AP Microeconomics – Day 1: What is Economics? Name: ______________________

Part 1:
Your objective is to create an item that describes you (personality, favorite food/music/activity, etc.). At the front of the room, you will see various supplies you can use to create your item. These supplies are divided into three categories – natural resources (land), capital, and labor. You can only use the resources provided. And no, you cannot use your spit!

1) What item did you create?

2) How does this item describe you?

3) The resources that we value—time, money, labor, tools, land, and raw materials—exist in limited supply. There are simply never enough resources to meet all our needs and desires. This condition is known as **scarcity**. Even when the number of resources is very large, it's limited.

How did this activity demonstrate the concept of scarcity?

4) When faced with limited resources, we must make **choices** in how to allocate (use) the limited resources.

In this activity, what choices did you have to make when deciding how to allocate the classroom's scarce resources?

5) Having established that resources are limited, let's take a closer look at what we mean when we talk about resources. There are four productive resources (resources must be able to produce something), also called **factors of production** – land, labor, capital, and entrepreneurship.

From this activity, identify an example of each factor of production.

Land (natural resources):

Labor (Human Capital - people):

Physical Capital (equipment used to produce a good/service):

Entrepreneurship (people who take a risk):

Economic Systems

Scarcity is defined as not having enough resources to satisfy our unlimited wants. Because of scarcity, we must make choices in how to allocate (use) the scarce resources (we as in individuals, businesses, and governments). Scarcity affects EVERYONE!!!!

Due to scarcity, every country must answer three economic questions – WHO, WHAT, HOW. In other words, WHO decides **WHO** gets the good/service, WHO decides **WHAT** will be produced, and WHO decides **HOW** it will be produced. Is it consumers and producers (buyers/sellers) deciding the who, what, and how? Is it government? Or tradition? Or a mix? Each country can be characterized as having a market, command, or traditional economic system based on how these questions are answered.

A **market economy** is one where the INDIVIDUAL (buyers and sellers) determine what goods are produced, how they will be produced, and who gets the good/service. This class will be focusing on the specifics on the consumers and the producers.

In a **command economy**, the GOVERNMENT determines what goods will be produced, how they will be produced, and who gets the goods/services. Remember the Soviet Union and Stalin? Mao Zedong? Fidel Castro? These leaders instituted a command (or planned) systems within their countries. If the country does not allow for political freedom, do you really think it will allow economic freedom? North Korea is probably the most command system in the world today.

In a **traditional economy**, TRADITION/CUTLURES answers the same three economic questions (who, what, how). This would include very traditional societies like nomadic herders. We will not be focusing on this system.

So... what is the United States? The **U.S. is a mixed economy** – more market but we do have some government regulations. In essence, all economies are mixed.

In this activity, I (the teacher/government) gave you some rules to follow. Other than that, though, you (the producer) chose which resources to use and how to use them to create your product.

Were all your classmates' products the same? Explain.

What types of products were created (describe creativity)?

How does this activity (the minimum instructions and freedom to create) describe the U.S. economic system? How does this activity demonstrate the similarities to our economy?