Economy

Economy is the word we use to describe how a group makes its stuff and then decides how to divide it up. There are a lot of different kinds of economies: families, cities, states, countries, and the world. A long time ago and in many places today, the biggest economy a place has is the family. The family will make everything the family needs, such as food, furniture, and clothes. Whatever they cannot make, they don’t have. If there are other families nearby, they may trade something they have, or barter, for something the other family has. If this happens enough, then the family will be a part of a larger economy of several families. How the economy divides its stuff up is important too. Some economies use money to determine who gets what. Other economies try to make sure everybody has more of an equal amount of the stuff. Still other economies try to mix both of these ideas.

Supply and Demand

Supply is how much of one thing there is to sell. Demand is how much people want to buy that one thing. The relationship between supply and demand determines the price of the product. A good example of supply and demand is the Xbox. When the Xbox was first sold, a lot of people wanted to buy it because it was new. So many people wanted it that the price went up a lot. But when the Xbox 360 came out, only a small number of people will wanted the Xbox. So the manufacturers make fewer machines and they charge less money for it. There are some thing that will always have a high demand and a low supply, like gold. There are other things where the relationship will change. A good example is oil. For a long time, people never really thought about how oil was a nonrenewable resource, so they used as much as they could. It seemed like there was a greater supply than there was a demand, so oil used to be very cheap. But now, there is a high demand and the supply is thought to be running out, so the price is much higher.

Specialization/ Division of Labor

Specialization is where a person in an economy does one thing over and over again. In order to get all the things they need, they usually will get money for their work and they will use the money to buy the things that they need. A good way to think about this is to think about a family. A single person living by herself has to be good at doing all the work in the house, such as dishes, laundry, mowing, and changing the oil. That person may not be very good or fast at some of the jobs, but they have to do them because there is no one else. In a family of ten people, usually the chores are divided up so that one person will be in charge of dishes, one person will take out the trash, etc. By doing that one job in the family, everybody gets to specialize in one area, but they still get all the stuff they need because they are working together and they are sharing the stuff they make. Another thing that can happen in an economy with a lot of specialization is people get very good and very fast at doing the one thing they are in charge of doing, so the economy works more efficiently, or easier.

Resources

A resource is a thing people use. It can be something you can’t touch like the internet. In geography, we usually are referring to natural resources. There are many different kinds of resources. Minerals are materials from the earth that can be used and have never been alive. Fossil fuels are materials from the earth that once were alive that we use, often for energy. Petroleum is a fossil fuel. Petroleum is used to make oil and gas. Resources that can never be replaced are called nonrenewable resources. Some resources can be replaced such as water power or trees. These resources are called renewable resources. Both of these are different from recycling, which is a totally different idea of reusing the same material. Different places have different resources available to them. This is called an uneven distribution of resources. Distribution means how something is spread out. This fact increases trade because obviously not every place will have everything they will ever need.

Economic Interdependence

Specialization and the uneven distribution increases economic interdependence. Economic interdependence is where people and places rely on other people and places to get the things they need to survive.

Gross National Product/ Gross Domestic Product  
This is a number (statistic) that people use to tell whether or not a country is rich or poor. This number tells the value of what everyone makes and does in a country. If it is GDP per capita, that means the value was divided by the number of people in the country. The United States is very wealthy (rich) and its GDP per capita is around $50,000.

Import/ Export/ Balance of Trade  
Every country has different resources and industries. Because of this, countries will trade with each other to get things they do not have. If they are selling something to another country, that is called an export. If they are buying it, it is called an import. Countries keep track of how much they sell to a country versus how much they buy from the same country. This is called the balance of trade.  Most countries want to have an even balance of trade. If they buy more from the country than they sell, this is a negative balance of trade. If the sell more to the country than they buy, that is a positive balance of trade.

Types of economies: Part One

Economies are named. To make it more confusing, they often have different names to describe different facts about parts of the economy. In the future, you will learn the terms traditional, command, market, and mixed market but for right now we need to review another set of terms to describe economies. This has to do with the materials and work they use to support their economy. A primary economy is one that manages to keep its people alive by using the land through farming and mining. They are basically taking stuff from the earth and living on it without doing anything fancy to it. A secondary economy is one that takes those materials and manufactures new stuff and then uses and sells the machine made stuff to survive. A tertiary economy is one that offers a lot of services, like making copies, cell phone plans, and landscaping. A service is an action people will pay for.

1. **What is the definition of economy, economic interdependence, supply, demand, import, export, balance of trade, specialization, and Gross Domestic Product per capita, natural resource, distribution.**
2. **What are the effects of economic interdependence?**
3. **What are two possible impacts of uneven distribution of resources?**
4. **How does economic interdependence affect cultural diffusion?**
5. **If the supply is high and the demand is low, then the price is**
6. **If the supply is low and the demand is high, then the price is**
7. **If the supply is low and the demand is low, then the price is**
8. **What determines the price of something?**
9. **What makes specialization easier?**
10. **What are the effects of specialization?**
11. **What is another word for specialization?**
12. **US trades $42.5 million in lumber to Japan for $15 million in professional wrestling equipment.**

* **What is Japan’s import?**
* **Who has the negative balance of trade?**
* **What is it?**

1. **What does GDP show?**
2. **What is the US GDP?**
3. **What is a natural resource?**
4. **What is petroleum used for?**
5. **How are resources affected when technology changes?**
6. **What type of economy does the US have?**