

# Unit 6: Economics and World Trade

## Introduction

### Economics Is Nothing New

Whether you have been aware of it or not, we have been studying economics throughout the year. Beginning with our first unit on the foundations of geography, we explored the types of questions economists and other social scientists ask.



**Economists study ?**

... how people produce, distribute, and consume goods and services

**This includes:**

- Scarcity, choice, and decision making
- Different kinds of economic systems
- Productive resources (natural, human, capital)
- Specialization, trade, and interdependence

Graphic Source: SS060601. MC3



**2010 flood in Nashville, Tennessee**

Source: [https://en.wikipedia.org/wiki/2010\\_Tennessee\\_flood#/media/File:Kaldari\\_Nashville\\_flood\\_08.jpg](https://en.wikipedia.org/wiki/2010_Tennessee_flood#/media/File:Kaldari_Nashville_flood_08.jpg)

When studying natural disasters, we learned that there are many effects following a natural disaster, including economic ones. For instance, a natural disaster may lead to a disruption of the economy, the loss of jobs, physical damage to businesses and industries, a loss of businesses, or a disruption in trade.

In learning about migration and urbanization, we discovered that there can be economic push and pull factors. For example, many people from Mexico and other Latin American countries migrate to the United States looking for jobs and a better life. The economic reasons people move to cities include jobs, more opportunities, a chance for a better life, and a greater variety of goods and services.



**An assembly line in Ningbo, China**

Source: [https://commons.wikimedia.org/wiki/File:Geely\\_assembly\\_line\\_in\\_Beilun,\\_Ningbo.JPG](https://commons.wikimedia.org/wiki/File:Geely_assembly_line_in_Beilun,_Ningbo.JPG)



**A shopping mall in Manila, Philippines**

Source: [https://en.wikipedia.org/wiki/Shopping\\_mall#/media/File:Rob\\_wiki.JPG](https://en.wikipedia.org/wiki/Shopping_mall#/media/File:Rob_wiki.JPG)

During the culture unit, we found that there are cultural components that relate to economics. These cultural components can include the ways people make their livings, the type of currency used, the ways in which goods are made, and people's belief about wealth and material goods. We also learned that there are connections between cultural landscapes and economics. For instance, cultural landscapes often reflect economic activities, such as mining, as well as businesses, such as airports and hotels.



Photo Source: SS060404. MC3 Project

Most recently, in our unit on human-environment interaction, we investigated the environmental problem with the Aral Sea. There were both economic causes and effects related to the shrinking of this vast body of water. The main cause was that rivers feeding the Aral Sea were diverted in order to irrigate land for cotton. The shrinking water source had economic effects on the region including the destruction of the fishing industry. This also affected people as many who worked in that industry lost their jobs. In exploring human-environment interactions, we also saw that some regions have more productive resources than other. This means that people living in these places can use the natural environment to create wealth for themselves. There are also economic activities that require people to modify their environments such as mining, lumbering, manufacturing, and commercial fishing.

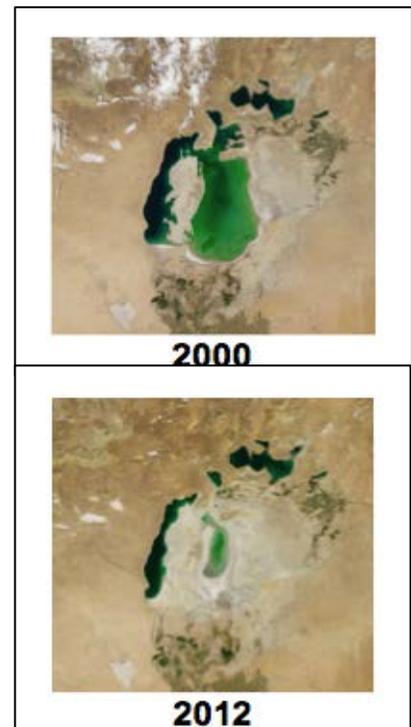
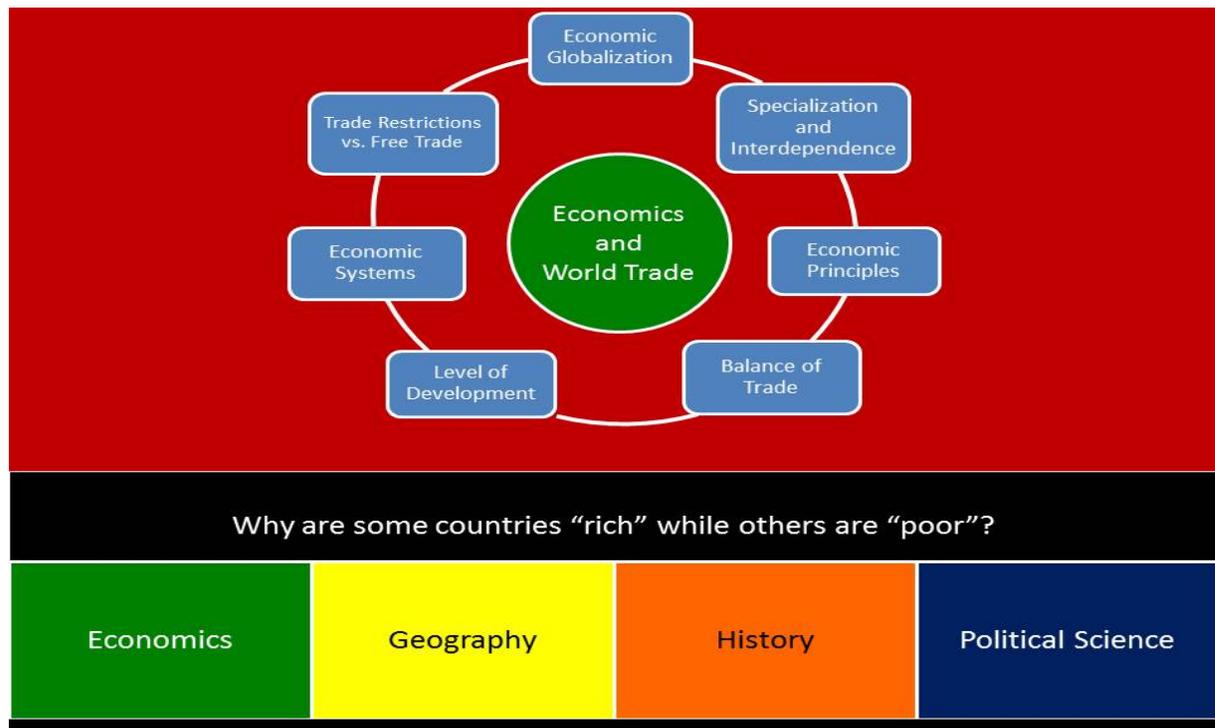


Image Source: SS060501. MC3 Project

## Moving Forward

In this unit, we will explore economics through the global lens of world trade. We will use current events to consider current economic conditions, the interactions of buyers and sellers in a global economy, and how economic globalization has increased interdependence among countries. Specifically, we will focus on the following questions:

- How has globalization affected the interactions of buyers and sellers?
- How can the social science fields of geography, history, economics, and political science help us explain why some countries are “rich” while others are “poor”?
- To what extent are trade restrictions an effective tool in a globalized economy?



Graphic Source: SS0606. MC3 Project

*We live increasingly in a world of haves and have-nots, of gated communities next to ghettos, of extreme poverty and unbelievable riches. Some enjoy rights that are completely denied to others. Relative inequalities are exploding, and the world's poorest, despite all the advances of globalization, may even be getting poorer.*

--- Noreena Hertz

Noreena Hertz is a bestselling author, strategist and commentator who advises some of the world's top CEOs and presidents. Do you agree with her statement?

## What is Economics?

Economics is the study of how people choose to use resources in the production, distribution, or consumption of goods and services to meet their wants.

- Production is the process of making goods and services. For instance, an assembly line is used in the production of automobiles and bricks are used in the production of a house.
- Consumption is the process of using natural resources or goods and services. Consumption can change based on many factors. During the fall months in Michigan, the consumption of apple ciders increases. When winter arrives, cider consumption drops while the consumption of snow shovels and warm clothing increases.
- Distribution refers to the movement of goods and services directly to or near the consumers who will purchase them. Trucks, ships, airplanes, and railroads are used for the distribution of goods across the United States.



Source: [https://upload.wikimedia.org/wikipedia/commons/5/55/Geely\\_assembly\\_line\\_in\\_Beilun,\\_Ningbo.JPG](https://upload.wikimedia.org/wikipedia/commons/5/55/Geely_assembly_line_in_Beilun,_Ningbo.JPG)



Source: <https://www.flickr.com/photos/dipfan/325308495/>



Source: <https://www.flickr.com/photos/walmartcorporate/5261659794>

## Types of Resources

The three kinds of resources are natural, human and capital resources. In this unit, we will simply refer to these types of resources as land, labor, and capital. These three kinds of resources used to produce goods and services are referred to as factors of production or productive resources.

- **Land** includes any physical, or natural, environmental item that people perceive to be useful. This could include water, soil, trees, minerals, and much more.
- **Labor**, or human, resources are workers and their abilities, talents, training, skills, and knowledge used to produce goods or services. These resources may refer to physical labor or mental efforts.
- **Capital** resources are equipment or goods (machinery, tools, factories, stores, vehicles, etc.) that are used to produce other goods and services. For instance, the tractors used to harvest crops are capital resources.

<b>Factors of Production</b>		
<b>Land</b>	<b>Labor</b>	<b>Capital</b>
		
Source: <a href="https://www.flickr.com/photos/andyarthu/r/4942166835">https://www.flickr.com/photos/andyarthu/r/4942166835</a>	Source: <a href="https://www.flickr.com/photos/monstermunch/4943129892">https://www.flickr.com/photos/monstermunch/4943129892</a>	Source: <a href="https://upload.wikimedia.org/wikipedia/commons/7/71/Wolfsburg_VW-Werk.jpg">https://upload.wikimedia.org/wikipedia/commons/7/71/Wolfsburg_VW-Werk.jpg</a>

## Scarcity

The fundamental problem of economics is the idea that resources are limited and human wants are seemingly unlimited. This situation is referred to as scarcity, and it occurs at all spatial scales. Locally, a community may lack the factory space for a certain business to create all the goods it wants to create. Statewide, there is a scarcity of fertile farmland in the Upper Peninsula in Michigan so people have had to find other uses for the land such as mining or forestry. Nationwide, there is a scarcity of workers in the United States for some

types of high-tech jobs.

Scarcity forces all of us to make choices. If your family has a scarcity of time, you might choose to eat dinner at a fast-food restaurant, or you may chose to skip a meal. If a community has a scarcity of quality public schools, parents



*The Grand Hotel, Mackinac Island*

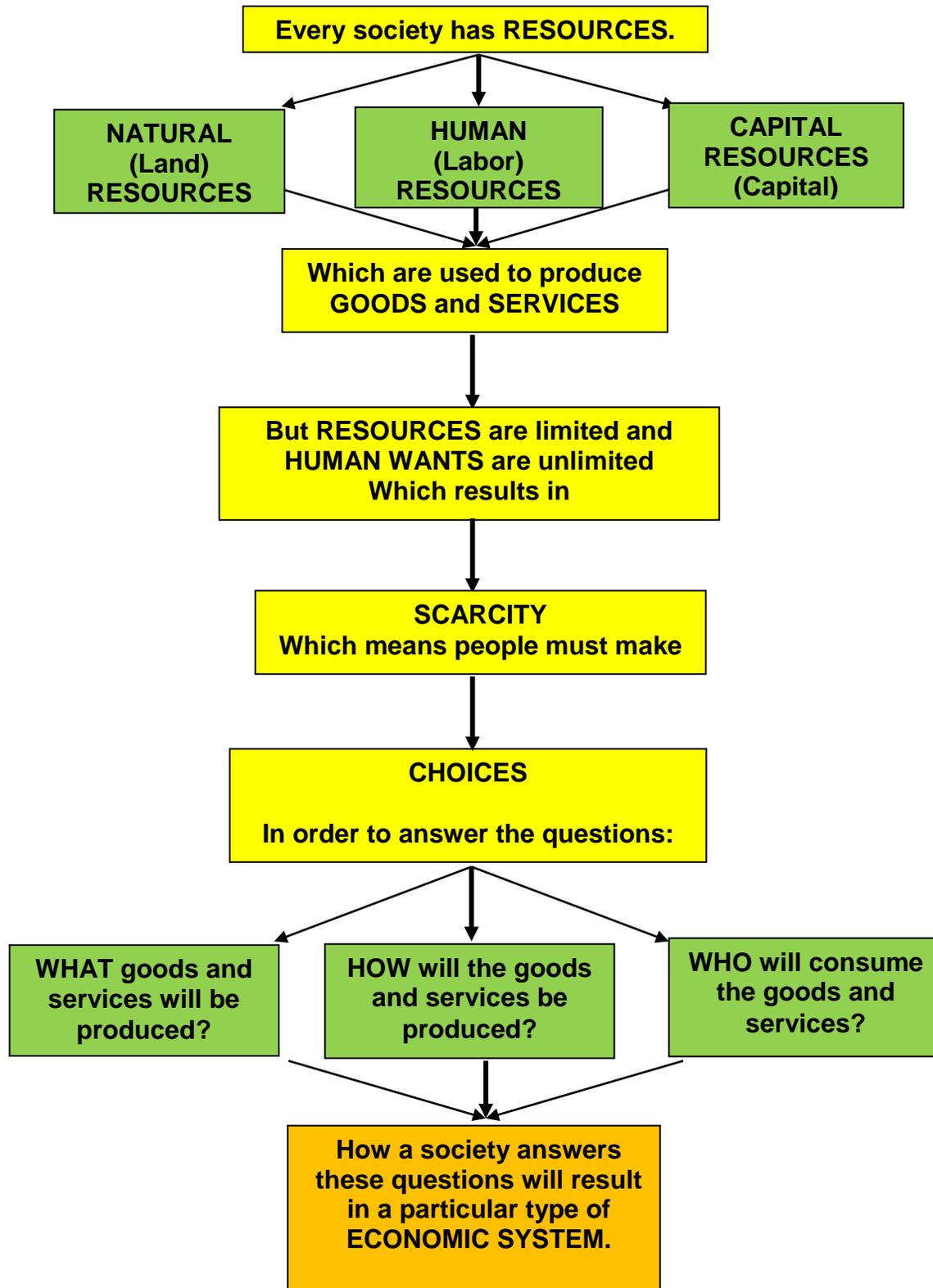
Source: [https://upload.wikimedia.org/wikipedia/commons/4/4e/Grand\\_Hotel,\\_Mackinac\\_Island,\\_MI.jpg](https://upload.wikimedia.org/wikipedia/commons/4/4e/Grand_Hotel,_Mackinac_Island,_MI.jpg)

may decide to pay for their child to attend a private school or to move someplace else where good schools are available. If a family is planning a trip to Mackinac Island and there is a scarcity of affordable hotel rooms, they may choose to pay more than they wanted for a hotel, go someplace else, or maybe wait a year until they've saved enough money for the trip.

Scarcity not only forces individuals to make choices, but it also forces societies to make choices. There are three fundamental economic questions societies must answer when making a choices due to scarcity:

- WHAT goods and services will be produced?
- HOW will the goods and services be produced?
- WHO will consume the goods and services?

A society creates a particular type of economic system by how it answers these questions in the production, consumption, and distribution of goods and services.



Graphic Source: SS060601. MC3

There are many different types of economic systems on the planet. Advances in technology and human innovation have enabled these different economic systems to become more interconnected and interdependent than ever. Economists and others refer to the development of increased interconnections and interdependence of many different economic systems as economic globalization. Economic globalization stems from free trade and the free flow of capital, labor, and resources worldwide.

### **Comparing Economic Systems: What Role Does Government Play?**

Products such as bread, meat, clothing, refrigerators, and houses are produced and sold in virtually every country of the world. The resources used to make these products and the way they are produced are often very similar, despite differences in location. For example, bread is made everywhere by bakers using very similar ingredients. Then the loaves are sold to consumers in stores. However, the way each societies determines what goods and services to produce, how to produce them, what prices to charge for them, and who will consume them vary based on the economic system in place.

Remember, all societies have to answer the three main economic questions:

- What should be produced?
- How should it be produced?
- Who should get what is produced?

Different types of economic systems result when different groups of people have the power and authority to answer these three main economic questions. The primary difference between command and market economies is the extent to which the central government answers these questions.

#### Command Economy

In a command system, the three economic questions are answered by the government. Government officials establish production levels for goods and services and decide who will produce them. They also establish prices for the goods as well as the wages for the workers who make them. Over the past half

century, elements of command economies have been found in the former Soviet Union, Eastern Europe, and parts of Asia.

There are some problems that often occur within a command economic system. Since government agencies make production and distribution decisions centrally, it is difficult for government planners to respond efficiently to the wants of the consumers. As a result, surpluses and shortages tend to be common. Long lines for goods are often evidence of a shortage of a product.



*Shopping lines in the People's Republic of Poland during the 1980s.*

Source: <https://en.wikipedia.org/wiki/Shortage#/media/File:Kolejka.jpeg>

Also, the choice of products in a command economy tends to be limited. When central planners make the decisions on the types and quantities of the product they produce and what workers get paid, there is no incentive for individuals and businesses to be innovative, which limits choice. Below is an example of standardized apartment blocks in Bucharest, Romania, when it had a command economy. This photograph is clearly reflective of a lack of variety in housing.



Source: [https://upload.wikimedia.org/wikipedia/commons/d/d8/Communist\\_Romania\\_apartment\\_blocks.jpg](https://upload.wikimedia.org/wikipedia/commons/d/d8/Communist_Romania_apartment_blocks.jpg)

## Market Economy

In a market system, the economic questions are answered by the interaction of buyers and sellers. Any individual or company can decide to produce and sell a product in a market economy. Theoretically, they pay their laborers a wage of their choosing and sell their product for the price they select. Consumers can then decide whether to buy the product at that price.



Source:

[https://upload.wikimedia.org/wikipedia/commons/9/92/Ballard\\_Farmers'\\_Market\\_-\\_vegetables.jpg](https://upload.wikimedia.org/wikipedia/commons/9/92/Ballard_Farmers'_Market_-_vegetables.jpg)

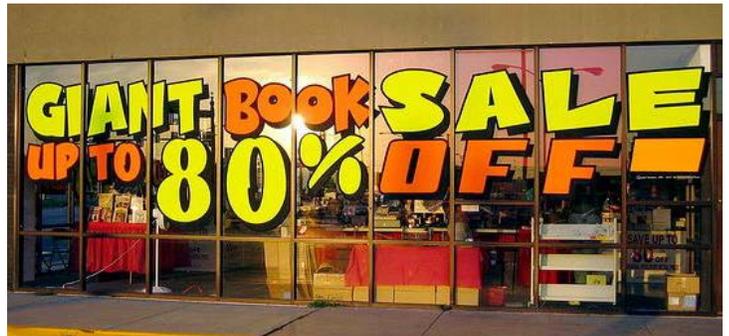


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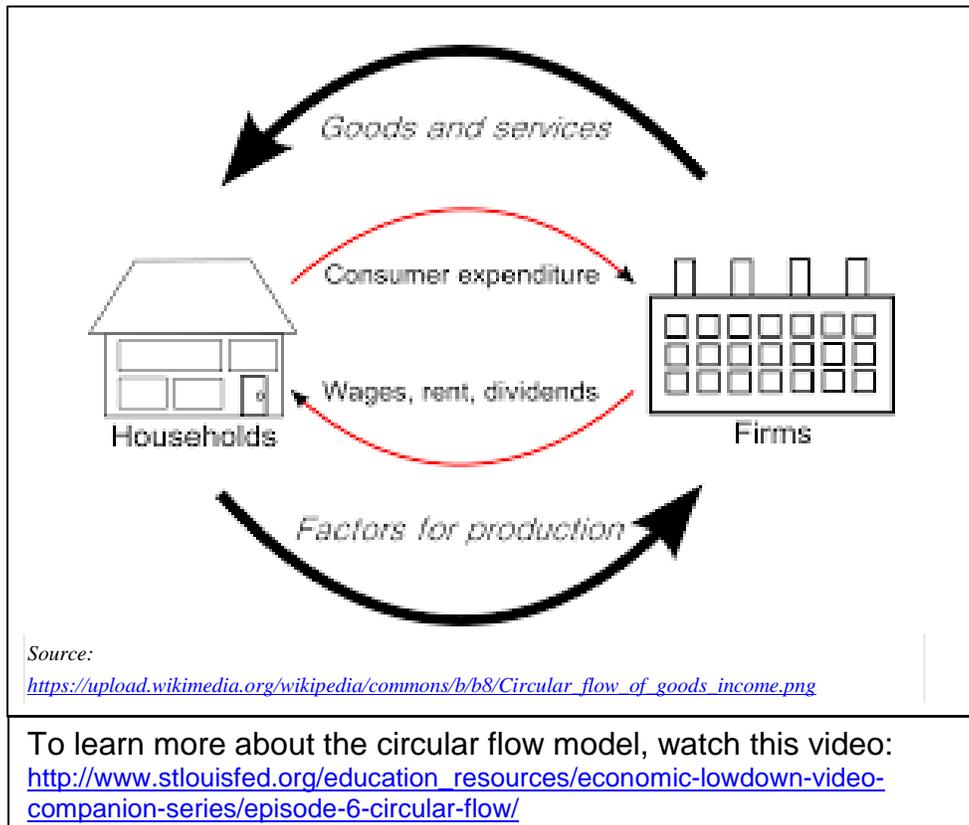
Depending on whether many people or only a few buy this product, the company can quickly adjust the price either up or down. For this reason, big shortages and big surpluses do not happen in market economies very often.

The freedom to set pricing by the seller often leads to direct competition between different sellers. This is one of the basic reasons why there are generally so many different choices available in market economies.



Source: [https://upload.wikimedia.org/wikipedia/commons/7/74/Giant\\_Book\\_Sale.JPG](https://upload.wikimedia.org/wikipedia/commons/7/74/Giant_Book_Sale.JPG)

To better demonstrate how a market economy works, economists use a tool called the circular flow model. The circular flow model depicts the pattern of how goods and services and resources flow in the marketplace. In this model, you can see how money travels from people to businesses and back to people again.



Elements of market economies can be found in most of North America and Western Europe as well as in Japan. Over the last 50 years, many countries that had a command economy have moved toward creating a market economy for several reasons. First, as a command economy gets larger with more people and more goods, it is harder to manage the economy efficiently. Secondly, people want more economic freedom and more variety of goods. Lastly, it is hard to compete in a globalized world with a command economy because the central authority does not control all decisions made in the global economy.

In a pure market economy the government does not have any role or influence. There are dangers to a pure market economy, however. Two of the most notable problems are monopolies and threats to the health and welfare of consumers. A monopoly is when just one company controls an industry or is the only provider of a product or service. Companies that have monopolies have no competition, so they can set prices as high as they want. Market economies assume that there will be competition in the marketplace. As a result, governments using a market economy will usually create laws to prevent unfair

competition. In addition, governments also set regulations to protect the health and safety of consumers. Without such regulations, restaurant owners could add horsemeat to its burgers, or businesses could make and sell defective or harmful products. While businesses feel burdened by regulations, these laws are designed to help protect the unwitting consumer from being deceived or injured in the name of profit.



*Food safety inspectors check the temperature of chicken carcasses.*

Source:

<https://www.flickr.com/photos/usdagov/7880875880>

### Mixed Economy

Although many countries are said to have either command or market economies, the reality is that there are no examples in the world of pure command or pure market economies. Most countries today have mixed economic systems. This means they use a combination of free market ideas with some level of government intervention. Not all mixed economic systems are the same; they differ in the amount of power and authority the government has over the economy.

Those with more governmental control of the economy are closer to the pure command side. China would be an example of a country closer to pure command. Here, the government owns or controls many of the factors of production (almost all land and capital) and dominates the economy by answering all three basic economic questions. However, starting in the late 1970s, China began shifting its economic system by gradually decentralizing some industries, beginning with agriculture. China has allowed the growth of private enterprise in areas they did not see as essential to its economic security. For example, farmers may work small plots of land and farm them for profit.



*Seagate Wuxi factory workers in China*

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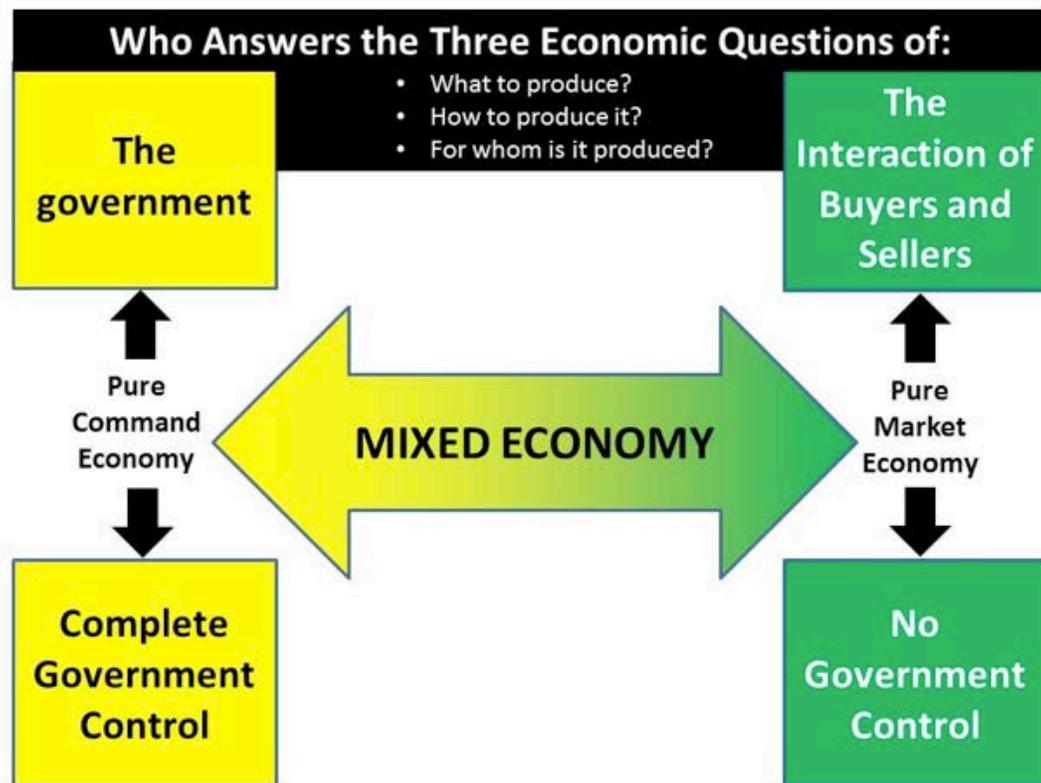
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Those countries that have less governmental control are on the other end of the economic continuum and very close to being pure market economies. The United States economy has many pure market elements. The great majority of businesses here are privately owned and operated. However, because the government plays a role mainly through regulation and providing some public goods and services, the U.S. economy technically can't be considered pure market. The chart below explains a few ways that our government protects Americans from the dangers and harshness of a pure market system.

<b>Potential Problem if the U.S. Was a Pure Market Economy</b>	<b>How does the U.S. government prevent this from happening?</b>
<p>In order to cut costs, a toy company has decided to use lead paint. Although less expensive, lead paint is very dangerous and can impair brain function in children who may eat paint chips.</p>	<p>The government protects people's health and safety with laws. The Consumer Product Safety Commission administers and enforces laws against unsafe consumer products. The government prohibits building with lead paint and makes homeowners disclose lead paint when selling homes.</p>
<p>Since pollution control devices are expensive a paper-making company has decided to dump its waste directly in the river next to its factory. The river will become very polluted as a result.</p>	<p>The government protects people's health and safety. The Environmental Protection Agency administers and enforces laws about human interactions with the environment. Companies that pollute are fined.</p>
<p>To get people to buy its goods, a company begins to make hourly, automated phone calls to every cell phone in the country. The phone calls are a huge nuisance for cell phone owners.</p>	<p>The government regulates businesses through several different agencies. The FCC (Federal Communications Commission) administers and enforces laws about communications by radio, television, wire, satellite, and cable.</p>
<p>All the highway bridges in the country are privately owned. As a result, people have to pay a toll every time they cross a bridge. It is very expensive to take a trip.</p>	<p>The government provides public goods and services like bridges.</p>
<p>To protect from invasion or attack, we need people and equipment to defend ourselves. Those goods and services necessary to protect our borders are expensive.</p>	<p>The government provides public goods and services like the military.</p>

Americans differ in their opinions of how large of a role the government should play in the economy. Many of those who are considered conservative believe the government should keep out of the economy and not spend government money on public works projects. They also believe the government should not go into debt by borrowing money. On the other hand, many people who are considered liberal think that the government should play a stronger role in the economy and provide a safety net (food, clothing, shelter, schooling, safety/defense) for people even if the government has to borrow to do it.

There are some countries in the world that are much closer to the middle of the economic continuum. France is an example of one such country. The majority of production there is in private hands, but there is government ownership of a few sectors such as railway and electricity. In addition, the government may suggest or indicate what it considers desirable production targets for private industries. The government also provides some services like healthcare and childcare, and takes an active role in regulating the food industry so to avoid potential health problems.



Graphic Source: SS060602. MC3 Project