3. Economics

Types of Economics

- Macroeconomics
- Microeconomics

Approaches

- Theories
- Models
- Empirical Analysis
- Positive Economics
- Normative Economics

Key Terms

- Scarcity
- Opportunity Cost
- Rational Behavior
- Marginal Analysis
- Specialization

3.1 The Economic Problem

3.2 Supply and Demand

3.3 Economic Systems

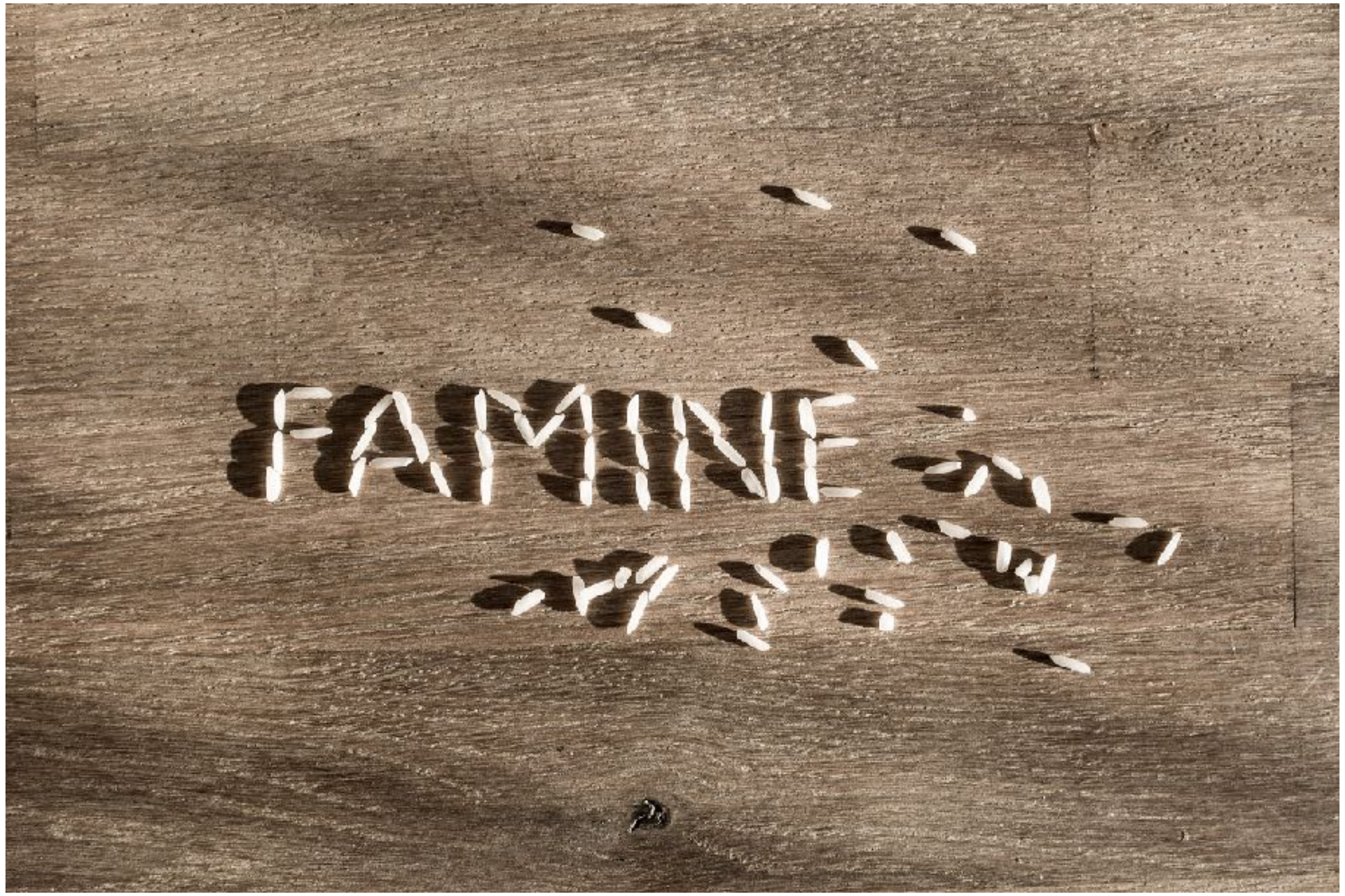
3.4 The Public Sector in the American Economy

3.5 Money and Banking

3.6 The Federal Reserve System

3.1 The Economic Problem

Scarcity



Resources

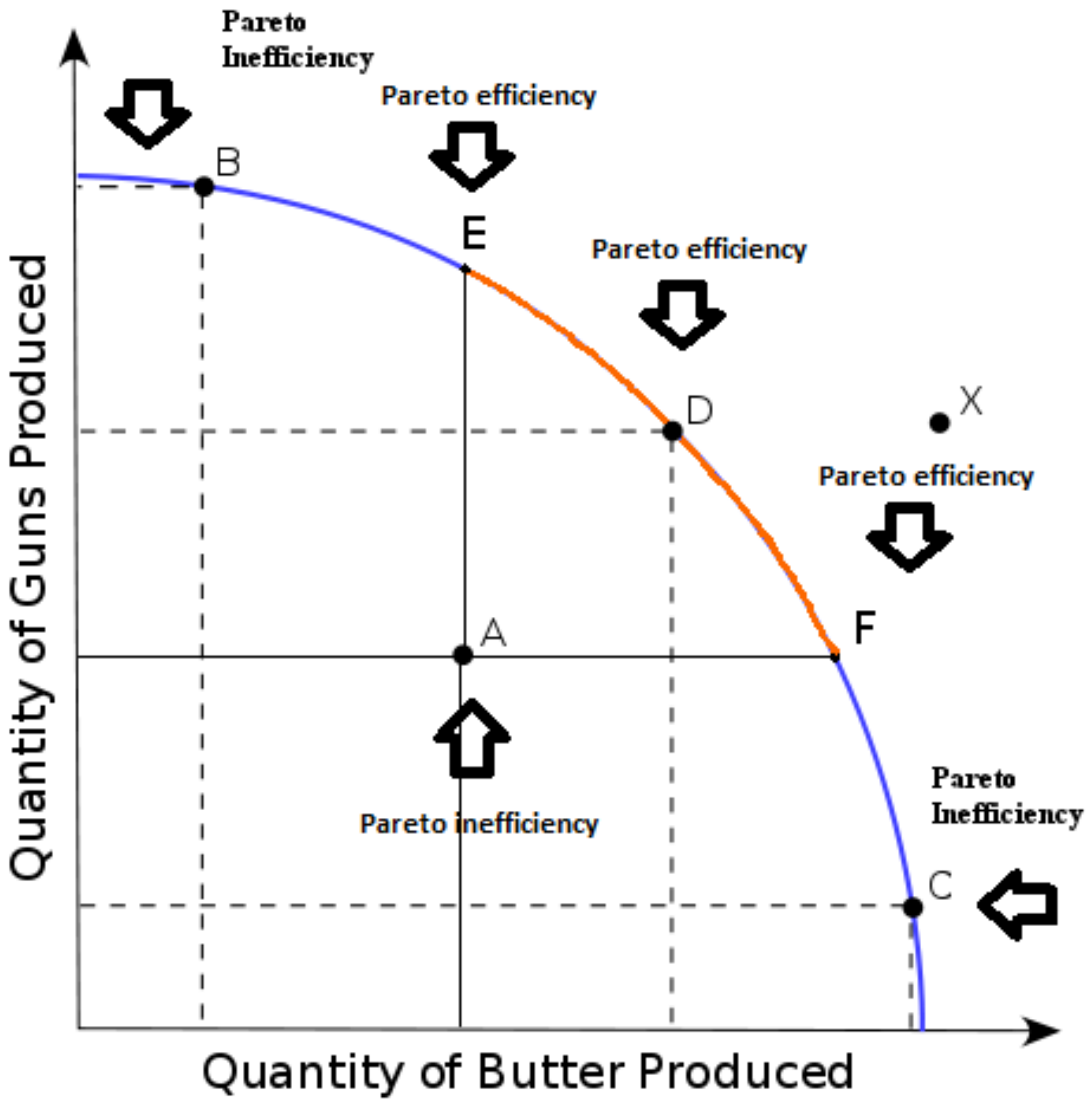


Creativity

Economic Goals

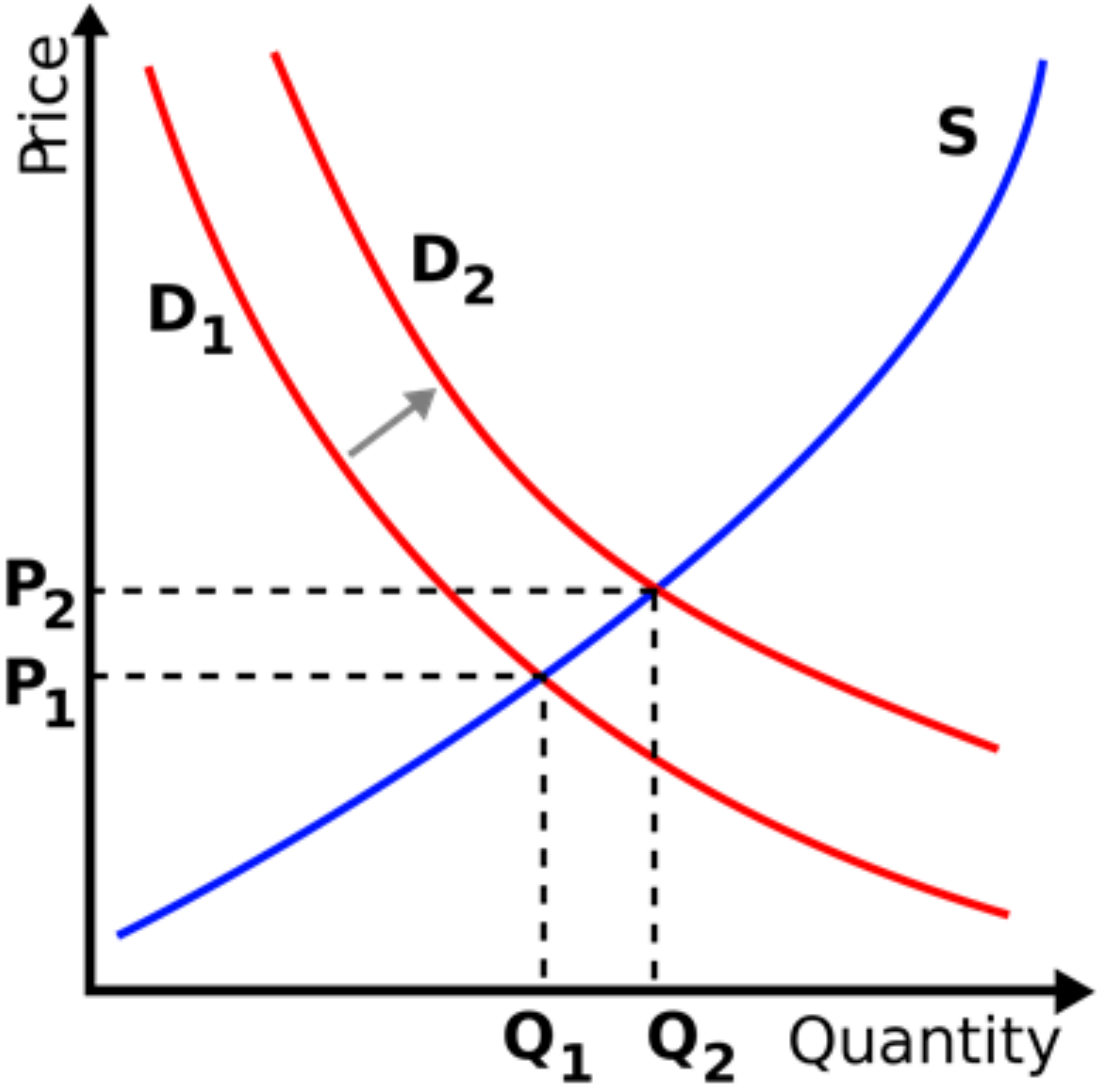
- Allocative Efficiency
- Technical Efficiency
- Equity

Production Possibilities Curve



3.2 Supply and Demand

Supply and Demand Curves



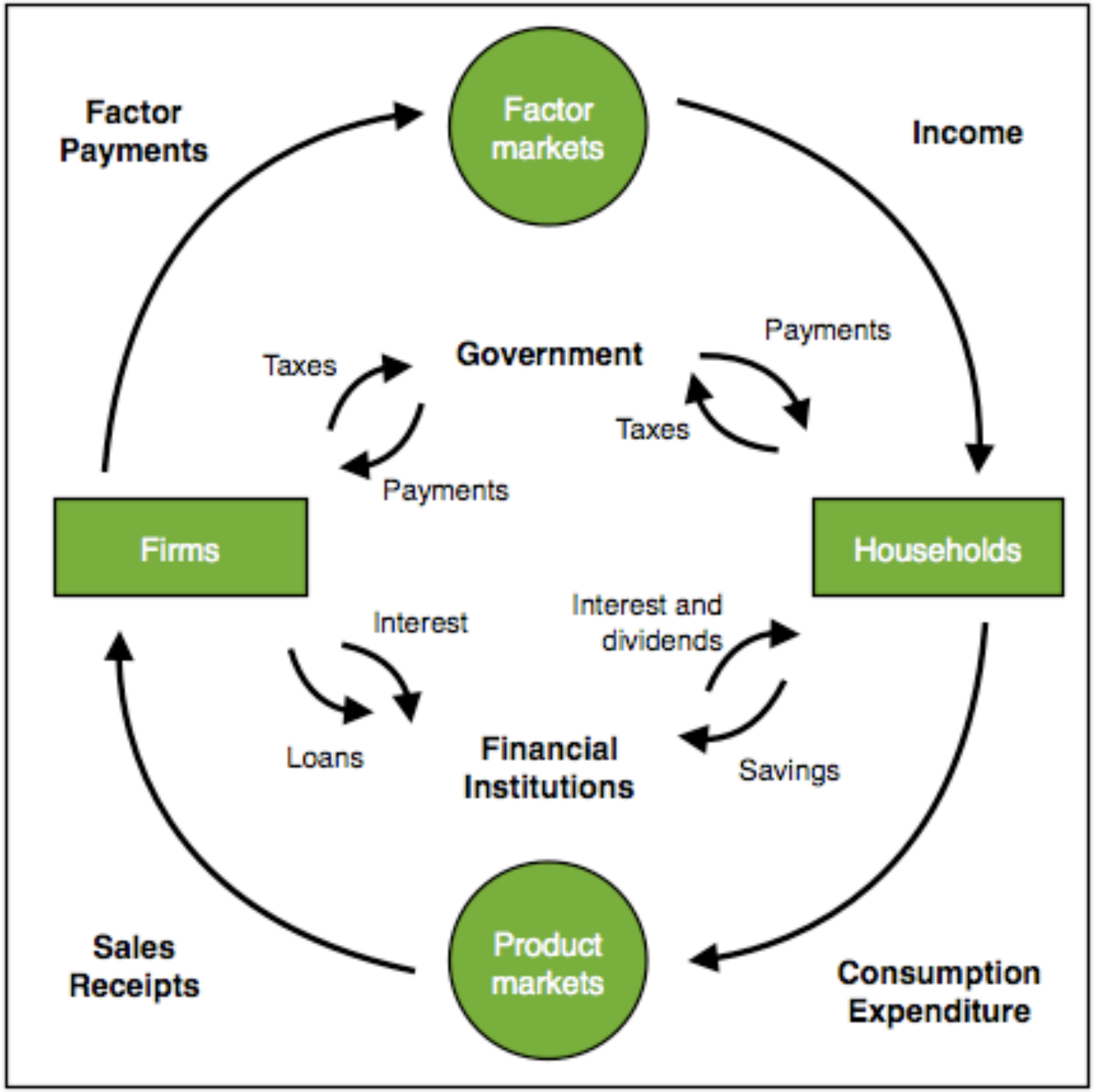
3.3 Economic Systems

Economic Sectors

- Primary
  - Resources
- Secondary
  - Manufacturing
- Tertiary
  - Services

Economic Systems

- Command Economies
  - Socialist
- Market Economies
  - Capitalist
- Mixed Economies



Factor markets
Factor Payments
Income
Government
Taxes
Payments
Payments
Taxes
Firms
Households
Interest
Interest and dividends
Loans
Financial Institutions
Savings
Product markets
Sales Receipts
Consumption Expenditure

Forces that Balance

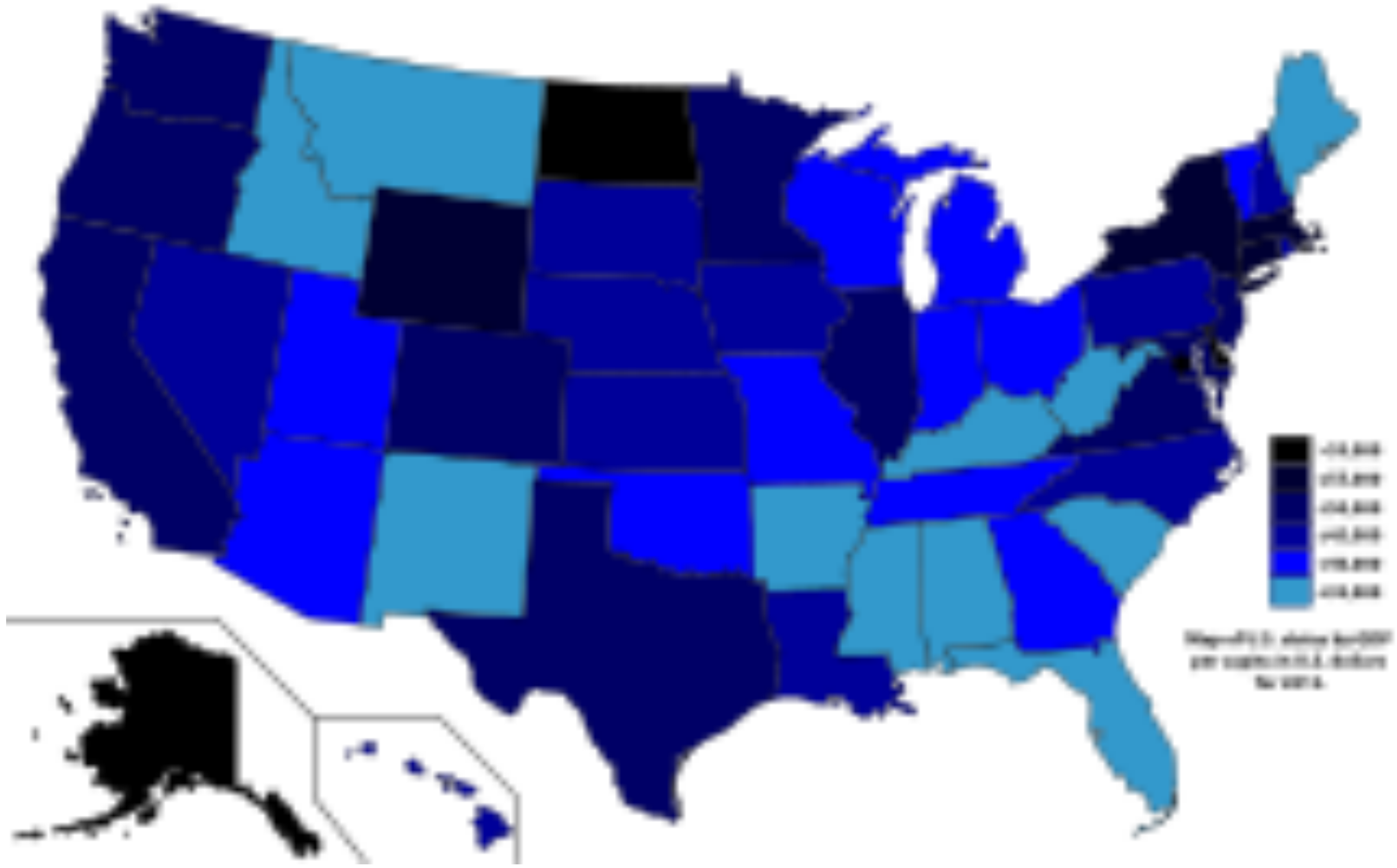
- Consumer Sovereignty
- Technical Efficiency
- Competition
- Equity
- Prices

3.4 The Public Sector in the American Economy

Public Sector

Government Spending

GNP vs GDP




Real US GNP per capita (1869-1918)
(in 2009 dollars)
12000
11500
11000
10500
10000
9500
9000
8500
8000
7500
7000
6500
6000
5500
5000
4500
4000
1870
1875
1880
1885
1890
1895
1900
1905
1910
1915
1873
1884
1890
1896
1901
1907
GNP per capita

3.5 Money and Banking

What is Money?

- Medium of Exchange
- Store of Value
- Unit of Value
  - Standard for deferred payments

Currencies


SILVER CERTIFICATE
THIS CERTIFIES THAT THERE HAS BEEN DEPOSITED IN THE TREASURY OF
THE UNITED STATES OF AMERICA
E00059734 A
ONE
E00059734 A
WASHINGTON, D.C.
ONE SILVER DOLLAR
PAYABLE TO THE BEARER ON DEMAND

Properties of Currency

- Durable
- Divisible
- Uniform
- Portable
- Optimal Scarcity

Properties of Currency

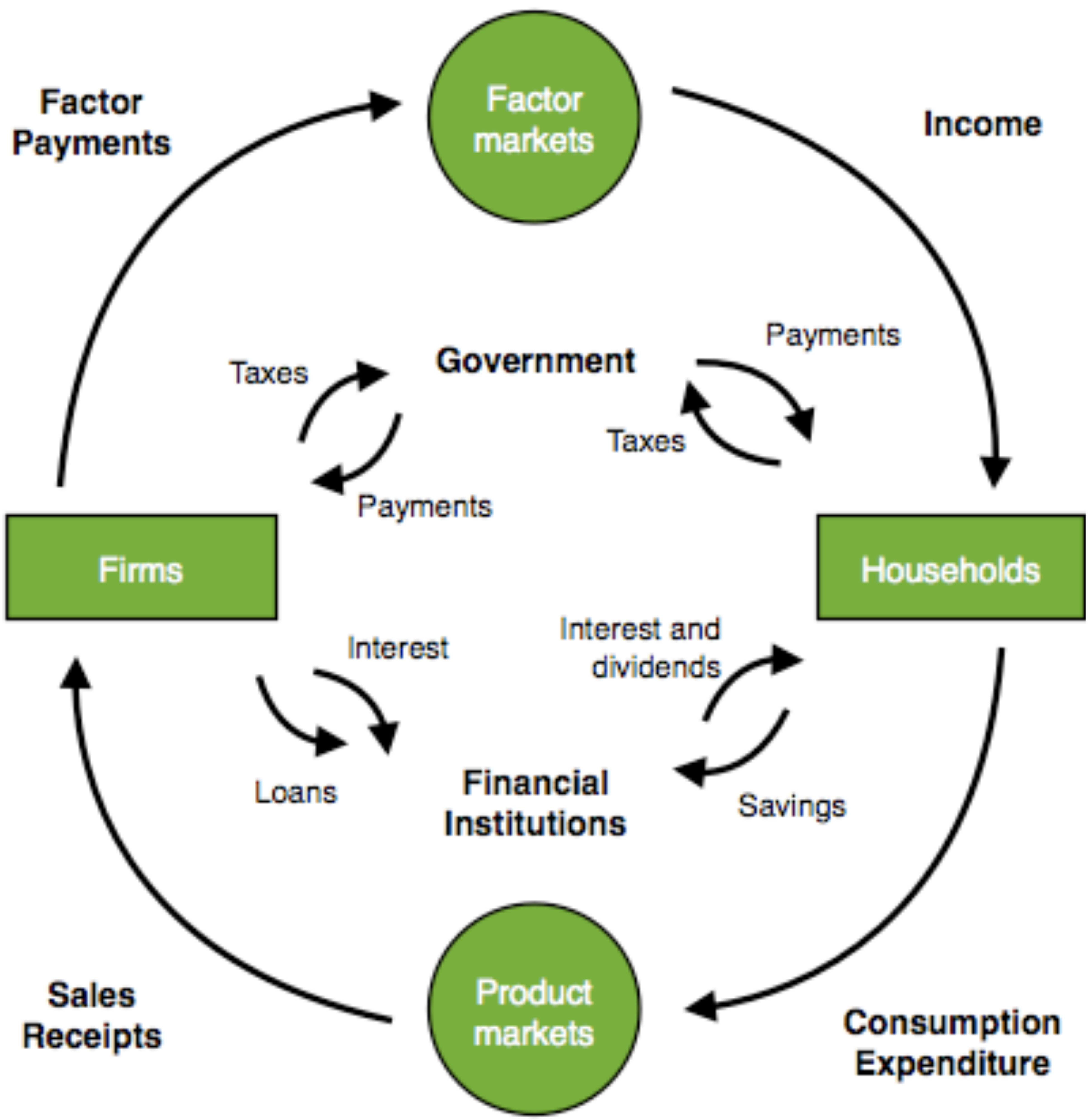
- Financial Intermediaries
- Reserves
  - Required
  - Excess

3.6 The Federal Reserve System

The Fed

Functions

- Bank Regulation
- Interbank Payments
- Lender of Last Resort



Factor Payments
Factor markets
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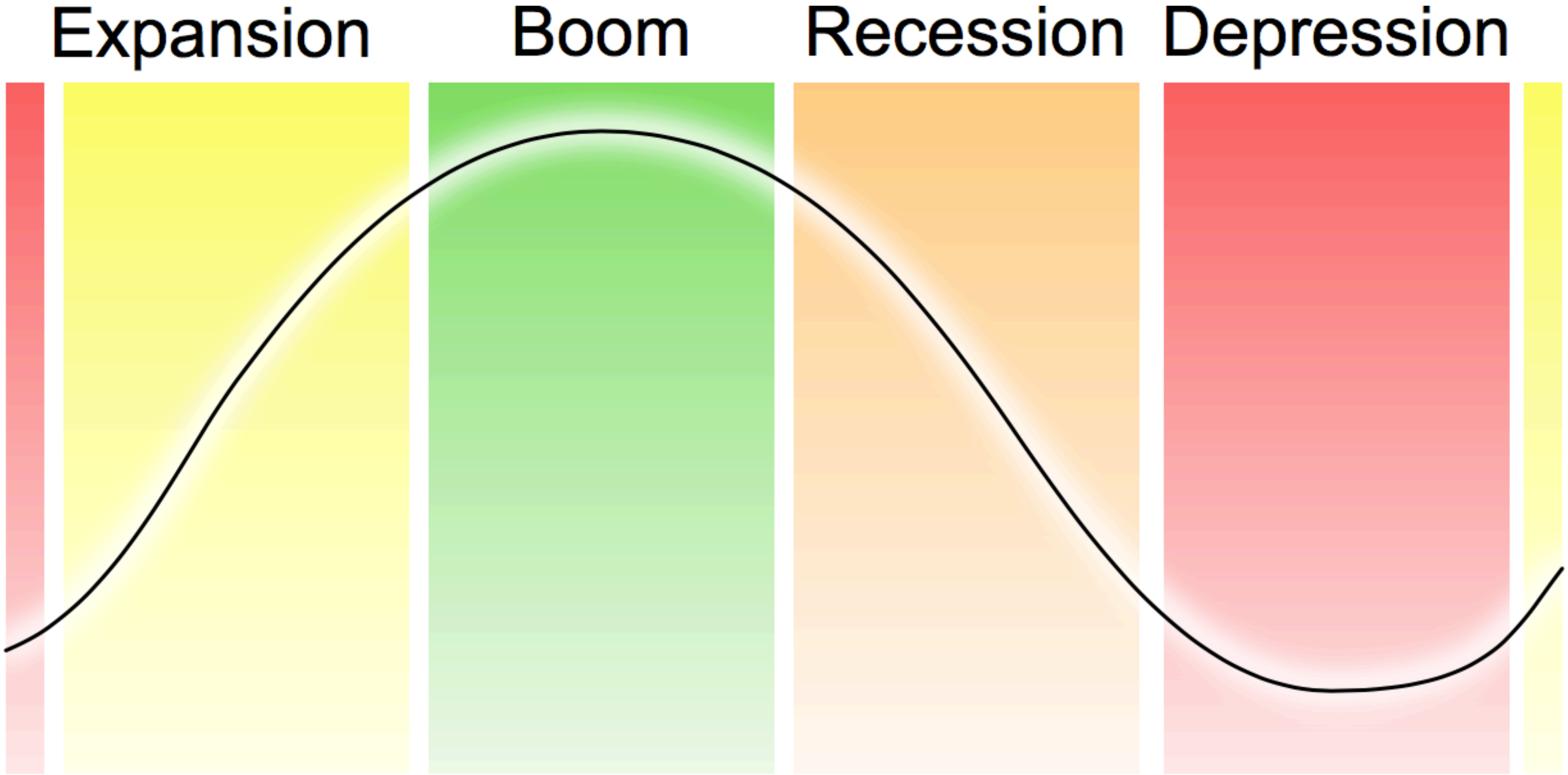
Expansion
Boom
Recession
Depression