LGA Economics Class

**The American Economy – January 22, 2015**

Vocabulary and Notes

Economic Resources

Goods – tangible products like books and automobiles that we use to satisfy our wants and needs

Services – work that is performed for someone else – including haircuts, home repairs, and forms of entertainment like concerts

Factors of production – resources necessary to product goods and services

1. Natural resources
2. Labor
3. Capital
4. Entrepreneurs

Natural resources – refers to all of the “gifts of nature” that make production possible

\*fertile fields, abundant rainfall, forests, mineral deposits and other resources we use to make products

Labor – the nation’s labor force or human resources

\*both physical and mental efforts that people contribute to the production of goods and services

Capital – (or capital goods) the tools, machinery, and buildings used to make other products

\*result of production (no hammers in the wild)

\*capital goods – satisfy wants indirectly by aiding production of consumer goods

\*consumer goods satisfy wants directly (clothes, clocks, shoes, foods, bicycles, and radios)

Entrepreneur – individuals who start new businesses, introduce new products, and improve management techniques

\*Often thought of as the driving force in the American economy because to reap profits they must be innovative and willing to take risks.

Gross Domestic Product (GDP) – the total value, in dollars, of all the final goods and services produced in a country during a single year. The size of an economy.

\*a Final good is a good, such as a loaf of bread, sold to its user

\*intermediate goods that go into making a loaf of bread – flour or wheat, sugar, honey – are not counted in the GDP

\*secondhand sales – the sale of used goods – are not counted as part of GDP

Standard of Living – the quality of life based on the possession of necessities and luxuries that make life easier

\*GDP measures quantity. It is not an accurate reflection in improvements in quality

4 Groups of Economic Decision Makers

1 - Consumer Sector – 55-60 % of GDP

\*consumers earn their income in factor markets – the markets where productive resources are bought and sold; workers earn wages, salaries and tips in exchange for labor; landowners collect income in rent; people with capital exchange it for interest

2 - Business Sector – 15-20% of GDP

\*product markets – markets where producers offer goods and services for sale. This is where individuals spend their income

\*businesses use the money they make to pay for natural resources, labor, and capital

3 - Government Sector – 20% of GDP

\*made of all 3 levels of government – federal, state, local

\*Government produces goods and services – national defense, health, education, transportation, housing

\*total cost of government services isn’t covered by income from services, it is covered by taxes

4 - Foreign Sector – less than 4% of GDP

Productivity – a measure of the amount of output produced by a given amount of inputs in a specific period of time

\*goes up when more output can be produced with the same amount of inputs in the same amount of time or when the same output can be produced with less input

\*usually labor but applies to all factors of production

Specialization – when people, businesses, regions, and even countries concentrate on goods or services that they can produce better than anyone else. Because everyone depends on each other, this increases productivity

Division of Labor – the breaking down of a job into separate, smaller tasks, which are performed by different workers. This is a form of specialization that improves productivity.

Human Capital – the sum of the skills, abilities, and motivation of people. Productivity tends to increase when business invest in human capital. Examples – training, health care, and employee motivation

Economic interdependence – we rely on others and they rely on us. The American economy has a large degree because of specialization