

Chapter 2: Economic Resources and Systems

I-Summary: This chapter discusses economic resources and systems. When the demand for economic resources exceeds supply, a shortage, or scarcity, develops. There are four types of economic resources, called factors of production, needed to produce goods and services. Natural resources are materials from nature such as trees, water, and grain. Some are renewable, such as trees; some are nonrenewable, such as oil. Labor resources are the people who make goods and provide services. Capital resources, or capital goods, are the things, such as tools and equipment, used to produce goods and services. Entrepreneurial resources are those people who see opportunities and start businesses. Economics is the study of how people make choices as they strive to satisfy wants and needs. Economic systems are the methods societies use to distribute resources. In a market economy, decisions are made by buyers and sellers in the marketplace. The profit motive fuels economic activity. In a command economy, key decisions are made by a central authority. In a pure command economy, there is no private enterprise. Most nations have a mixed economy, combining features of a market economy and a command economy. For example, the United States is primarily a market economy, but the government provides for highways, education, and defense.

I-Quiz

Quiz yourself to check your understanding. For each question, you will hear four answer choices. After you hear all four answer choices, choose your answer during the pause. Then you will hear the correct answer. Let's begin.

Question 1

In which system does a central authority make key economic decisions?

- a. a command economy
- b. a market economy
- c. a private enterprise system
- d. a mixed economic system

Question 2

What are the factors of production?

- a. demand, supply, scarcity, and price
- b. natural, labor, capital, and entrepreneurial resources
- c. renewable and nonrenewable resources
- d. market, command, and mixed economies

Question 3

How are labor resources and entrepreneurial resources alike?

- a. A tractor used to harvest crops is an example of both.
- b. Both can be classified as renewable or nonrenewable.
- c. Both require natural resources.
- d. Both are provided by people.

Question 4

What is the effect of competition in a free market economy?

- a. Prices increase until the equilibrium price is reached.
- b. Highly skilled workers earn the same wages as low-skilled workers.
- c. Better products are produced at lower prices.
- d. Product quality improves as prices go up.

Question 5

Which term best describes the economies of most countries?

- a. command economy
- b. demand economy
- c. mixed economy
- d. market economy

Answer Key

1. The correct answer is A, a command economy. A command economy is an economic system in which a central authority makes key economic decisions.

2. The correct answer is B, natural, labor, capital, and entrepreneurial resources. Factors of production are all the economic resources necessary for making what people need and want.

3. The correct answer is D, both are provided by people. Entrepreneurial resources are different from labor resources, even though both are provided by people. Entrepreneurial resources are people who start businesses to produce goods and services to satisfy wants and needs. Labor resources are people who produce goods or services.

4. The correct answer is C, better products are produced at lower prices. Competition encourages businesses to produce better products at lower prices in order to attract more customers.

5. The correct answer is C, mixed economy. Few nations have a pure market economy or a pure command economy. Most nations have a mixed economy, which combines features of both a market and a command economy.