

Name: \_\_\_\_\_

## Business Principles

### NOTES: Chapter 2

#### \*Making Economic Decisions

Societies also have to deal with a shortage of resources

**Resources** are the items that go into the \_\_\_\_\_ of goods and services

#### \*Scarcity

Lack of resources in society = \_\_\_\_\_

The principle of **scarcity** states that there are \_\_\_\_\_ resources for satisfying \_\_\_\_\_ wants and needs

#### \*Factors of Production

**Factors of production:** all the \_\_\_\_\_ necessary to produce a society's goods and services

#### \*4 Factors of Production

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

#### \*Natural Resources

**Natural Resources:** \_\_\_\_\_ from nature that are used to produce goods

Can be processed in various ways to create goods

**Renewable:** Able to be \_\_\_\_\_

**Nonrenewable:** \_\_\_\_\_

#### Examples:

Renewable:

Nonrenewable:

**\*Labor Resources**

**Labor Resources:** \_\_\_\_\_ who make the goods and services for which they are \_\_\_\_\_

Types of labor resources:

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**\*Capital Resources**

**Capital Resources:** Things used to \_\_\_\_\_

Types of capital resources:

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**\*Entrepreneurial Resources**

**Entrepreneurial resources:** People who \_\_\_\_\_ and start businesses

**Entrepreneurship:** Process of \_\_\_\_\_ a business opportunity, \_\_\_\_\_ it in the market, and \_\_\_\_\_ necessary to run it

**Entrepreneur:** Individual who undertakes the creation, organization, and \_\_\_\_\_ of a business

**\*Basic Economic Questions**

**Economics:** The study of how individuals and groups of individuals strive to satisfy their needs and wants by making choices

Societies make economic decisions by answering these 3 questions:

- \_\_\_\_\_ should be produced?
- \_\_\_\_\_ should it be produced?
- \_\_\_\_\_ should share in what is produced?

**\*What should be produced?**

**Opportunity Cost:** Deciding to use a resource for one purpose means \_\_\_\_\_ to use it for something else

### **\*How it should be produced**

Important factors:

- Methods and labor used
- Quality of the items produced

### **\*Who should share in what is produced?**

Amount of \_\_\_\_\_ one has determines how many goods and services they can buy

### **\*Economic Systems**

**Economic Systems:** The methods societies use to \_\_\_\_\_

2 Types:

- Market Economy
- Command Economy

### **\*Market Economy**

**Market Economy:** Economic system in which economic decisions are made in the \_\_\_\_\_

Other terms for Market Economy:

- Free Enterprise System
- Private Enterprise System
- Capitalism

### **\*Market Economies**

- Resources are \_\_\_\_\_ owned
- \_\_\_\_\_ can own homes, land, and businesses
- \_\_\_\_\_ can decide how to run their business, what to produce and sell, and for how much
- Individuals are responsible for being informed and making careful decisions!

### **\*Relationship Between Price, Supply, & Demand**

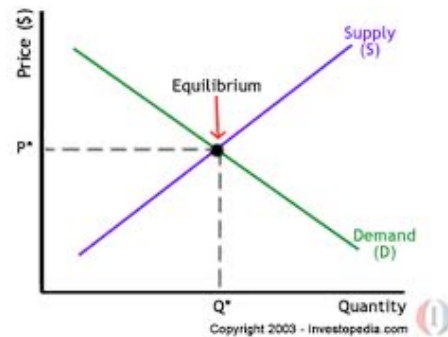
**Price:** Amount of money \_\_\_\_\_ when goods and services are bought or sold

**Supply:** Amount of goods and services that \_\_\_\_\_ at various prices

**Demand:** Amount or quantity of goods and services that \_\_\_\_\_ at various prices

**Equilibrium Price:** Point at which the quantity \_\_\_\_\_ and quantity \_\_\_\_\_ meet

### \*Supply and Demand Graph



### \*Competition and Profit

- Competition is a basic characteristic of a \_\_\_\_\_
- Encourages businesses to produce \_\_\_\_\_ products at \_\_\_\_\_ prices

### \*Command Economies

**Command Economy (Socialism):** Economic system in which a \_\_\_\_\_ makes key economic decisions

Government decides:

- What should be produced
- How it will be produced
- Who will get the goods

Own and control all resources and businesses; No competition

### \*Mixed Economy

**Mixed Economy:** Economy that contains both \_\_\_\_\_ and \_\_\_\_\_ enterprises

Few nations are purely market or purely command economies

United States is primarily a \_\_\_\_\_, but has characteristics of a command economy:

- National defense
- Education
- Aid (lower income)