

Section Preview

In this section, you will learn about some key economic terms and concepts.

Content Vocabulary

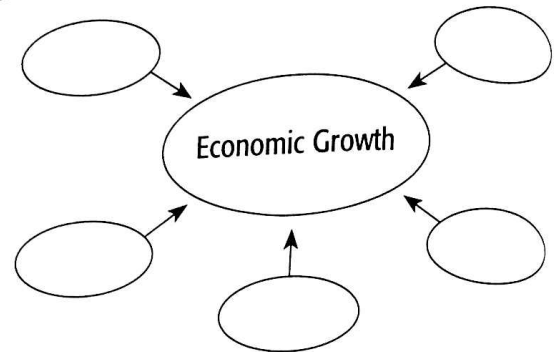
- good (p. 13)
- consumer good (p. 13)
- durable good (p. 13)
- nondurable good (p. 13)
- service (p. 13)
- value (p. 14)
- paradox of value (p. 14)
- utility (p. 14)
- wealth (p. 14)
- market (p. 15)
- factor market (p. 15)
- product market (p. 15)
- economic growth (p. 16)
- productivity (p. 16)
- human capital (p. 16)
- division of labor (p. 17)
- specialization (p. 17)
- economic interdependence (p. 17)

Academic Vocabulary

- transferable (p. 13)
- accumulation (p. 14)
- mechanism (p. 15)

Reading Strategy

Describing As you read the section, describe the factors that lead to economic growth.



PRODUCTS IN THE NEWS

— Asbury Park Press and the New York Times

Comic Books a Big Business

America may have started the worldwide comics craze when U.S. soldiers scattered them around in foreign countries during World War II. Today, they are a global phenomenon—the most widely read literature in the world. According to one published report, 40 percent of all printed material in Japan consists of comics. In the United States, 375 new comic books are sold every month.

The comic-book industry as a whole has had a healthy year. Industry analysts from the Comic Buyer's Guide reported new comics sales of more than \$149 million for the first half of 2005, up 6 percent from the period a year earlier. Marvel Entertainment, a publicly traded company that filed for bankruptcy protection in December 1996 and reorganized in July 1998, has recovered strongly in recent years, largely on the strength of its success with movies based on X-Men and Spider-Man. ■



When you hear the word *economics*, you probably think of “big business”—large corporations that run banks and petroleum refineries, or companies that make automobiles, computers and, yes, even comic books. Economics does include big business, but it also includes much more.

Like other social sciences, economics has its own vocabulary and uses terms such as *recession*, *commodity*, or *utility*. To understand economics, a review of key terms is necessary. Fortunately, most economic terms are widely used, and you will already be familiar with many of them.

Goods, Services, and Consumers

MAIN Idea Economic products are goods or services that are useful, relatively scarce, and transferable.

Economics & You Every time you buy something in a store, you act as a consumer. Read on to learn more about this and other basic economic vocabulary.

Economics is concerned with economic products—goods and services that are useful, relatively scarce, and **transferable** to others. Economic products help us satisfy our wants and needs. Because they are both scarce and useful, they command a price.

Goods

There are different types of economic products. The first one is a **good**—a useful, tangible item, such as a book, car, or compact disc player, that satisfies a want. When manufactured goods are used to produce other goods and services, they are called capital goods. An example of a capital good would be a robot welder in a factory, an oven in a bakery, or a computer in a high school. Goods intended for final use by individuals are **consumer goods**.

Any good that lasts three years or more when used on a regular basis is called a **durable good**. Durable goods include both capital goods, such as robot welders, and consumer goods, such as automobiles. A **nondurable good** is an item that lasts for fewer than three years when used on a regular basis. Food, writing paper, and most clothing items are examples of nondurable goods.

Services

The other type of economic product is a **service**, or work that is performed for someone. Services include haircuts, home repairs, and forms of entertainment such as concerts. They also include the work that doctors, lawyers, and teachers perform. The difference between a good and a service is that a good is tangible, or something that can be touched, while a service is not.

Consumers

Consumers are the people who use goods and services to satisfy their wants and needs. As consumers, people indulge in consumption, the process of using up goods and services in order to satisfy wants and needs.

✓Reading Check **Interpreting** How are goods, services, and consumers related?

good tangible economic product that is useful, relatively scarce, and transferable to others

consumer good good intended for final use by consumers rather than businesses

durable good a good that lasts for at least three years when used regularly

nondurable good a good that wears out or lasts for fewer than three years when used regularly

service work or labor performed for someone



Consumer Goods
These students are using computers in their school computer lab. **Would you consider computers as durable goods or nondurable goods, and why?**

value monetary worth of a good or service as determined by the market

paradox of value apparent contradiction between the high monetary value of a nonessential item and the low value of an essential item

utility ability or capacity of a good or service to be useful and give satisfaction to someone

wealth sum of tangible economic goods that are scarce, useful, and transferable from one person to another

Value, Utility, and Wealth

MAIN Idea The value of a good or service depends on its scarcity and utility.

Economics & You Has anyone ever thought you paid too much for something? Read on to learn how the value of an item is determined.

In economics, **value** refers to a worth that can be expressed in dollars and cents. Why, then, does something have value, and why are some things more valuable than others? To answer these questions, it helps to review a problem Adam Smith, a Scottish social philosopher, faced back in 1776.

The Paradox of Value

Adam Smith was one of the first people to describe how markets work. He observed that some necessities, such as water, had a very low monetary value. On the other hand, some nonnecessities, such as diamonds, had a very high value. Smith called this contradiction the **paradox of value**. Economists knew that scarcity was necessary for something to have value. Still, scarcity by itself could not fully explain how value is determined.

Utility

It turned out that for something to have value, it must also have **utility**, or the capacity to be useful and provide satisfaction. Utility is not something that is fixed or even measurable, like weight or height. Instead, the utility of a good or service may vary from one person to the next. One person may get a great deal of satisfaction

from a home computer; another may get very little. One person may enjoy a rock concert; another may not.

Value

For something to have monetary value, economists decided, it must be **scarce** and have utility. This is the solution to the paradox of value. Diamonds are scarce and have utility, thus they possess a value that can be stated in monetary terms. Water has utility but is not scarce enough in most places to give it much value. Therefore, water is less expensive, or has less monetary value, than diamonds.

The emphasis on monetary value is important to economists. Unlike moral or social value, which is the topic of other social sciences, the value of something in terms of dollars and cents is a concept that everyone can easily understand.

Wealth

In an economic sense, the **accumulation** of products that are tangible, scarce, useful, and transferable from one person to another is **wealth**. A nation's wealth is comprised of all tangible items—including natural resources, factories, stores, houses, motels, theaters, furniture, clothing, books, highways, video games, and even basketballs—that can be exchanged.

While goods are counted as wealth, services are not, because they are intangible. However, this does not mean that services are not useful or valuable. Indeed, when Adam Smith published his famous book *The Wealth of Nations* in 1776, he was referring specifically to the abilities and skills of a nation's people as the source of its wealth. For Smith, if a country's material possessions were taken away, its people, through their efforts and skills, could restore these possessions. On the other hand, if a country's people were taken away, its wealth would deteriorate.

✓Reading Check Summarizing How are value and utility related?

Did You Know?

► **Value** Economists aren't the only ones obsessed with value. Do a simple Google search of "value," and you'll get nearly 2 million hits. You'll get approximately a quarter million if you search for "measure of value," and nearly 140,000 if you search for "measuring value." Maybe that's why economists simply define value as "a worth that can be expressed in dollars and cents."

The Circular Flow of Economic Activity

MAIN Idea The economic activity in markets connects individuals and businesses.

Economics & You When you receive a paycheck, do you understand how you fit in the larger economy? Read on to learn about the flow of economic activity.

The wealth that an economy generates is made possible by the circular flow of economic activity. The key feature of this circular flow is the **market**, a location or other **mechanism** that allows buyers and sellers to exchange a specific product. Markets may be local, national, or global—and they can even exist in cyberspace.

Factor Markets

As shown in **Figure 1.3**, individuals earn their incomes in **factor markets**, where the factors of production are bought and sold.

This is where entrepreneurs hire labor for wages and salaries, acquire land in return for rent, and borrow money. The concept of a factor market is a simplified but realistic version of the real world. For example, you participate in the factor market when you work and sell your labor to an employer.

Product Markets

After individuals receive their income from the resources they sell in a factor market, they spend it in **product markets**. These are markets where producers sell their goods and services. Thus, the wages and salaries that individuals receive from businesses in the factor markets returns to businesses in the product markets. Businesses then use this money to produce more goods and services, and the cycle of economic activity repeats itself.

market meeting place or mechanism that allows buyers and sellers to come together

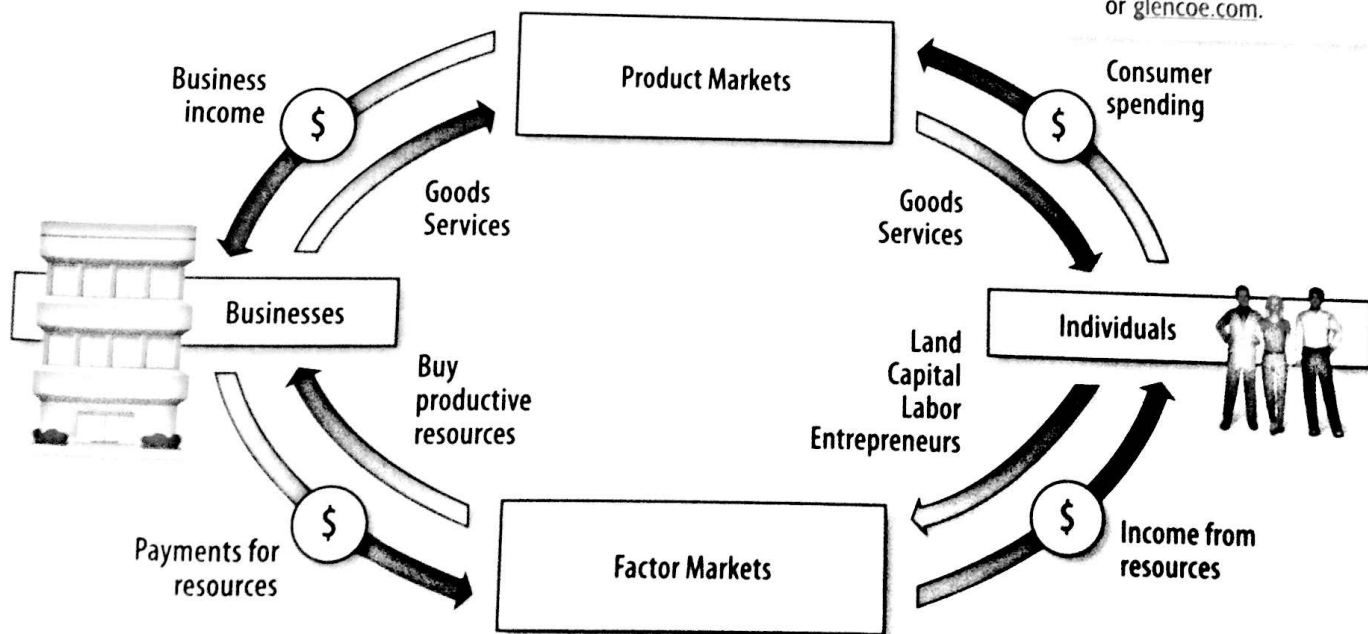
factor market market where the factors of production are bought and sold

product market market where goods and services are bought and sold

Reading Check Explaining What roles do factor markets and product markets play in the economy?

Figure 1.3

The Circular Flow of Economic Activity



Charts In Motion

See StudentWorks™ Plus or glencoe.com.

► The circular flow diagram shows the high degree of economic interdependence in our economy. In the diagram, the factors of production and the products made from them flow in one direction. The money consumers spend on goods and services flows in the opposite direction.

Economic Analysis As a consumer, what role do you play in the circular flow of economic activity?

economic growth
increase in a nation's total output of goods and services over time

productivity
measure of the amount of output produced with a given amount of productive factors

human capital
sum of people's skills, abilities, health, knowledge and motivation

Personal Finance Handbook

See pages R16–R19 for more information on education.

Productivity and Economic Growth

MAIN Idea A nation's economic growth is due to several factors.

Economics & You Have you decided yet what you will do after graduating from high school? Read on to learn how investing in more education now can give you a higher lifetime income.

Economic growth occurs when a nation's total output of goods and services increases over time. This means that the circular flow becomes larger, with more factors of production, goods, and services flowing in one direction and more payments in the opposite direction. Productivity is the most important factor contributing to economic growth.

Productivity

Everyone in a society benefits when scarce resources are used efficiently. This is described by the term **productivity**, a measure of the amount of goods and services produced with a given amount of resources in a specific period of time.

Productivity goes up whenever more can be produced with the same amount of resources. For example, if a company produced 5,000 pencils in an hour, and it produced 5,100 in the next hour with the same amount of labor and capital, productivity went up. Productivity is often discussed in terms of labor, but it applies to all factors of production.

Investing in Human Capital

A major contribution to productivity comes from investments in **human capital**, the sum of people's skills, abilities, health, knowledge, and motivation. Government can invest in human capital by providing education and health care. Businesses can invest in training and other programs that improve the skills of their workers. Individuals can invest in their own education by completing high school, going to technical school, or attending college.

Figure 1.4 shows that investments in education can have substantial payoffs. According to the table, high school graduates earn substantially more than nongraduates, and college graduates make even more than

Figure 1.4 ▶ Effect of Education on Income



▶ Education is one way to invest in human capital.

Economic Analysis How does this type of investment pay off for both employers and their employees?

Education	Average Income	
	Males	Females
Less than 9th grade	\$19,746	\$11,492
9th to 12th grade (no diploma)	\$23,747	\$13,343
High school graduate or equivalent	\$34,700	\$20,325
Some college, no degree	\$43,531	\$25,111
Associate degree	\$45,800	\$29,031
Bachelor's degree	\$65,523	\$37,373
Master's degree	\$83,189	\$48,945
Professional degree	\$126,728	\$63,322
Doctorate degree	\$103,939	\$67,676

Source: U.S. Department of Commerce, Bureau of the Census, 2006

high school graduates. Educational investments require that we make a sacrifice today so we can have a better life in the future, and few investments generate higher returns.

Division of Labor and Specialization

Division of labor and specialization can improve productivity. **Division of labor** is a way of organizing work so that each individual worker completes a separate part of the work. In most cases, a worker who performs a few tasks many times a day is likely to be more proficient than a worker who performs hundreds of different tasks in the same period.

Specialization takes place when factors of production perform only tasks they can do better or more efficiently than others. The division of labor makes specialization possible. For example, the assembly of a product may be broken down into a number of separate tasks (the division of labor). Then each worker can perform the specific task he or she does best (specialization).

One example of the advantages offered by the division of labor and specialization is Henry Ford's use of the assembly line in automobile manufacturing. Having each worker add one part to the car, rather than a few workers assembling the entire vehicle, cut the assembly time of a car from a day and a half to just over 90 minutes—and reduced the price of a new car by more than 50 percent.

Economic Interdependence

The U.S. economy has a remarkable degree of **economic interdependence**. This means that we rely on others, and others rely on us, to provide most of the goods and services we consume. As a result, events in one part of the world often have a dramatic impact elsewhere.

This does not mean that interdependence is necessarily bad. The gains in productivity and income that result from specialization almost always offset the costs associated with the loss of self-sufficiency.

division of labor
division of work into a number of separate tasks to be performed by different workers

specialization
assignment of tasks to the workers, factories, regions, or nations that can perform them more efficiently

economic interdependence
mutual dependency of one person's, firm's, or region's economic activities on another's

✓Reading Check **Analyzing** What role does specialization play in the productivity of an economy?

Skills Handbook

See page R40 to learn about **Analyzing Information**.

SECTION

2

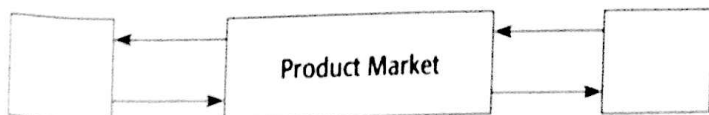
Review

Vocabulary

- 1. Explain** the significance of good, consumer good, durable good, nondurable good, service, value, paradox of value, utility, wealth, market, factor market, product market, economic growth, productivity, human capital, division of labor, specialization, and economic interdependence.

Main Ideas

- 2. Explaining** How do goods and services differ?
- 3. Organizing** Use a graphic organizer similar to the one below to describe the different transactions that take place in product markets.



- 4. Describing** How is economic growth related to productivity?

Critical Thinking

- 5. The BIG Idea** How is value related to scarcity and utility?
- 6. Drawing Conclusions** Why is investing in human capital beneficial?
- 7. Analyzing Visuals** Look at Figure 1.3. How can individuals increase the flow of circular activity? What effect would this increase have on the other parts of the economy?
- 8. Inferring** How might major events such as labor strikes affect you and your community? Select a possible event and write a brief paragraph about the potential effects.

Applying Economics

- 9. Specialization** Provide at least three examples each of specialized workers and specialized capital that are used in your school to provide the service of education. How would productivity change if they were not available to your school?