Quick Write:

What do you know about the study of “economics”? What does this word mean to you?

In Your Notebook . . .

Based on what you now know about the relationship between consumers and producers in a market, draw a visual diagram that might help your brother set up his running shoe company by bringing together the consumers and producers of running shoes.

Key Concept

market economy

an economic system in which the private decisions of consumers, resource suppliers, and producers determine how resources are allocated.

(as opposed to nonmarket mechanisms, such as government or tradition)

Also known as capitalism.

Key Concept

market economy, cont.

market system is a communication system

thousand and thousands of individual choices are weighted against each other.

Price is the means of communication

Rewards and penalties based on your response to the signals

Key Concept

factor market

(bottom half of your diagram)

market by which goods are produced

Households own all economic resources and supply those resources to producers (firms) to produce goods

Firms pay for those resources in the form of wages, rent, interest, stocks, etc.

Key Concept

product market

(top half of your diagram)

market by which goods are consumed

Households express demand for vast array of goods and services

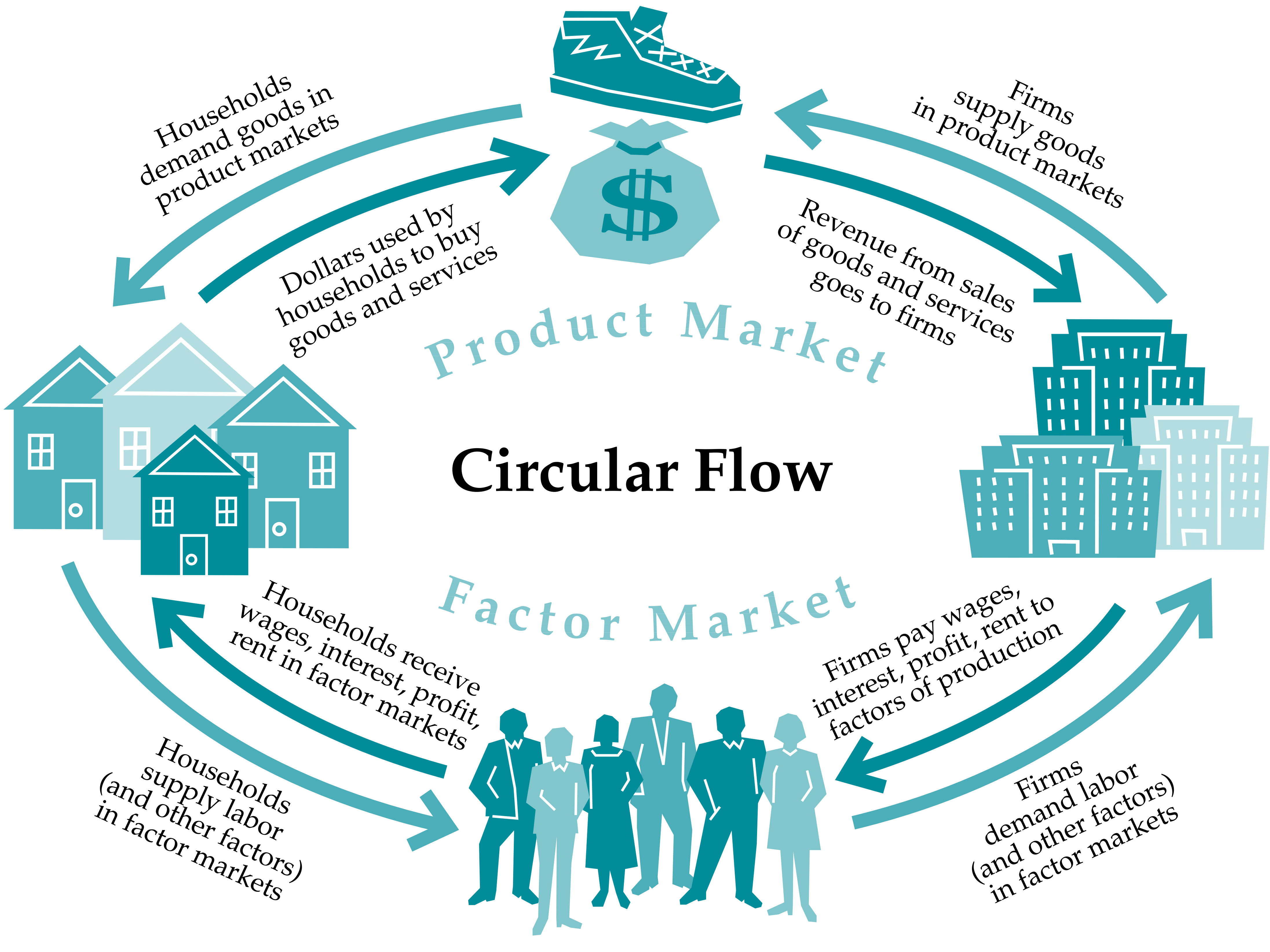
Firms meet demand by combining resources to supply goods and services to the consumers

Key Concept

circular flow of resources

In the factor market, producers are on the buying (demand) side of the factor market, and consumers (as resource owners) are on the selling (supply) side.

In the product market, consumers are on the buying (demand) side of the product market and firms, as producers, are on the selling (supply) side.


Circular Flow
Product Market
Factor Market
Households demand goods in product markets
Dollars used by households to buy goods and services
Firms supply goods in product markets
Revenue from sales of goods and services goes to firms
Households receive wages, interest, profit, rent in factor markets
Households supply labor (and other factors) in factor markets
Firms pay wages, interest, profit, rent to factors of production
Firms demand labor (and other factors) in factor markets
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Group Work Today

- Discuss and decide with your group how you believe your brother should design his shoe company, bringing consumers and producers of shoes together.
- Prepare a poster with images and text that explains your strategy to your brother.

Quickwrite Questions

- Which are the five most profitable restaurants?
- Why are they the most profitable? Explain in economic terms.
- Compare these to the five restaurants you chose before the financial data. Reactions?
- Are these the restaurants the Student Council should choose?

Pop Quiz Question #1

Profits are equal to:

A. sales minus taxes and depreciation
B. sales minus wages and salaries
C. assets minus liabilities
D. revenues minus costs

Pop Quiz Question #2

"Economic demand" for a product refers to how much of the product:

A. is available for purchase from business at each price
B. people are willing and able to buy at each price
C. people want, whether they can buy it or not
D. consumers can afford it

Pop Quiz Question #3

Price is determined by:

A. how much a seller thinks that product is worth

B. how much a buyer thinks that product is worth

C. the balance between what buyers demand and sellers can supply

D. either companies or the government

Pop Quiz Question #4

Business firms wish to sell their products at high prices. Households wish to buy products at low prices. In a market economy, this conflict of interests is resolved by:

A. competition
B. government
C. businesses
D. voters

Pop Quiz Question #5

Which of the following is the "Law of Demand":

A. as price rises, demand for a product increases
B. as price falls, demand for a product decreases
C. as price falls, demand for a product increases
D. if a consumer can afford it, he will buy it

Key Concept: Demand

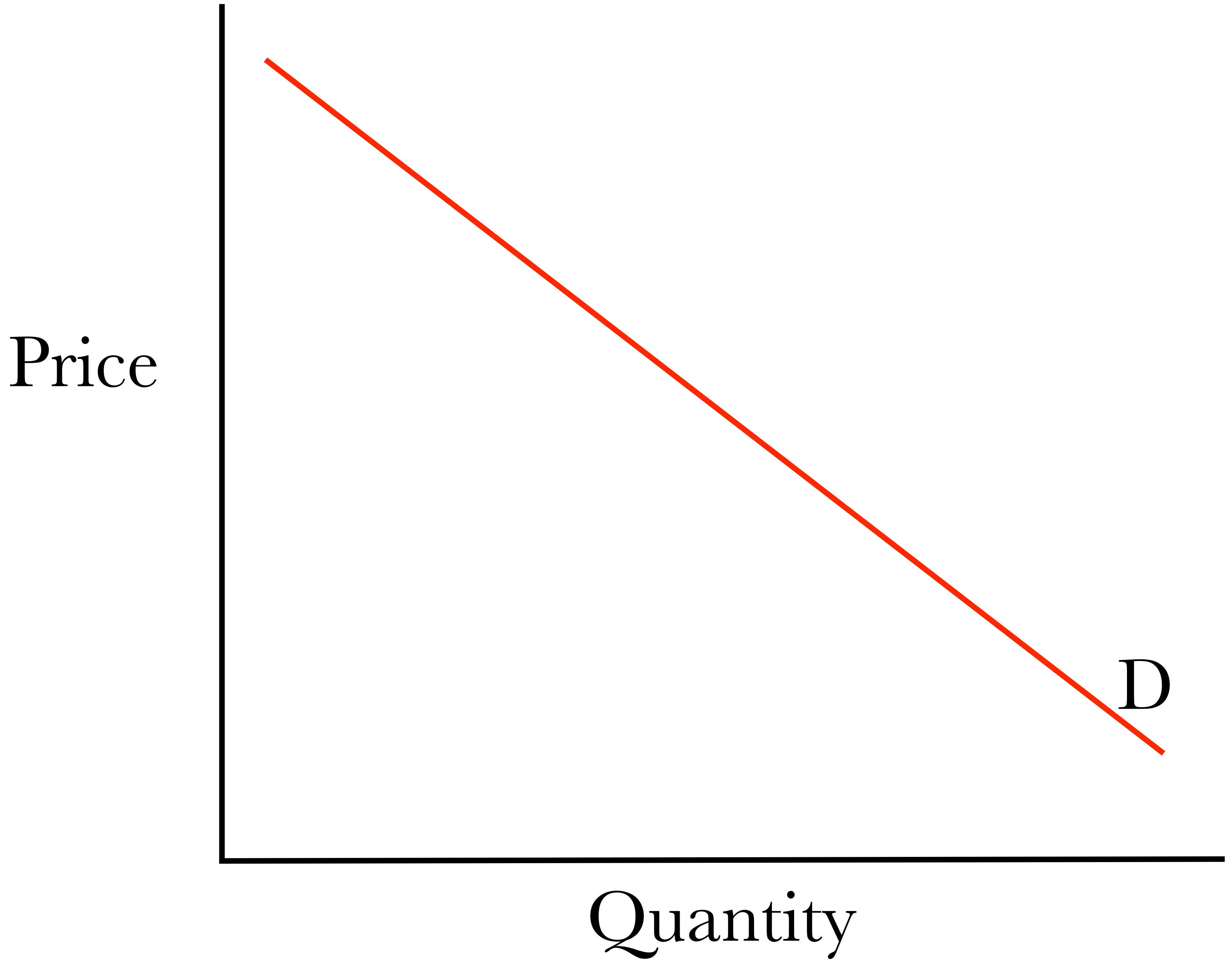
- **Demand:** how much of a product people are willing and able to buy
- **Law of Demand:** as price falls, demand increases (inverse relationship between price and demand)

Key Concept: Demand

Determinants of demand:

- Number of consumers
- Consumers' income
- Taste, fashion, consumer preferences
- Prices of related goods and services
- Expectations about future price and income

A Demand Schedule



Key Concept: Supply

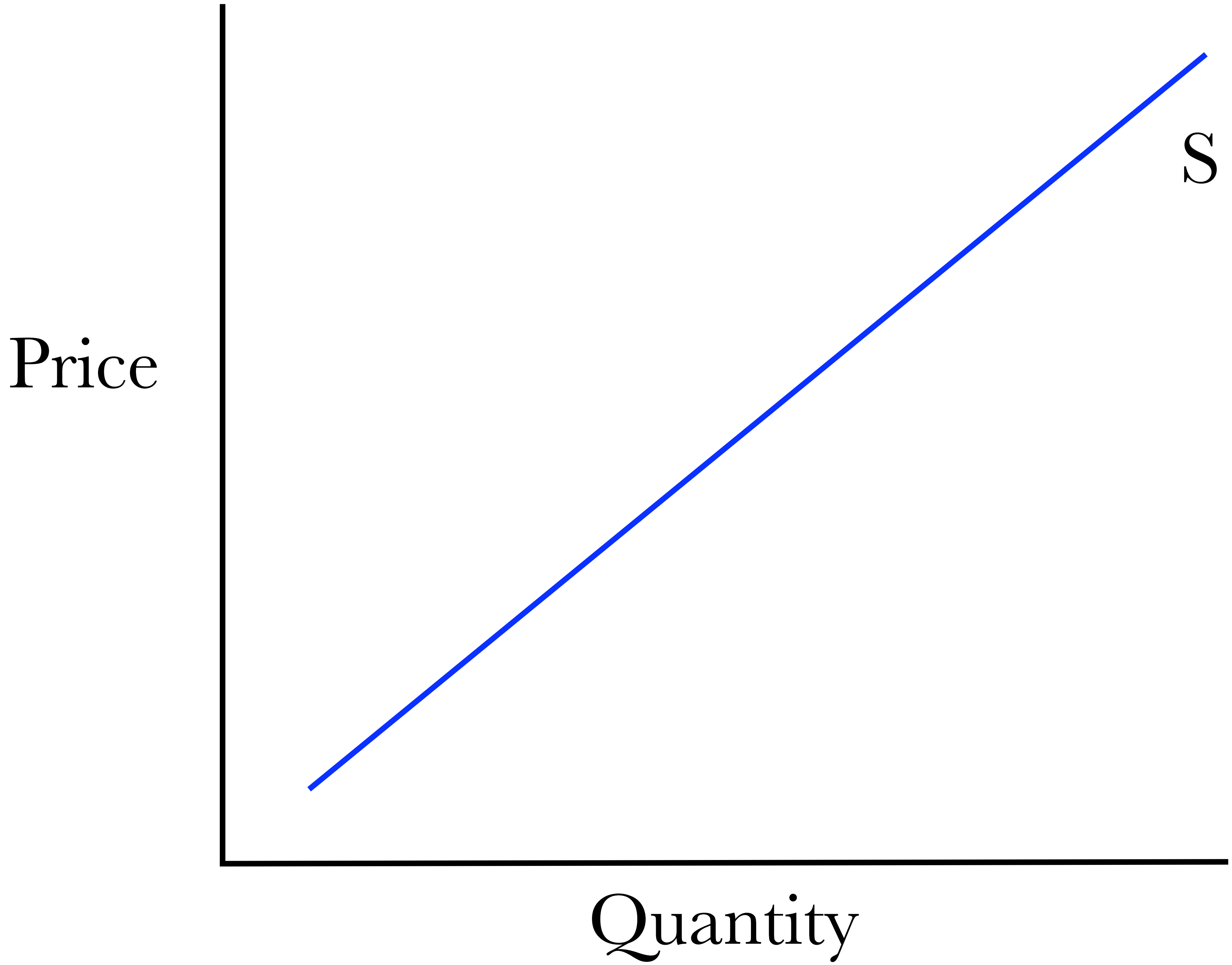
- **Supply:** how much of a product that firms able and willing to produce at possible prices
- **Law of Supply:** All else equal, a firm will make more of a good at a higher price because profits will be greater as the price rises

Key Concept: Supply

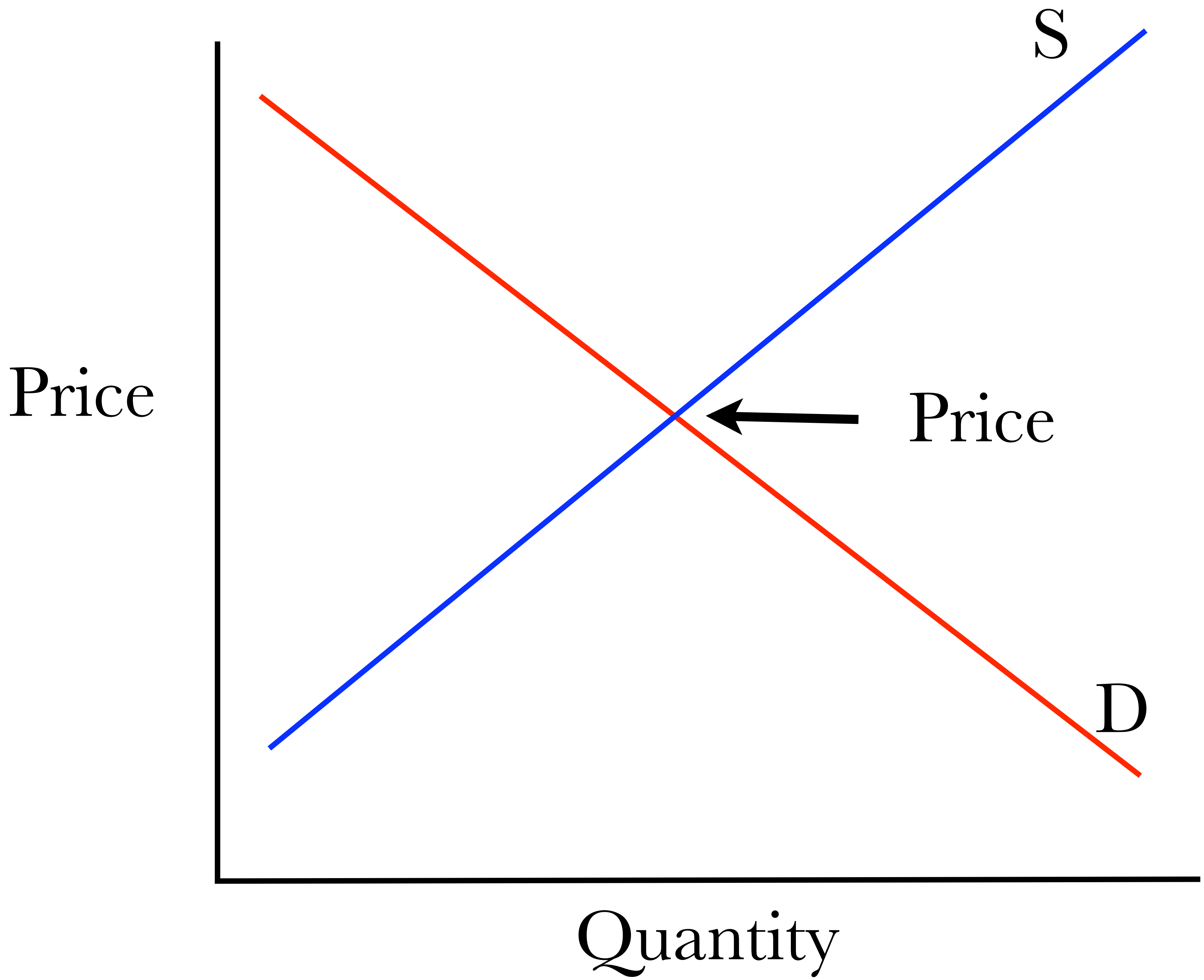
Determinants of supply:

- Resource prices
- Technology
- Taxes and subsidies
- Prices of other goods
- Expectations
- Number of sellers

A Supply Schedule



Supply and Demand



Price (in a free market)

- In a free market, price is determined by the balance between supply and demand, where the quantity demanded and the quantity supplied are equal. The price where neither shortages nor surpluses exist and no incentive exists for prices to rise or fall.

Do Now

- Play with the graphs and get as sense of how price rises and falls
- Read the article on "Price Controls"
- Answer this question in your quickwrite journal: Why would J.R. say that price ceilings "prevent the laws of supply and demand from operating"?