

## Notes on Chapter 13 – Economics.

**Economics** is the study of how we make the best use of the world's scarce resources in order to satisfy the requirements of as many people as possible.

**Needs** are the essential items required for survival in life. Example: food and clothing.

**Wants** are any thing we would like to have in addition to our needs. Example : Xbox.

**Factors of production** are those resources that help to produce a product or provide a service.

**Land** is anything provided by nature that helps to produce goods and services.  
Example: oil, sea, land and water.

**Labour** is any human effort that helps to produce goods and services.  
Example: carpenters, plumbers and accountants.

**Capital** is anything that is made by humans that is then used to help produce other products and services. Example: cars, machinery and tools.

**Enterprise** is that special form of human activity that organises the other factors of production and bears the risk involved in production. Example: owners of companies.

**Opportunity Cost** is the item you have to give up in order to buy another item. Example: I would like to buy a shirt and a dress but I only have the money for one of them. I decide to buy the dress. The opportunity cost was the shirt.

**Inflation** is the increase in the general level of the price of goods and services over a period of time.

Formulae: 
$$\frac{\text{the increase in price in year 2}}{\text{the level of prices in year 1}} \times 100$$

Example: Price in year 1 = €3000  
Price in year 2 = €3150  
$$\frac{150}{3000} \times 100 = 5\%$$

**Deflation** is the decrease in the general level of the price of goods and services over a period of time.

### Causes of inflation:

An increase in the cost of producing a good due to higher wages, higher oil costs, higher cost of imports, higher taxes, etc.

If the demand is bigger than the supply, people are prepared to pay more for the good.

### Effects of inflation:

People will look for more wages as everything has become more expensive.

People will not save - they will spend instead, because they are afraid it will be more expensive next year.

Abroad our goods are more expensive and therefore people may not buy them.

At home we may buy cheaper imported goods and so not support local business'.

The **consumer price index** ( C.P.I.) is the official measurement of the rate of inflation.

**Gross domestic product** (G.D.P.) is the total amount of goods and services produced in an economy in one period.  
This is calculated by multiplying number of goods produced by average price.

**Gross national product** ( G.N.P) is the GDP less profits sent out of the country by foreign owned companies located in the country, plus profits returned to the country by local firms based abroad.

**Economic growth** occurs when more goods are produced in a country one year than were produced in the previous year.

**Negative economic growth** occurs when the amount of goods and services produced one year is less than the amount produced the previous year.

### Benefits of economic growth:

- Improves our standard of living because we have more products to choose from.
- It creates employment because more products are being made.
- Government make more taxes and so have money to improve things like education and health.

Alleviates poverty because the Government can give the less well off more money.