



Basic Economic Concepts

Economics has its own vocabulary. Fortunately, most economic terms are widely used and will already be familiar.

I. Needs and Wants

- A need is a basic requirement for survival.
- A want is a means of expressing a need.



II. Products



- A. Free Products are so plentiful no price can be attached (sunshine or air).
- B. Economic Products are goods and services that are useful, relatively scarce, and transferable to others.



B. Economic Products

- 1. Goods – a tangible commodity
 - Consumer Goods – to be used by individuals.
 - Capital Goods – a good used to produce another good.
 - Durable Goods - last three years or more.
 - Nondurable Goods – last less than three years.



B. Economic Products



- 2. Services – work performed for someone.
- This includes work that doctors, lawyers, and teachers perform.
- The difference between a good and service is that a service cannot be touched or felt.

III. Consumers

- Consumers are People who use goods and services to satisfy wants and needs.
- A. Consumption is the process of using up goods and services to satisfy wants and needs.
- B. Conspicuous Consumption is the use of a good or service to impress others.



IV. Value, Wealth, Utility



- Value is something that has worth that can be expressed in dollars and cents.
- Value is determined by the price someone would pay for something.
- Why do some things have more value than others?

A. Paradox of Value

- Some things are essential to life, such as water, yet have little monetary value.
- Other things, such as diamonds, are not essential but have a much higher value.
- This is known as the paradox of value.
- The paradox of value is due to scarcity. In order for something to have value, it has to be somewhat scarce.



B. Utility



- For something to have value, it must also have utility.
- Utility is the capacity to be useful to someone.
- This is not measurable and can be different from one person to the next.

C. Wealth

- Another concept is wealth.
- Wealth is the sum of economic products that are tangible, scarce, useful, and transferable from one person to another.





Economic Interdependence

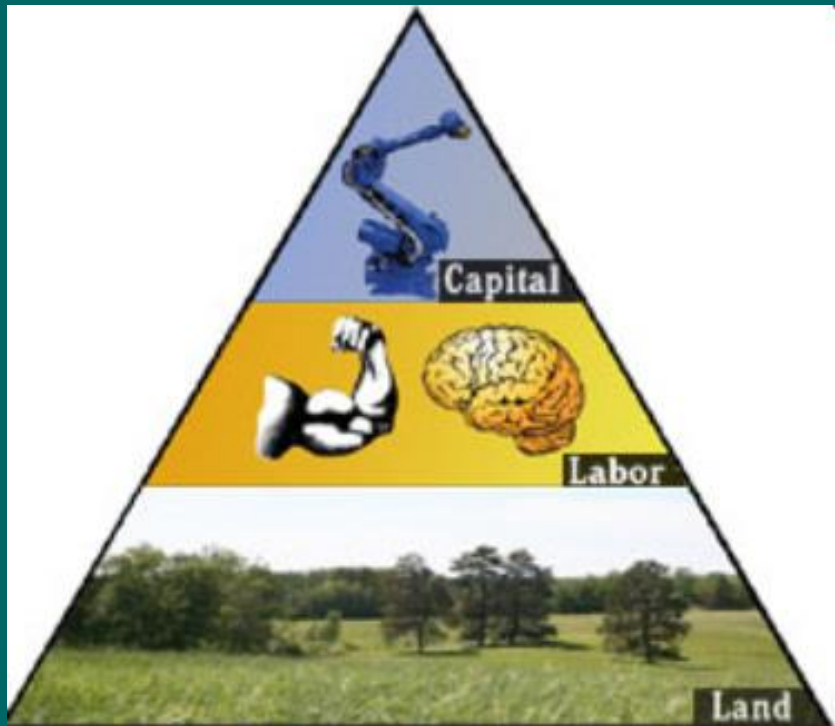


Markets

- A Market is a location or economic mechanism that allows buyers and sellers to deal readily in a certain economic product.
- This could be local, regional, national, or global.



Markets



- Factor Markets are where productive resources are bought and sold.
- Entrepreneurs hire labor for wages and buy scarce resources.

Markets

- Product Markets are where producers offer goods and services for sale.
- This is where individuals spend the income they receive on goods and services.



Economic Interdependence

- All markets have a distinct circular flow. This shows economic interdependence.
- Economic Interdependence means that actions in one part of the country or world have an economic impact on what happens elsewhere.
- This is shown in the *circular flow of economic activity* diagram.

Circular Flow

