

Economics 101 for APUSH

Introduction: The forces of history that shape every civilization are as follows:

- Geography (location, location, location)
- Religion (belief systems and world views)
- Government (control of and access to power)
- Warfare (acquiring or defending the civilization)
- Economics (resources and decisions)
- Education (the transference of cultural identity from one generation to the next)
- The Arts (communication) and
- Sciences (technology)

These are all discussed in "The Tree—a graphic approach to History," by GPrice

I. Economics is the study of choices stemming from the desire to satisfy unlimited wants with limited resources. Every civilization has to cope with scarcity and competing needs. Every civilization is judged by how effectively wants and resources are balanced.

Economists study three basic types of economies: Traditional, Market Based (Capitalism) and Command economies. These all have different methods of dealing with two critical ideas:

1. Ownership of resources
2. Decision making for the society

Traditional Economies (pre-Adam Smith)

- Family oriented, based on custom and privilege
- The King and aristocracy owned and/or had access to the available resources and controlled the decision making.
- Pre-history, ancient, medieval, crusades, to the Renaissance
- The Renaissance began a slow evolution of economic practice 16th -18th centuries.
- Mercantilism ushered in a new approach voiced by Adam Smith.
- Mercantilism is an economic system in which a country's wealth is determined by its ability to trade and/or control foreign natural resources.

Market Based (Classic Capitalism)

- Adam Smith The Wealth of Nations published in 1776, stressed a market economy based on competition.

- Smith believed “The Invisible Hand” or competition, would allow the economy to “self-correct.” Businesses compete with one another to hire the best employees by competing with salaries.
- Businesses also compete with one another for resources and for customers while countries compete with other for raw materials and was one of the factors that led to Imperialism

Characteristics of Capitalism:

- Everyone acts in their own best interest (both businesses and laborers).
- Ownership of resources are in the hands of individuals
- Decisions are in the hands of individuals and
- Goods and Services are voluntarily exchanged.
- Any problems in the economy will be short-lived

Qui bono? (Who benefits?)

Businesses

Consumers

Laborers

Who doesn't?

Slaves and minorities

Command Economy (Classical Communism)

- Ownership is held “in common” in theory, but in the hands of the political elite in practice.
- Decision making is made by the elite and (usually) without keeping any market in mind

Qui bono?

The elite

Who doesn't?

Everybody else

II. The U.S. Economy

If the price changes, demand can remain stable and the economy has movement (up or down) along the demand line. BUT, if an (or all) of the non-price determinates changed, the entire demand schedule will shift to the right (good) or left (bad). These shifts indicate the growth of the economy.

Supply is directly related to price. As the price rises the more businesses will be able to supply.

Supply also has non-price determinates:

- Cost of Production
- Expectations
- Resources
- Taxes/Subsidies
- Technology
- Suppliers (number of)

This is a site that talks about the gold/silver standards fight:

<http://www.econedlink.org/lessons/index.cfm?lesson=EM395&page=teacher>

The DBQ for 2007 required the student to address economic development after the Civil War. That topic involved (among other topics) the gold and silver standards as the backing of the U.S. currency

III. 20th Century Economics

A. The Two Great Problems of a Market-based Economy:

- Inflation (Caused by the money supply) “Too much money chasing too few goods.”
Occurs during the end of a recovery and during the peak.
Prices rise as does Employment
- Unemployment
Occurs during recessions and troughs.
Prices fall, but unemployment rises

B. John Maynard Keynes—striving for stability and the resulting role of government spending

- The economy cannot self-correct
- Businesses alone cannot always keep the economy stable
- The government must take a role in supplying stability.

