1) Higher rate for men
    (2) Teenagers are 3X higher
    (3) African Americans 2X higher than whites
    (4) Asians have the lowest rates
    (5) Long-Term: 27 + weeks

v) Underemployment
   (1) “Dropouts” – those too discouraged to find work
   (2) Part-timers are considered employed

vi) How to prevent
   (1) EDUCATION!
      (a) Unemployment rates go down as education increases

b) Sources of Unemployment

i) Frictional – workers between jobs

ii) Structural – fundamental changes in the economy
   (1) Outdated products/services
   (2) Outsourcing – hiring of outside firms to lower costs
   (3) Government – closing of military bases

iii) Technology – workers are replaced by machines

iv) Cyclical – related to swings in the business cycle
   (1) Consumers buy fewer items
   (2) Industries lay-off workers

v) Seasonal – weather/holidays

TAXES AND GOVERNMENT SPENDING

1) Taxes

   a) Economic Impact
      i) Resource Allocation
         (1) Taxes raise prices
      ii) Behavior
         (1) Deductions – interest on mortgage
         (2) Sin Tax – higher taxes designed to lower use
            (a) Alcohol
            (b) Cigarettes
      iii) Income Redistribution
      iv) Productivity and Growth
         (1) High taxes discourage further earnings
      v) Incidence of Tax – who actually pays the tax
         (1) Direct tax
         (2) Indirect tax – shifted to consumer in the form of higher prices/rates

   b) Types of Taxes
      i) Criteria for Effective Taxes
         (1) Equity – fairness
         (2) Simplicity
            (a) Individual Income Tax
            (b) Sales tax
         (3) Efficiency
      ii) Principles of Taxation
         (1) Benefit Principle – those who benefit should pay more
            (a) Gas tax – drive more/pay more – roads and bridges
         (2) Ability-to-pay – Higher incomes pay more than lower incomes
      iii) Three Types
         (1) **Proportional** – percentage of tax is the same across the board
         (2) **Progressive** – Higher rates on higher incomes
         (3) **Regressive** – as income rises, percentage of tax goes down

c) Alternative Tax Approaches
   i) **Flat Tax** – Proportional tax on income
      (1) Advantages
         (a) Simple
         (b) Close loopholes
      (2) Disadvantages
         (a) Removal of tax incentives
         (b) Could burden low-income households
         (c) May stop economic growth
   ii) **Value-Added Tax** – tax consumption, not income

2) Federal Government

a) The Budget
   i) Fiscal Year: October 1st – September 30th
   ii) Office of Management and Budget prepares and submits to Congress
   iii) Congress breaks down, rewrites, and passes
   iv) Sent to president: sign, veto, pocket veto
   v) Budget Deficit – Expenditures are higher than revenue
   vi) Budget Surplus – Revenue is higher than expenditures

b) Revenue Sources
   i) Individual Income Taxes
   ii) Borrowing
   iii) Payroll Taxes
   iv) Corporate Income Taxes
   v) Excise Taxes
   vi) Estate Taxes
   vii) Gift Taxes
   viii) Customs Duties

c) Expenditures
   i) Earmarks (Pork) – Line-item budget expenditures
   ii) Social Security
      (1) Largest expenditure
      (2) Mandatory Spending – authorized by law
   iii) Military
      (1) 2^{nd} largest expenditure
      (2) Discretionary Spending – must be approved each year by Congress
   iv) Income Security – welfare programs
   v) Medicare and Medicaid

d) Deficits and Debt
   i) **Deficit Spending** – spending more than revenues
   ii) National Debt – money borrowed to cover deficit spending
   iii) Balanced Budget: Revenue = Spending
   iv) Public Debt – Government debt
      (1) Trust Funds – government accounts used to fund expenditures
      (2) Country cannot go bankrupt – we owe most debt to ourselves

e) Impact of National Debt
   i) Transfer Purchasing Power – to future generations
   ii) Reduces Incentives – grants disappear
   iii) Crowding-out Effect – interest rates rise hurting individual borrowers

f) Reduction of Deficit and Debt
   i) Pay-as-you-go – New spending must be offset with cuts
   ii) Line-item veto – presidential power to cut parts of the budget
   iii) Spending caps – limits placed on spending
   iv) Raise Revenue – higher tax rates
   v) Entitlements – social welfare programs
   vi) Sequester – automatic budget cuts (Beginning in 2013)
   vii) Debt Ceiling – Total that can be borrowed

3) State and Local Government

   a) Revenue Sources (State)
      i) Intergovernmental – funds from the federal government
      ii) Employee Retirement – state retirement funds
      iii) Sales Tax
      iv) Individual Income Tax
      v) Interest on surplus
      vi) College tuition and fees (State-owned)
      vii) Corporate Income Taxes
      viii) Hospital Fees

   b) Expenditures (State)
      i) Intergovernmental – funds to local governments
      ii) Welfare
      iii) Higher Education
      iv) Employee Retirement
      v) Corrections (prison)
      vi) Hospitals
      vii) Parks and Recs
      viii) Infrastructure

   c) Revenue Sources (Local)
      i) Intergovernmental
      ii) Property Taxes
      iii) Sales Tax
      iv) Utilities

   d) Expenditures (Local)
      i) Education
      ii) Utilities
      iii) Hospitals
      iv) Fire/Police/EMS
      v) Housing
      vi) Roads

INTERNATIONAL TRADE

1) Absolute and Comparative Advantages

   a) Why Nations Trade
      i) Specialization – countries and regions
         (1) Exports – goods and services a nation sells to other nations
         (2) Imports – goods and services a nation buys from other nations

   b) Basis for Trade
      i) Absolute Advantage – a country's ability to produce more than any other country
      ii) Comparative Advantage – a country's ability to produce a product:
         (1) More efficiently
         (2) Lower opportunity cost

   c) Gains from Trade
      i) Greater Output
      ii) Political Stability
      iii) Economic Growth

2) Barriers

   a) Restricting Trade
      i) **Tariffs** – a tax placed on imports in order to increase the domestic price
         (1) Protective Tariff – protects inefficient domestic industries
         (2) Revenue Tariff – Generates revenue for the government
      ii) **Quotas** – limits placed on the quantities imported
      iii) Embargos – government order prohibiting the import of
      iv) Inspections – health concerns of imported food
      v) Licenses – government fees, slow approval
      vi) Health Concerns – GMOs
      vii) Culture

b) Arguments for Barriers
   i) Protectionists – those who want to protect domestic products from foreign trade
   ii) Free Traders – those who prefer few or no trade restrictions
   iii) Arguments
      (1) National Defense
      (2) Growth of new industries
      (3) Domestic Jobs
      (4) Keeps money at home
      (5) Balance of Payments – money paid and money received from trade
      (6) Nationalism

c) Free Trade
   i) Smoot-Hawley Tariff Act (1930)
      (1) High import duties
      (2) Other countries did the same
      (3) Nearly halted all trade
   ii) General Agreement on Tariffs and Trade (GATT) (1947)
      (1) Tariff concessions
      (2) Try to eliminate quotas
   iii) World Trade Organization (WTO)
      (1) Currently administers GATT
      (2) Organizes negotiations for developing countries
   iv) North American Free Trade Agreement (NAFTA) (1993)
      (1) Reduces tariffs and quotas between U.S., Canada, Mexico
      (2) Links 470 million people
      (3) $19 trillion of goods and services

3) Foreign Exchange and Trade Deficits

a) Foreign Exchange – currencies used by countries to facilitate trade

b) Foreign Exchange Rate – the price of one country's currency in terms of another's

    i) Fixed Exchange rates
        (1) Until 1971
        (2) One currency is fixed against another
    ii) Flexible Exchange Rates
        (1) Supply and Demand establish currency value
        (2) AKA: Floating Exchange rate
        (3) U.S Dollar falls – exports go up, imports go down
        (4) U.S. Dollar rises – exports go down, imports go up

c) Trade Deficit = Value of Imports > Value of Exports

d) Trade Surplus = Value of Exports > Value of Imports

e) Trade-weighted Value of the Dollar

    i) Strength of the dollar against a market basket of foreign currencies
    ii) Strong dollar = less costly foreign goods

GLOBAL DEVELOPMENT

1) Economic Development

    a) Importance
        i) Reduces poverty
        ii) Humanitarianism
        iii) Political

    b) Stages of Developing Countries
        i) Primitive Equilibrium
            (1) Nonindustrial
            (2) Low GDP
            (3) High poverty
            (4) Instability
        ii) Transition
            (1) Traditions begin disappearing
            (2) May be sudden or over time
        iii) Takeoff
            (1) Rapid growth
            (2) Imitate others
            (3) Agriculture improves
        iv) Semi-development
            (1) Income grows
            (2) Capital investments
        v) High Development
            (1) Wants and needs are satisfied
            (2) Shift to services and consumer goods
            (3) Shift away from heavy industry

c) Obstacles to Development
   i) Population Growth
   ii) Natural Resources
   iii) Geography
   iv) Disease
   v) Substance Abuse
   vi) Education
   vii) Technology
   viii) Debt
   ix) Corruption
   x) War
   xi) Capital Flight – exporting a nation's currency

d) Regional Economic Coops
   i) Free-trade Areas
      (1) EU - European Union
         (a) Successor of the European Coal and Steel Community
         (b) Euro – the EU currency
      (2) ASEAN - Association of Southeast Asian Nations
         (a) Group of ten nations
      (3) NAFTA
      (4) COMESA – Common Market for Eastern and Southern Africa
         (a) 19 member countries
         (b) Some lack infrastructure
      (5) OPEC – Organization of Petroleum Exporting Countries
         (a) Oil cartel – limits production in order to control prices

2) Problems and Incentives

a) Population Growth
   i) Thomas Malthus – argued population would grow faster than the ability to feed
      (1) Subsistence – state where a population produces on enough for self-support
      (2) Productivity and technology prevented this

b) Demand for Resources
    i) Renewable
        (1) Hydro
        (2) Biomass
        (3) Solar
        (4) Wind
    ii) Nonrenewable
        (1) Coal
        (2) Petroleum
        (3) Natural Gas
        (4) Nuclear

c) Pollution
    i) Lowers production costs
    ii) Legislative Standards enacted
        (1) EPA – Environmental Protection Agency
        (2) Superfund – cleanup of waste sites
        (3) Pollution Fees
        (4) Pollution Permits – allows for controlled polluting