

Section 1
Why Societies Have Economies

Objectives

1. Describe the characteristics of people's many wants and how resources satisfy wants.
2. Explain the steps of production to consumption.
3. Determine how choices are made to satisfy wants.
4. Discuss how scarcity affects economic choices.

 Target Reading Skill

Recognize Words That Signal Sequence Certain words signal sequence. Sequence is the order of ideas or events. Ideas may appear in order of importance. Events are often presented in time order. Read this paragraph about the production process for pasta.

First, farmers use soil, water, seeds, farm machinery, and labor to produce wheat. Next, they sell the wheat to a grain-milling company. The company combines labor and machinery to turn the wheat into flour. Then it sells the flour to a pasta maker. After buying the flour, the pasta maker adds other ingredients to it. The pasta maker then uses labor and machines to mix, roll, and cut the dough. Finally, the pasta is ready to be packaged and distributed.

The underlined words signal sequence. As you read, look for these and other words that signal the order of ideas or events.

Vocabulary Strategy

Using Context Clues One way to figure out the meaning of a word you do not recognize is to use context clues. Context is the surrounding words and sentences. These words and sentences may contain clues to the meaning of the word. Read the sentence below:

The truck that delivers food to the supermarket is part of the distribution process.

The sentence includes a context clue to the meaning of *distribution*. The clue is the word *delivers*. Distribution is making goods and services available to people.

Section 1 Summary

1 In every society, people choose how to use resources to produce goods and services. Goods and services meet people's wants.

People's Many Wants

Everyone has wants. Food, clothing, and shelter are basic wants. But people want more than just basics. They want to be entertained, for example. They want to be educated. And they want health care.

Various factors affect people's wants. One is environment. If you live in Alaska, you want warm clothes. Societies or cultures also affect wants. Most Americans want to live in a house or apartment. But tents best fit life for some people in Mongolia. People's wants also change. Some wants can be met only for a short time. For example, clothes from last year may not fit you now.

Using Resources

The resources people use to produce goods and services are called **factors of production**. Economists—people who study economies—identify three basic factors of production. These are labor, land, and capital.

- Labor includes time and energy. It also includes the knowledge and skills people use in their jobs.
- Land includes the many natural resources used to produce goods. Soil, water, wildlife, and timber are some examples.
- **Capital** includes tools, machines, or buildings used to produce goods. Tools and factories are called capital goods when they are used as capital. Money is not a factor of production. But money that is available for investing or spending is sometimes called financial capital.

Key Terms

factors of production (FAK terz UV pruh DUK shun) *n.* the labor, land, and capital people use to make goods and provide services

capital (KAP ih tul) *n.* anything used to produce goods and services, such as tools and machines

Vocabulary Strategy

Using Context Clues What does the underlined word mean?

Explain what context clues you used to figure out its meaning.

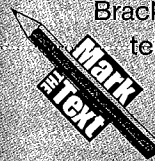
✓ Reading Check

In the text, number the factors that affect people's wants.



✓ Reading Check

Bracket the sentence that tells how land affects a society's economy.



Vocabulary Strategy

Using Context Clues

Bracket context clues to the meaning of the underlined word.



✓ Reading Check

How are production, distribution, and consumption of goods and services related?

Target Reading Skill

Recognize Words That Signal Sequence In the second paragraph, underline words that signal sequence.



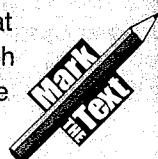
✓ Reading Check

Circle the factors that people must balance when they want two things that are in conflict.



✓ Reading Check

Underline the text that explains why both rich and poor nations face the problem of scarcity.



Production to Consumption

Labor, land, and capital are combined in a process called production. Farmers make food by bringing together soil, water, and sunlight (land) with seeds and machinery (capital). They use their ideas, skills, time, and energy (labor).

Production is followed by **distribution**. Trucks that deliver food help distribution. After distribution, goods and services are ready for **consumption**.

Making Choices

There are never enough resources to produce all the goods people want. So people must choose which wants will be met and which will not. These choices are economic choices. One part of choosing is looking at the benefits you will receive from each choice. A second part involves the cost of each choice. The major cost of any choice is giving up the benefits you would have received from a different choice. Every economic decision has an **opportunity cost**.

Scarcity

Scarcity is a problem in rich and poor nations. Scarcity is not based on the resources a nation has. It is based on the relationship between wants and the resources available to meet them. Individuals, businesses, and governments must make choices about resources. These choices involve deciding how to use limited resources to produce goods and services to meet people's unlimited wants.

Review Questions

1. Why must people choose which wants will be met and which will not?
2. How does scarcity affect economic choices?

Key Terms

distribution (dis truh BYOO shun) *n.* how goods and services are brought to people

consumption (kun SUMP shun) *n.* buying or using goods and services

opportunity cost (op er TOO nih tee KOST) *n.* what you give up when you use resources for one thing instead of another

scarcity (SKAYR suh tee) *n.* when resources are limited compared with how much people want

Objectives

1. Understand that determining what and how much to produce is a basic economic choice.
2. Explain why deciding how to produce goods and services is a second basic economic question.
3. Understand that deciding who will get goods and services is a third basic economic decision.

 **Target Reading Skill**

Understand Sequence Noting the sequence of events can help you understand and remember them. Sequence is the order in which events happen. Events often follow each other in a cause-and-effect relationship.

You can use a numbered list like the one below to track the order of events.

1. Researchers develop robots.
2. The robots are used for factory work.
3. Some people lose their jobs to the robots.

Vocabulary Strategy

Using Context Clues Context can clarify the meaning of words you do not recognize. Context is the surrounding words, phrases, and sentences. Sometimes the context will restate the word:

Economists—*people who study how economies work*—have identified three basic factors of production.

As you read, look at context to see if a word is restated.

Section 2 Summary

Vocabulary Strategy

Using Context Clues

Underline the context clue that restates the meaning of *quantity*.



✓ Reading Check

Circle the text that describes who decides what to produce.



Target Reading Skill

Understand Sequence Complete this numbered list with the sequence of events related to new technology in the clothmaking industry.

1. _____
2. _____
3. _____

✓ Reading Check

Bracket the sentence that explains the relationship between production and technology.



¹ Basic economic decisions are made every day. The three most basic decisions are

- What goods and services should be produced? How much of them should be produced?
- How should these goods and services be produced?
- Who will get the goods and services?

What and How Much?

People in every economy must decide what to produce. They base their decisions on their resources. A farmer who owns land and machinery may decide to grow wheat. You might decide to mow lawns. Owners of resources decide what to produce based on a prediction of what people will want.

The owner of the resources also decides the **quantity**, or amount, to produce. The amount produced depends on the land, labor, and capital available. It is also based on the amount that the owner thinks he or she can sell.

How to Produce Goods and Services

The second major economic decision is how to combine land, labor, and capital to produce goods and services. People usually choose the combination of resources that will cost the least.

The desire for less costly ways to make goods led to new **technology**. Technology had its beginnings in the early 1800s. At the time, cloth makers began using power looms. These new looms cost a lot. But they made cloth much faster than old handlooms. The cost of making cloth soon dropped.

Key Terms

quantity (KWAN tuh tee) *n.* how much of something

technology (tek NOL uh gee) *n.* the use of science to help commerce or industry

Technology is still important in deciding how to produce goods. For example, researchers have developed seeds that grow larger crops. Advances, or improvements, in electronics have given us robots to use in factories. Computers speed up many jobs. The Internet allows businesses to sell to many people.

Who Gets What?

Who gets the goods that are produced is the third basic economic decision. People must decide how goods and services will be divided. Wants are always greater than resources. That makes this decision important and sometimes difficult.

Various questions are part of this decision. Should goods be shared equally among everyone? Should people receive goods based on what they say they want? Should a small group decide who gets what? Or should people who own more resources and make more products get more?

Societies have solved this problem in different ways. They have based decisions on their goals and values. A society that wants equality might have a system for sharing products equally. A society that values freedom might let citizens compete freely for goods. Goals and values affect how a society makes all three basic economic decisions.

Review Questions

1. How does an owner of resources decide how much of a good or service to produce?

2. How do people usually choose how to produce goods?

Vocabulary Strategy

Using Context Clues

Circle a context clue that restates the underlined word.



Reading Check

Underline the sentence that explains what a society's values have to do with its economy.



Section 3
Three Types of Economies

Objectives

1. Identify and discuss traditional economies.
2. Identify and discuss command economies.
3. Identify and discuss market economies.
4. Discuss modern-day economies in China and the United States.

 **Target Reading Skill**

Recognize Words That Signal Sequence Signal words point out relationships between ideas or events. Some signal sequence, or the order of events. The chart below shows some words that signal sequence.

Words That Signal Sequence			
first	next	last	then
before	during	after	finally
second	third	later	now
when	since	as a result	because

Look for these words as you read. They will help you understand the relationships between ideas and events.

Vocabulary Strategy

Using Context Clues Synonyms and antonyms in context can help you figure out the meaning of words you do not recognize. A synonym is a word with the same meaning as another word. An antonym is a word with the opposite meaning. *Products* is a synonym of *goods*, for example. *High* is an antonym of *low*.

When you find a word you do not know, look at other words in context. You may find a synonym or antonym for the word. The synonym or antonym will help you figure out the word's meaning.

