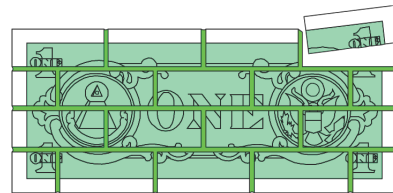


Unit 1: Introduction to Economics

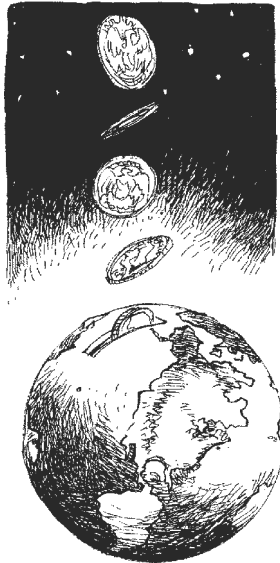
This unit emphasizes a basic understanding of *economics*, which will enable us to make informed decisions about our nation's economy and our own role as earners and consumers.

Unit Focus

- the role economics plays in our everyday lives
- the difference between a *want* and a *need*
- how *scarcity* forces us to make choices
- four basic economic questions all societies must answer
- difference between *goods* and *services*
- difference between *consumer* and *capital goods*
- meaning of *opportunity cost*, *supply*, *demand*, *entrepreneur*, *real property*, *intangible property*, *personal property*, *economic rent*, *natural*, *human*, and *capital resources*



Introduction



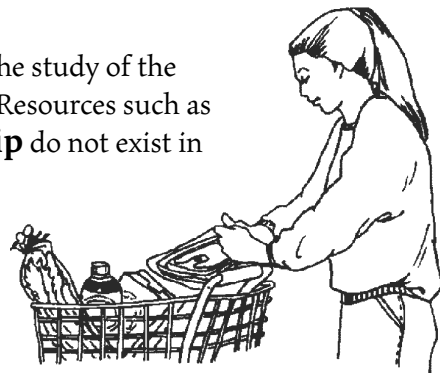
Economics may strike us as a big, important, and hard-to-define concept. In our day-to-day lives, all three of these reactions are true. Whether we realize it or not, we are surrounded by economic forces. Check your local newspaper and chances are that much of the front and following pages contain articles about economic growth or economic decline. Articles may also be about inflation, taxation, or effect of prices on the supply of items. There may be debate in your community about how to lower the unemployment rate and help all your neighbors find good jobs. Perhaps your family has discussed how the government should respond to various economic problems such as our national health-care crisis.

Economics is a powerful concept. Just consider the way it affects nearly all of us. Economics will influence who has jobs, what their rate of pay is, and how much is charged for goods such as that car we may want or those clothes in the mall that have caught our eye.

Economics is hard to define, partly because it is so all encompassing. Even the many pages in this book can do little more than introduce the basic principles of economics. Although the history of economics is thousands of years old and a full explanation of economics would be literally impossible to provide in one book, two books, or even three books, the book you're holding in your hands is designed to provide a basic understanding of economics that will help anyone better understand this field that affects most of us so often.

Let's begin with a basic definition. Economics is the study of the way people choose to use their limited resources. Resources such as **land, labor, capital, and entrepreneurship** do not exist in endless **supply**.

Economics developed to solve what appears to be a rather simple problem: There is a gap between what people and societies **need** and **want** and what they can afford. The classical way of stating



Needs are necessities or things necessary for living.

this problem is that people have unlimited needs and wants, but there are only limited **resources** to fulfill those needs and wants. *Needs* are **necessities** or things necessary for living—food, clothing, shelter, and medical care. *Wants* are things people would like to have if they had the *resources* to buy them. There is only so much land on which to grow crops or so much oil to be pumped from the earth. There is only so much skilled labor to develop high-tech equipment such as computers or aircraft. Economics studies the way people in the past have chosen to use their limited



Wants are things people would like to have but do not need in order to survive.

resources. It also studies our present limited resources and the best ways we can use them. In short, economics is the study of how people, nations, and the world make choices to satisfy their wants and desires with their limited resources.

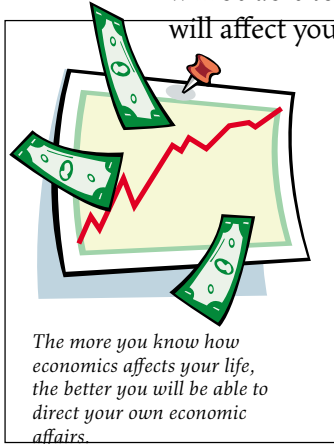
All studies of economic systems have discovered that the gap between our wants and our resources can only be managed. The gap can never be eliminated. Obviously, some people, corporations, and nations do it better; some do it worse.

As **consumers**—people who use their resources to obtain goods and services—we constantly make economic decisions. There is probably not a day in most of our lives when we don't make a choice of how to use our personal and limited resources. The more we know about economics, the better informed, the more responsible, and the wiser consumers we will be now and in the future.

Why Study Economics?

Soon you will be out of school and become a full-fledged participant in the economic system of the United States. The State of Florida made economics a required course in order to increase your economic understanding and help you become a more informed citizen. If this course helps you understand articles in the newspaper on economics and use the information to make informed decisions, then this course will have succeeded in one of its aims.

Another important reason to study economics is that the more you know about your role in the economic system of the United States, the better you will be able to prepare yourself for the career and lifestyle you want to achieve. Economics is happening all around you. What you learn today, you can apply tomorrow. The more you know how economics affects your life, the better you will be able to direct your own economic affairs. The more education in economics you have, the better the chance is that you will be able to use and control your money, and understand how shifts in the economy will affect your life as a worker and a consumer.



The more you know how economics affects your life, the better you will be able to direct your own economic affairs.

The Basic Economic Problem: Scarcity and Meeting People's Needs

Countries attempt to find solutions to the most human of problems: how to feed, clothe, house, and in general provide for the common good of their populations. Even though rich and powerful countries provide high standards of living for most of their populations, they still have poverty, homelessness, and undereducated people in their population. The poorest nations have a few rich people and little in the way of **goods** and **services** to provide for the poor. All countries, rich or poor, use the principles of economics to search for the solutions to these most common yet difficult problems.

For a nation's economy to survive, it must meet its people's basic needs for food, shelter, and clothing. But economies are used not only to meet people's basic needs but also to meet people's wants. *Wants* are things that people would like to have but do not *need* in order to survive. Wants are unlimited—people always want more goods and services to make their lives better.

The basic economic problem of all societies is known as **scarcity**. All economic resources have one characteristic in common: they are scarce. Only a certain amount of resources are available to produce things that people *want* or *need*. In short, there is only so much of everything to go around. Consequently, the basic economic problem is *how to meet the*



Since our continuous want for oil cannot be satisfied when our old sources are used up, we'll begin searching for new ways to satisfy this want.

unlimited demands of the people with limited resources. Oil companies produce millions of gallons of gasoline to fuel our cars. This oil, however, does not come from a bottomless hole in the ground. Eventually—sooner rather than later—the old sources of oil will be used and new sources will be harder and harder to find. Then our continuous want for oil will no longer be satisfied, and we'll begin searching for new ways to satisfy this want.

Although *wants*, *needs*, and *demands* are the basic terms of economics, you must continue your studies to include history, geography, and government to fully understand the role played by economics in creating a human drama of rich and poor, the elite and the masses, the *haves* and the *have nots*.

In summation, scarcity exists everywhere. Individuals, businesses, and governments must make wise decisions based on the **efficient** use of their limited resources. It is important to understand that personal, political, and economic rights all must reinforce each other to help us make the most informed and wisest choice. Choices are very important. The wiser the choice, the better able we are as nations to meet the goal of growing, sustaining, and increasing development.

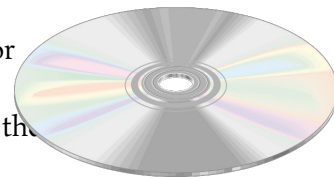
Four Questions: What to Produce? How to Produce? For Whom to Produce? Are We Efficient?

Since scarcity exists everywhere, all economic systems must answer these four questions.

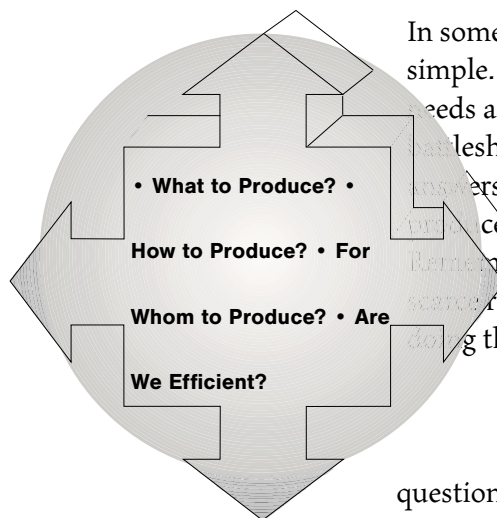
- What goods and services will be produced?
- What methods will be used to produce those goods and services?
- For whom will those goods and services be produced?
- Are we *efficient*?

In the United States economy, deciding what goods and services will be produced is a complex process. Take the example of a big record company. First its board of directors meets at corporate headquarters. They may discuss whether they will continue producing recorded music or go into another business, such as making movies. Their decision will be largely based on whether there are consumers who can afford to buy and will buy recorded music. If they decide to make recorded music, the company must pay close attention to which kinds of music and musicians consumers will be willing to pay money for and whether consumers are more likely to buy

tapes or CDs or perhaps a newer technological way of listening to recorded music. As you can see from this discussion, the questions of “What to produce?” and “For whom to produce?” are really the same question. One cannot be answered without considering and answering the other.



Once these two questions have been answered, the record company’s board of directors will decide the most cost-efficient method of manufacturing recorded music.



In some instances, this entire process will be quite simple. If, for example, the government or a corporation needs a specific item—say an aircraft that can land on a battleship or a press that can print money—then the answers to “What to produce?” and “For whom to produce?” will not involve much decision-making. Remember, our goal is to produce the most with our scarce resources, and thus, be efficient. If we are not doing this, then we need to reconsider

questions one, two, and three.

Scarcity: The Problem of Too Little to Go Around

People want more things than they can obtain. *Scarcity* is the basic problem for *all* economic systems and nearly all people. Even wealthy people find they cannot afford all they desire. The poor, however, often desire but cannot afford the necessities of life: food, clothing, shelter, and medical attention. The rich are able to afford the basics; however, they may desire but cannot afford all the luxuries they would like.

Scarcity is a problem you will always have to face because you can never meet all of your needs and wants. You will always have to choose between this good and that good or this service and that service. You will continually have to make **trade-offs** and use the resources you have to choose the goods and services you desire the most and can afford. The brief story below illustrates this point.

When you were younger, how did you decide who was the coolest guy in the neighborhood? Maybe it was the kid with the most toys, the biggest water gun, the neatest bike, and the newest fashion clothes. This kid lacked for nothing. As you've gotten older, the toys changed. You still can't afford them, but somebody still seems to have everything you want. One of the differences between children and adults is the cost of their toys. But think back to those younger days. Did the coolest kid really have everything?

Human nature is such that you want what the coolest person has, while the coolest person wants the toys not yet acquired. Somebody always had a better bike when you were younger, and as you grow older, somebody will always have a bigger car, a larger house, and more toys. As you grew older, you began to understand that you could never have it all. You probably have also noticed that those



houses also want still larger and more luxurious cars and houses. We want it all! But common sense told you long ago that neither you nor your neighbors are going to get it *all*.



Very few people in any economic system have enough money or resources to satisfy all their wants. Not only are your own personal resources limited, but the steel, plastic, glass, and other materials to make that new car or truck are also limited. So both your own resources and the resources to make the truck are *scarce* resources. In short, you and most other people have more wants than any economy can provide—thus the scarcity problem.

The basic economic problem is ongoing: There will always be more wants than goods and resources. Economists call this *scarcity*. The solution is more a journey—a never-ending one—than a destination. The solution is a day-by-day, year-by-year set of choices you will make throughout your life.

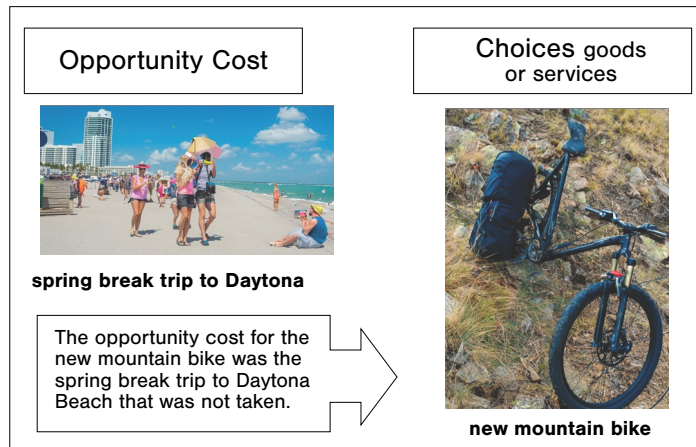
“What goods will I buy with the money I have? What trade-off will I have to make? Should I buy that wonderful _____?” (Fill in the blank with your current want.) “But if I buy that wonderful _____, I can’t buy that wonderful _____.” (Fill in the blank with another current want.)

Now that you have a better understanding of the problem, you know that there is no simple solution. You will always have more wants than you have resources. *Scarcity* is a problem that will always exist. We will always have to make choices and trade-offs.

Opportunity Cost: Arranging Your Priorities

Since we have to make choices, we have to give some things up to receive our desired wants or needs. What we give up is known as **opportunity cost**. Opportunity cost is defined as *the cost of giving up the next best thing in order to obtain something else*. If you went on a date on Friday, you might have had to give up going out to lunch on Thursday. *Opportunity cost* should always be expressed as that thing you had to give up in order to obtain a particular want or need: I would say the *opportunity cost* for my new mountain bike was that spring break trip to Daytona Beach I *didn't*

take. *Opportunity cost* does not refer to the amount of money a particular want or need costs. Therefore, the *opportunity cost* principle states that in order to get some *goods and services* you really want, you must give up some *goods or services* you want almost as much.



Opportunity cost is not only experienced by individuals but also by families, corporations, and even governments. Imagine, for example, that your local government owns a plot of land. The government wants to use this land to fulfill one of its citizens' needs. Its citizens, however, need both a golf course *and* a nature park. If the government decides to develop the nature park, then we would say that the opportunity cost was the golf course. People, businesses, and governments are constantly making trade-offs to fulfill their wants as well as they can.

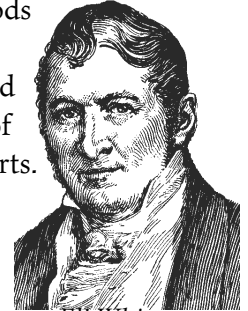
Remember, opportunity costs can be measured in anything. It is whatever you give up to get something in return. For example, if you spend two hours of your time to do your homework, what else could you have done in those two hours, (sleep, talk to your friends, watch television)?

Case Study: Choices and Changes

The Industrial Revolution

We have stated in this section that nations have to make choices to satisfy their people's wants and needs. These choices are not always easy because of scarce resources. In the United States, a major choice was made in the early 1800s which resulted in what became known as the Industrial Revolution.

When the United States became an independent country after the Revolutionary War with Great Britain, most Americans were farmers. It soon became apparent that the United States would have to produce goods which in the past were obtained from Great Britain. To encourage production of these goods, great importance was placed on new ideas and methods of production and the machines to carry out these ideas. One of the greatest ideas was Eli Whitney's method of using interchangeable parts. This approach took industry out of households and workshops and into factories.



Eli Whitney

Samuel Slater started a textile factory in the United States. The factory system made mass production possible. People could produce more products faster and cheaper.

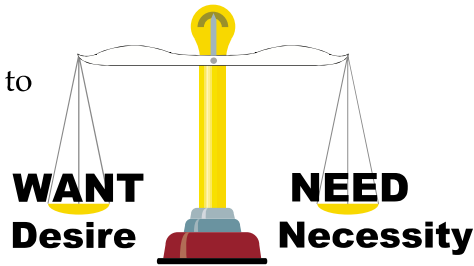
During the War of 1812, Americans had to invest their capital in areas other than international trade and shipping because the British navy blocked much of our coastline. The United States realized that in order for the new nation to survive a choice must be made to use scarce resources to further industrialize and build machinery, tools, and factories to manufacture goods that could no longer be imported. The opportunity cost was less farmland, yet the benefit was worth the cost.

With new ideas and methods of production, industry in the United States grew rapidly in the early 1800s. The United States also grew stronger politically, economically, and socially. The cotton industry in the South was aided by the invention of the cotton gin, but this also increased the demand for slave labor. The North and South grew in different directions. The Northeasterners chose to invest their capital in factories and manufacturing. Southerners chose profits from cotton. These choices and differences would later play an important part in the Civil War.

Want and Need: The Difference between Desire and Necessity

So far we have learned that we all have to make choices because of scarcity. When we make choices, we have costs involved called *opportunity costs*.

Although we want many things, our limited resources will force us to make choices. We sometimes must choose between a want, or something we would like to have, and a need, or something we must have.



Using the specialized vocabulary of economics, *want* and *need* become important terms used by economists to describe the desires of consumers. The economist uses the term *want* to mean you would like to have a certain good or service that is not necessary for your life, your safety, or your home.

The term *need*, on the other hand, is used by economists to refer to a more essential and necessary *good* than those goods described by a *want*. A *good* or *service* that is a *necessity of life* is considered a *need*. Economists consider a *need* to be either food, clothing, shelter, or medical attention. A *need* is essential.

Here are two examples of the sometimes strange usage of economics terms.

Two Case Studies: *Want* and *Need*

The Ice Cream Contest

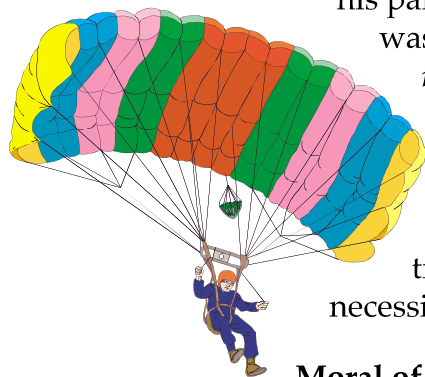
Five students went to Francisco's Ice Cream Parlor to eat some ice cream. Lester and Dexter both claimed that they could eat more ice cream than anyone else. Dexter then challenged Lester to an ice-cream-eating contest. After both Dexter and Lester had eaten more than they could possibly *want* to eat, Dexter could win the contest with just one more bite of ice cream.



Did Dexter *want* or *need* another bite? An economics test would tell you that the correct answer was that "Dexter *needed* another bite." Ice cream meets the criterion of being *food*, and food is a *need*. So, speaking as economists, we call this bite of ice cream that sent Dexter home a little green in the face a *need*.

The Parachute Jump

Buster and Natasha decided to learn how to parachute jump. Natasha made a wonderful jump with a fluffy parachute above her head. Buster, however, was not so lucky. He looked up and saw that



his parachute had not opened and the ground was rushing towards him. Did Buster *want* or *need* a parachute? The answer in the language of economics is that “Buster *wanted* a parachute.” A parachute is *not* food, clothing, shelter, or medical attention. Buster only hoped that transportation was added to the list of necessities before he hit the ground.

Moral of the story: Sometimes what we think of as our *needs* are actually only our wants. The dilemma in the story: As Buster was floating towards the ground he may have decided that he would be willing to give up his wish for a new leather jacket in order to buy a parachute that worked—one that would open. In this instance, Buster would be choosing to buy a want (the parachute) instead of a need (the new leather jacket). Another way of explaining Buster’s *trade-off* is to say that the *opportunity cost* of a parachute that opened would be a leather jacket.

Even though these two examples seem simple, on a larger scale nations sometimes have a tough time distinguishing between the two. For example: Do we *want* or *need* to feed the homeless? Do we *want* or *need* to build nuclear weapons? Remember, food is a necessity to nourish and food is also one of our scarce resources, while weapons are, *economically speaking*, a want.

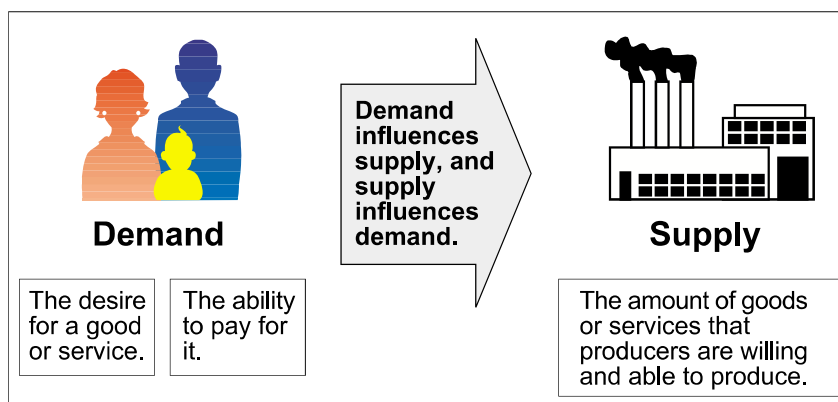
Choices have to be made to satisfy these wants and needs because of *scarcity*. Those people and nations who understand economics tend to make wiser choices. Now let’s look at some factors that help determine our choices.

Supply and Demand: Producers Make Goods and Provide Services—Consumers Use Them

We have been taught as children that to *demand* something is not nice. In economics, however, *demand* is what causes manufacturers to produce more goods. Producing goods employs people who make the goods and provides consumers with goods they would like to buy. Therefore, demand is not a *bad word*, instead demand is part of the mechanism that drives our economic system.

Demand consists of two basic factors: the desire for a good or service and the ability to pay for it. *Demand* for goods shows companies which goods the consumers would like to buy. Companies that respond the best to consumers' demands are often able to stay in business and earn a profit. Companies want consumers to demand goods and services. Trust me, if you walk into a car dealership and *demand* a new car, the salesperson will not dislike you.

Supply is the amount of goods or services that producers are willing and able to produce. Consumers can only buy what producers produce, and what is available to consumers will often influence their demand. You may imagine a certain kind of clothing item, but when you walk into a store, you may often be willing to alter your demand to fit the available supply. So, as you can see, demand influences supply, and supply influences demand. Thus, supply and demand help us to determine our choices.



Supply and demand help us to determine our choices.

Goods and Services: What We Make and the Tasks We Do



Goods such as a hamburger are tangible; that is, you can see them, feel them, touch them, or eat them.

Goods and services make up the two broad, general categories of the things and activities provided by businesses for consumers to purchase. *Goods* are *tangible*; that is, you can see them, feel them, touch them, or eat them. Examples include hamburgers sold by McDonalds or automobiles produced by Chevrolet.

Unlike goods, *services* are *intangible*. Although you can see them being done and you can experience them, you cannot take them with you. You can own a service contract, but as a consumer you cannot own a service, as you can own a good. Rather, services are activities, such as the amusement park rides at Disney World. You don't buy the ride; you just get the use of that ride for a short period of time. Dry cleaning, car washes, a rental car, and the use of a hotel room for the night are common services that people use on a regular basis.



Services such as a car wash are intangible. Although you can see them being done and you can experience them, you cannot take them with you.

Types of Goods: Consumer and Capital

Consumer goods. *Consumer goods* are goods purchased by consumers to satisfy their own personal needs and wants. They include any type of good that after purchase has value only to the person who bought or uses the good. Some consumer goods satisfy immediate wants and needs and have little or no resale value. These consumer goods, such as food and clothes, are called **nondurable goods**. They are eventually worn out or used up by the consumer who purchases them. Other consumer goods, such as automobiles and refrigerators, are not used up after their purchase and do not wear out quickly. These consumer goods are called **durable goods**. They tend to be larger and more expensive. Nearly all types of consumer goods lose their value over a period of time. The process of losing value over time is *depreciation*. Depreciation is the value lost from goods. For example, if you buy a new car for \$20,000 and three years later, you sell it for \$8,000, the difference of \$12,000 is called *depreciation*.

Capital goods. A *capital good* is any type of good that either *appreciates*, or increases in value over time, or creates more wealth for its owner than it costs its owner to buy. A capital good can be as large as a factory or as small as a carpenter's tool. The most common capital good owned by the average consumer is a house. Houses tend to appreciate, and when they do they are called *capital goods*.

The *use* of the good, not the good itself, determines whether it is considered a *consumer* or *capital* good. For example, a car sitting on a car lot can be either a consumer or capital good, depending on who purchases it. For a rental car company, the car will become a *capital good* because the company will earn profits by renting the car. The car you purchase, however, will be a *consumer good* because you buy the car to satisfy your own want and will sell it at a lower, depreciated value.

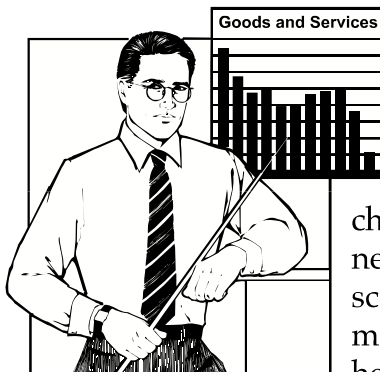
Remember, a good must be tangible, meaning you can touch it. If it is designed to use now it is a consumer good. If it is designed to use to make other goods, it is a *capital good*.

Services: Paying Money for Other People's Time and Skill

Services, unlike goods, are *not* manufactured. Services are *intangible*; that is, they cannot be held or carried away. They are things people desire but either cannot provide for themselves or are unwilling to provide.

Many of the stores that crowd the malls and line our streets sell services. Some businesses will cut your hair, fix your shoes, or provide fun through their video games. Some businesses will sell both goods—such as clothes—and services—such as alterations on the clothes you buy.

In our present economy, most *new* jobs that are created will be service-oriented jobs. The growing tourist industry in Florida, for example, primarily provides *services*, rather than *goods*. The money spent for travel, hotel rooms, and tickets to attractions—all of these are *services*.



In summation, we as individuals make choices about what goods and services we want or need. Many factors like supply and demand, scarcity, and opportunity costs will help us to make those choices. Understanding economics will help us make wise choices.

Resources: Natural Resources, Human Resources, and Capital Resources

Now that we know the difference between wants and needs and that all people have to make choices, let's look at something that helps us make our choices. A magician pulls the rabbit out of a hat and the audience applauds. "Wait," he says. "You can't feed, clothe, or house yourself with magic." Is there an economics magician who provides for our needs? Unfortunately... NOT! Unlike magicians, we cannot pull goods and services out of a hat. We must work with our resources so that people will be clothed, fed, and housed.



The value of a painting such as Leonardo da Vinci's Mona Lisa lies in its finished glory and not in the non-intrinsic value of the paint and canvas that were used by the artist.

The great bounty of land, human skill, and money make up the resources that we transform into goods and services. *Resources* become valuable in many different ways. Some resources, such as gold, are so easily converted into products, such as jewelry and coins, that we call them *intrinsically valuable* or valuable for their own sake without regard to anything else. Even after gold has been converted by a manufacturing process into a finished product, it can be returned to its original state. Other resources have no intrinsic value because they cannot be returned to their natural state, as can gold, and their value is dependent on our need or desire for them. If we no longer drove cars or needed petroleum products, oil would lose its value. An artistic painting is an extreme

example of a product made from resources with *non-intrinsic value*. The value of a painting such as Leonardo da Vinci's *Mona Lisa* lies in its finished glory and not in the non-intrinsic value of the paint and canvas that were used by the artist.

There are three types of resources that are factors of production: natural resources, human resources, and capital resources. Some economists also consider *entrepreneurship* to be a fourth resource or factor of production. Entrepreneurship involves an **entrepreneur**, or a person with a special talent for creatively combining the three other factors of production. To acquire these resources, it takes **financial capital**. Financial capital is not a real resource like land (natural resources), labor, and capital (machinery and buildings). Financial capital enables the purchase of any of the factors of production.

Natural Resources: Land, Minerals, Water, and Soil



A natural resource can be defined as any natural object that can be used to produce goods that people would be willing to buy.

A *natural resource* can be defined as any natural object that can be used to produce goods that people would be willing to buy. Land is a *natural resource*—it occurs naturally. Examples of this type of resource are farmland, clean water, iron ore and other minerals, and even wind power. People who own property that has a valuable natural resource can charge other people who want to use that resource. Remember, land is a limited resource, and limited resources are both scarce and very valuable.

Land is a good example of the specialized vocabulary used in economics. The general vocabulary use of the word *land* would inform you that land is dry and that it is definitely *not* water. The specialized

vocabulary used in economics defines *land* as any natural object, including water, that can be used to produce goods that people are willing to buy. Master the specialized vocabulary used in economics, and you will understand that *land* can mean a *river*!

Human Resources: Labor and Skills

Labor is a human resource. People go to school or do apprenticeships to gain the education and skills they will need to earn a living and buy the goods and services they want. The more skills and the better your education, the more others will be willing to pay you a good income for the use of your labor and skills. Remember, *you* are in control of this scarce resource.

Capital Resources: Machine-made Objects

Capital is a specialized vocabulary word when used in economics. Used in the phrase *capital goods* it means human-made goods that can be used to create wealth. Some books will define *capital* as a human-made good used to manufacture other goods. Either definition will help you to understand that a carpenter's hammer and a very large 747 airplane are both examples of *capital goods*.

Capital resources are goods that are machine-made and are, in turn, used in either a person's job (such as hand tools) or are big machines located in factories. The definition for *capital resources* is identical to the definition of *capital*.

Entrepreneurship: Combining the Factors of Production

Entrepreneurship refers to the special talent some people have for searching out and taking advantage of new business opportunities.

Entrepreneurship is different from most ordinary talents of people.

Entrepreneurs take new business opportunities and develop new products and new ways of doing things. The entrepreneur is a person with a special skill who can and often does earn very high profits in the American economy. Few people have the skills needed or the opportunity to combine natural, human, and capital resources to produce goods and services people will buy. Entrepreneurs are the owners or managers of companies. The company may be as small as a two-chair barber shop or as large as IBM. The president of Ford Motor Company, as well as the owner of a small gasoline station that repairs a few cars a day, are both *entrepreneurs*.

One of the developers of the first personal computer, Steve Jobs, showed entrepreneurship when he saw the need for a personal computer and helped to develop it. Hundreds of thousands of consumers purchased his product—the Apple computer.

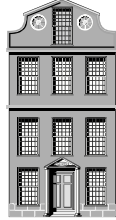


Property: Ownership of Resources

Property is anything that has value and that can be owned. Some property is owned privately and some property is shared by the public. There are *three types of property: real property, intangible property, and personal property*.

Real Property. *Real property* is made up of land, buildings, or anything that is a part of a building or is permanently attached to the building. Real property can be a school, a factory, or a farmer's fields. People who sell real property are called *real estate agents*. The fact that you can see the land, touch buildings, and hear the noise made in a factory makes *real* a proper description of this type of property.

Intangible Property. *Intangible property* includes documents that represent things having value. Property such as a deed to a house, stock certificates, and U.S. savings bonds are types of intangible property.

Personal Property. *Personal property* is simply any property that doesn't fit into the above two groups. Money, for example, is neither a type of good or a type of property. Money is the property that can buy all types of goods and all types of property.

 <p>Real Property</p> <p><i>Real property</i> is made up of land, buildings, or anything that is a part of a building or is permanently attached to the building.</p>	 <p>Intangible Property</p> <p><i>Intangible property</i> includes documents that represent things having value.</p>	 <p>Personal Property</p> <p><i>Personal property</i> is simply any property that doesn't fit into the above two groups. Money, for example, is neither a type of good or a type of property.</p>
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Economic Rent: The Use of Property

Anyone who owns or controls a resource has the power to charge others **economic rent** for the use of that resource. Economic rent is charged for the use of all three types of resources. Ordinary land in the country is worth only a small amount of money per acre. Find oil on that land and the owner will charge a fee for companies to drill for that oil. The fee charged for drilling oil is called *economic rent*.

Economic rent is also charged by people for their labor. If a famous football player is paid two million dollars a season, his high salary is also a form of economic rent. A recent high school graduate earns a salary but cannot charge economic rent—what he earns is close to the minimum wage. Go to a vocational school or college, and you will acquire the education and skills demanded by others who will be willing to pay you a salary. This salary will be the *economic rent* you will charge for the use of your labor.

Economic rent, therefore, can be defined as *the money people charge to others for the use of a resource they own*. These resources may take the form of a person's reputation, a person's labor, some type of natural resource they own, or a capital good that can be used for a fee. Charging people *economic rent* is another way of saying: "I have something you want. I am willing to let you use it, but I want to make some money on the deal."

Case Study: Economic Rent

The Noisy Refrigerator

Rebecca heard a loud noise coming from the refrigerator. She went to the kitchen and discovered that the refrigerator was making lots of noise and was not keeping the food cold. Quickly she called up the appliance repair store. A repairwoman was sent out to Rebecca's house and repaired the refrigerator within the hour.



Rebecca was so worried about the food spoiling in the refrigerator that she forgot to ask the repairwoman the cost of fixing the refrigerator. Rebecca was astounded when the bill for \$140.00 came in the mail a few days later.

FOR THE BEST REPAIR		BEST REPAIR	INVOICE
		186 Handy Way Profit, Florida 30345	0053689
Customer name <u>Rebecca A. Noyed</u>			
Address <u>112 Lukewarm Street</u>			
Phone <u>555-6560</u> Time Called <u>2:15 p.m.</u>			
Repair Requested <u>refrigerator making noise, not cooling</u>			
QTY	PARTS AND SERVICE	PRICE	
	service call	\$60	00
	tightening screw	\$ 1	00
	knowing what screw to tighten	\$79	00
	TOTAL	\$140	00
Service person <u>Betty Turnscrew</u>			

Rebecca had watched the repair being made. The repairwoman only worked for a couple of minutes. She opened the refrigerator, took out a screwdriver, and turned a screw. Wow, the refrigerator was fixed!

Rebecca demanded an itemized bill—a bill listing all the items that made up the \$140.00 cost. This is what the bill looked like:

Knowing what screw to tighten—that's economic rent!

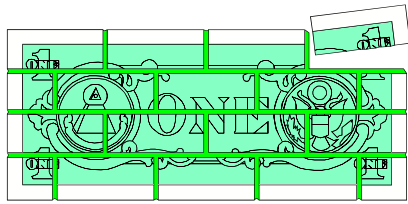
Here's what a *real-life* bill might look like:

	BEST REPAIR 186 Handy Way Profit, Florida 30345	INVOICE			
		<table border="1"> <tr> <td style="width: 50px; height: 20px;"></td> <td style="width: 50px; height: 20px;"></td> </tr> <tr> <td colspan="2" style="text-align: center;">0053689</td> </tr> </table>			
0053689					
Customer name <u>Rebecca A. Noyed</u> Address <u>112 Lukewarm Street</u> Phone <u>555-6560</u> Time Called <u>2:15 p.m.</u> Repair Requested <u>refrigerator making noise,</u> <u>not cooling</u>					
QTY	PARTS AND SERVICE	PRICE			
	service call	\$60	00		
	parts and labor	\$80	00		
	TOTAL	\$140	00		
Service person <u>Betty Turnscrew</u>					

Summary

Having a basic understanding of *economics* enables us to make informed decisions about our nation's economy and our own role as earners and consumers. The basic problem that nations and people constantly face is

“How can we satisfy unlimited *wants* and *needs* with limited resources?”



A more concrete way to express this would be “How do we feed, clothe, house, and provide for ourselves with the *goods* and *services* we can produce?” This gap between our limited economic resources and our unlimited wants is called *scarcity*.

Scarcity forces us to make *trade-offs*—to choose between one good or service and another. The good or service we must give up in order to obtain something else is called the *opportunity cost*.

Consumers can only buy what producers produce, and producers will only produce what they believe consumers can and will buy. Producers try to understand the *demands* of consumers and use this knowledge to regulate their *supply*.

Producers create different kinds of goods. A *consumer good* satisfies consumers' wants and needs and tends to depreciate; a *capital good* creates wealth for its owner and tends to appreciate.

To create goods and services, producers use *natural resources*, *human resources*, and *capital resources*. Natural resources include land and minerals. Human resources are the labor and skill people use in the production of goods and services. And capital resources are the goods used to manufacture other goods. The *entrepreneur* is a person who has the special skills to combine and manage these three resources to produce goods and services consumers will buy.

Economists refer to three different types of property. *Real property* includes land and building or any permanent attachments. *Intangible property* includes documents that represent things of value. And *personal property* includes money. Owners often collect *economic rent* on their property. Owners can charge for the use of their land, buildings, their knowledge, or even for the use of their own reputations.