

# Economic Understandings

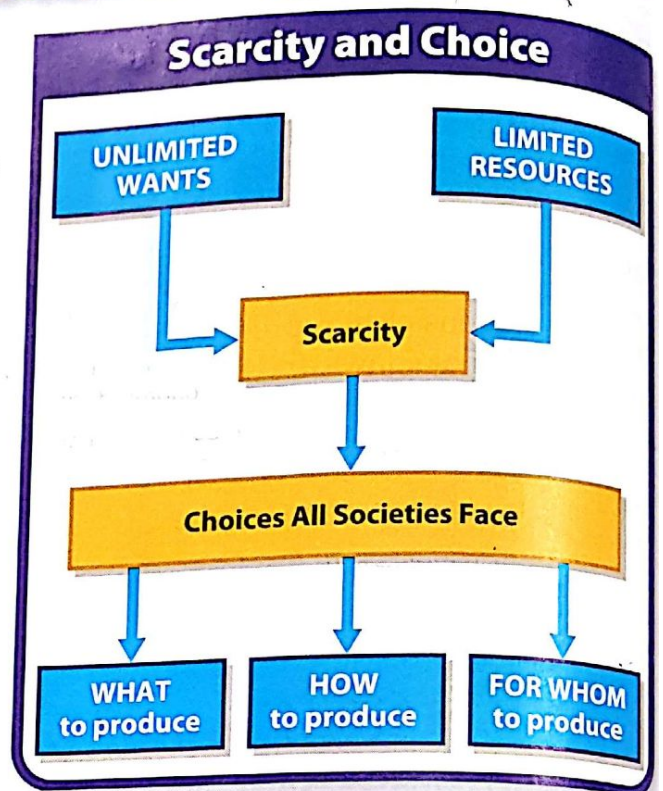
## What Is Economics?

Economics is the study of how individuals and nations make choices about ways to use scarce resources to fill their needs and wants. Economics is also the study of how things are made, bought, sold, and used.

### Scarcity and Choice

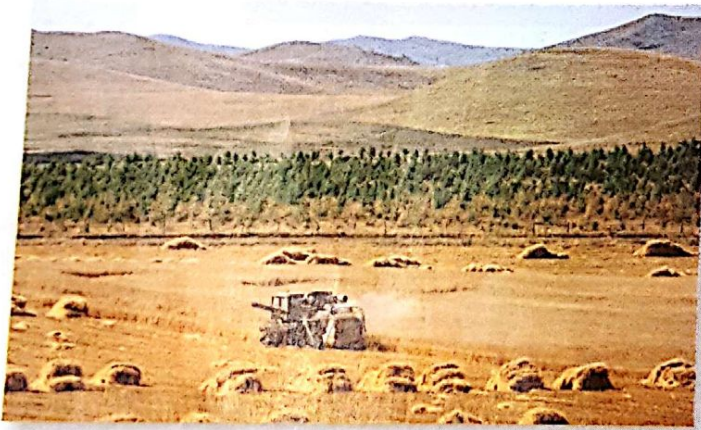
Scarcity is the problem that all societies face. There are not enough resources to make all the goods and services people want. Scarcity requires people to make choices. Because of scarcity, every society must make three important choices:

- What to produce
- How to produce
- For whom to produce



## Factors of Production

The resources needed to make goods and services are known as factors of production. These resources are land, labor, capital, and entrepreneurs.



### Land

Land refers to the natural resources, such as farmland, that are used to make products.

### Entrepreneurs

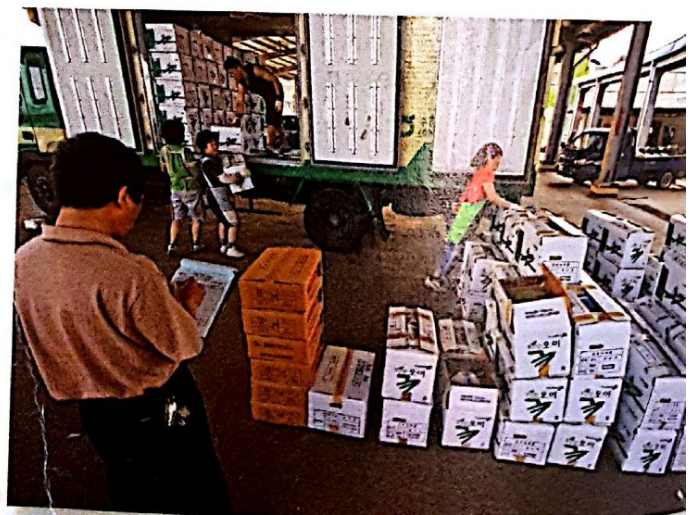
Entrepreneurs organize and manage a business, assuming the risk to make a profit.

### Capital

Capital refers to human-made goods, such as machines, buildings, and tools, that are used to make goods and services.

### Labor

A worker inspects inventory in a Chinese warehouse. The work people do is labor.



## Economic Systems

To help make economic decisions, every country has its own **economic system**. Economic systems are different ways that people use resources to make and exchange goods and services. There are three basic economic systems: traditional, command, and market.

Characteristics of Economic Systems		
Traditional Economy	Command Economy	Market Economy
<ul style="list-style-type: none"> <li>• Individuals decide what to produce and how to produce it.</li> <li>• Choices are based on <u>custom</u> or habit.</li> <li>• People often do the same work as their parents and grandparents.</li> <li>• Technology is usually limited.</li> </ul>	<ul style="list-style-type: none"> <li>• Government makes all key economic decisions.</li> <li>• Government decides the cost of products and the wages workers earn.</li> <li>• Individuals have little economic freedom.</li> </ul>	<ul style="list-style-type: none"> <li>• Economic decisions are made in the marketplace according to the laws of supply and demand.</li> <li>• Businesses make what they think customers want (supply).</li> <li>• Consumers have choices about what goods and services to buy (demand).</li> <li>• Prices are determined by supply and demand.</li> </ul>

## What Is a Mixed Economy?

Most nations have a **mixed economy**, a combination of a market and a command economy. China, for example, has mostly a command economy, but allows some features of a market economy. The United States has mainly a market economy with some government involvement.

