

Scarcity, Production and Markets

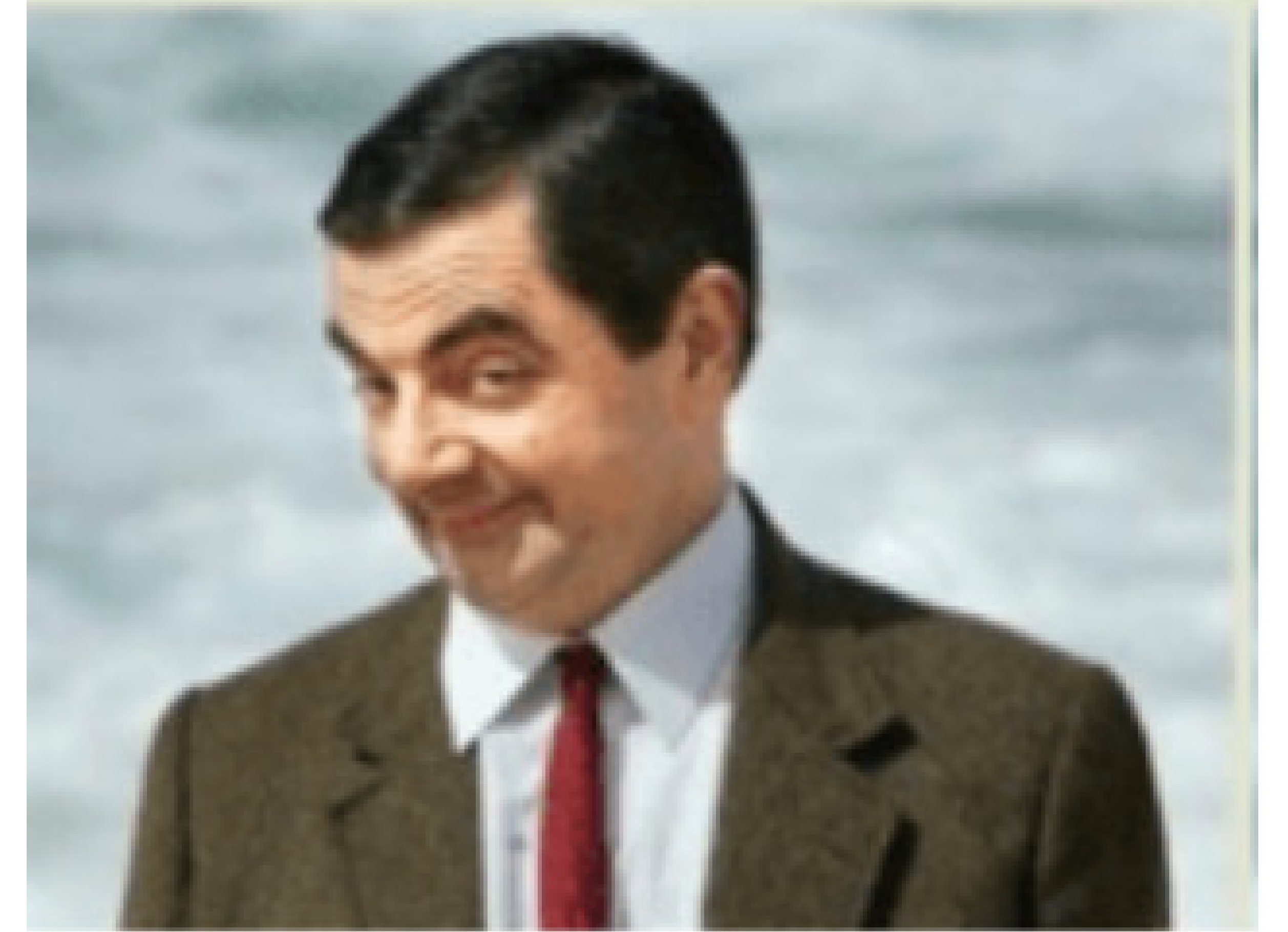
virtual Euro Class Mrs Lg



What does **production** mean in economics ?

What are **markets** for?

Is there another way to deal with **scarcity**?



1. The Economic Problem and the Economic Systems

2. Producing Means Producing Added Value

3. How Do Markets Work?

4. Companies Play a Major Role

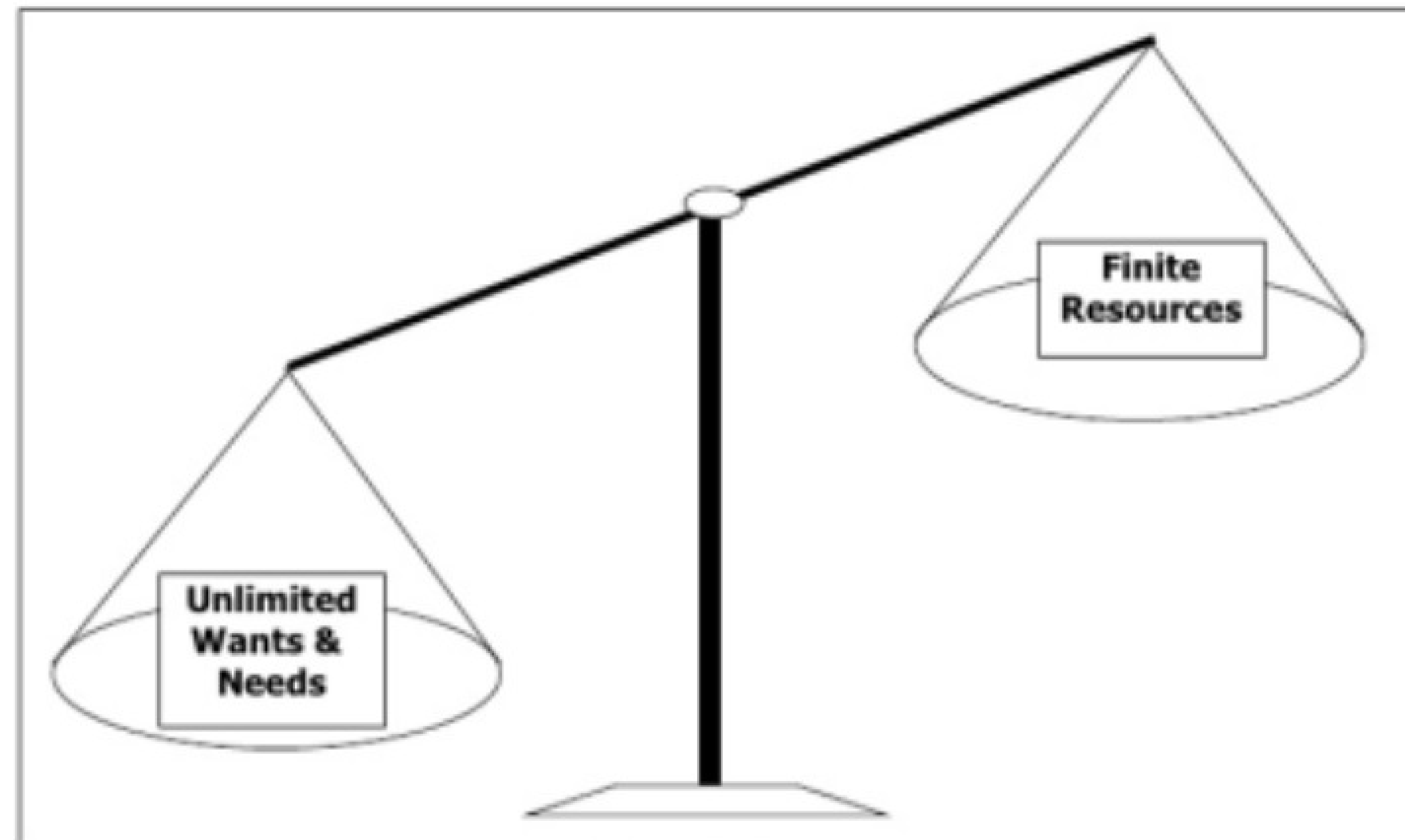


1/ The Economic Problem



1/The Economic Problem

SCARCITY

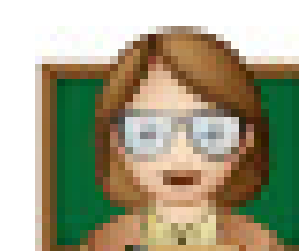


1/The Economic Problem: tackling scarcity

We, as a society, have to figure out 3 things:

- 1 WHAT to produce
- 2 HOW we produce it
- 3 WHO gets it

*... Answer these 3 questions, and you've got an **economic system**!*

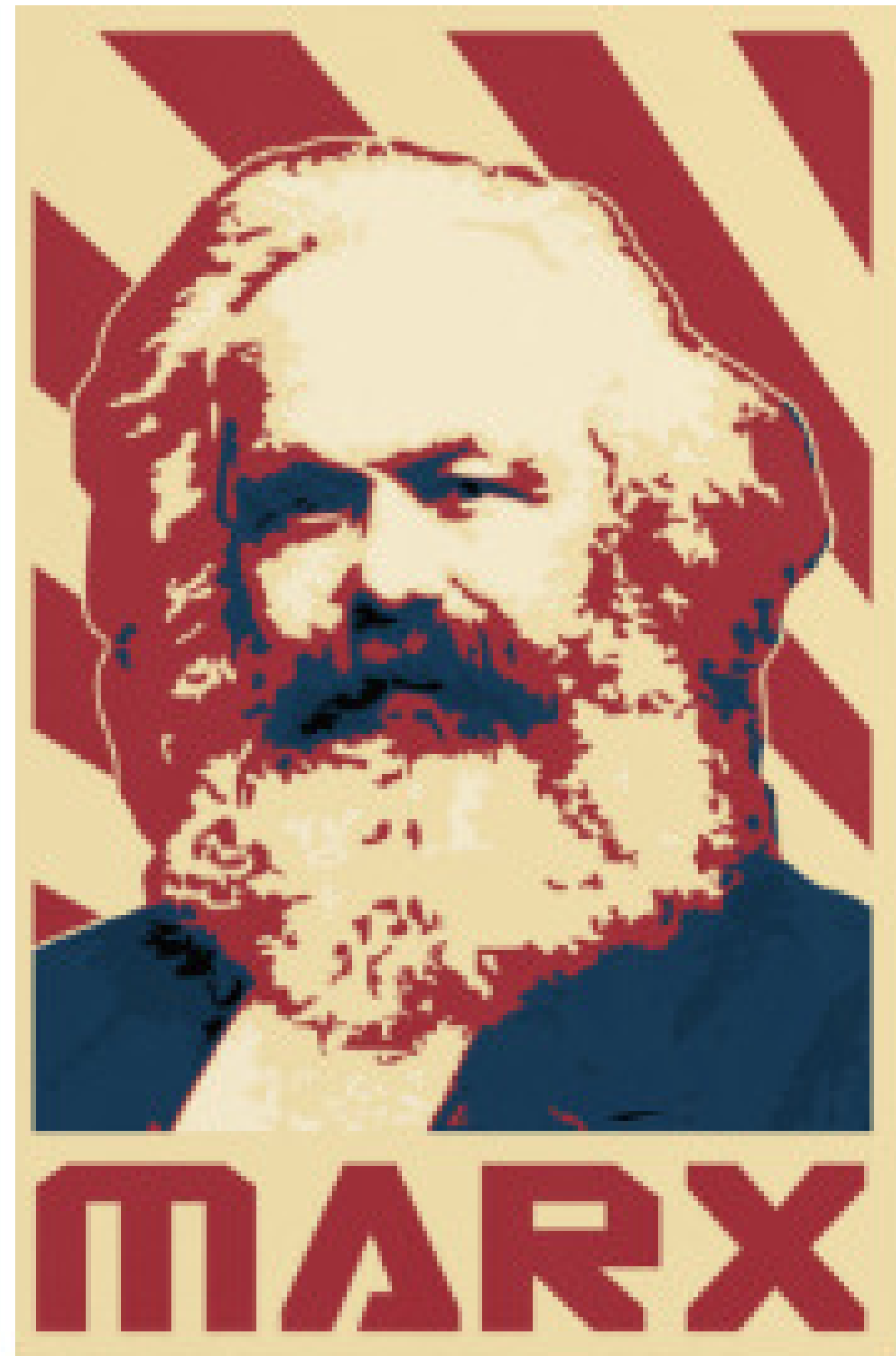


How Different economic systems deal with scarcity



Planned economy

Collective property, public interest and large government intervention



Abolition of Private property
Many taxes
A lot of regulation
One government monopoly produces everything

Free market economy: Capitalist economies

private property, self-interest and few regulation



Private property
Few taxes
Few regulation: "Laissez Faire"

*In the middle we have the rest of our world... Most modern economies are actually **mixed economies.***





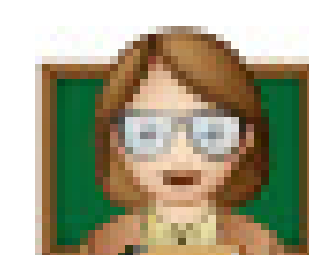
“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest”

— Adam Smith (1776)

Comment on this quote!

Do you agree?

What are the merits and limits of markets?





““The proletarians have nothing to loose but their chains. They have a world to win.”

— Karl Marx, *The Communist Manifesto* (1848)

Comment on this quote!

Do you agree?

What are the merits and limits of a collective property-based system?



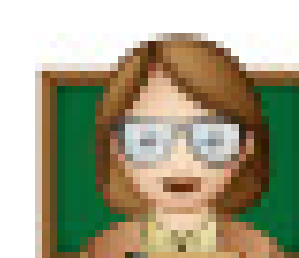
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MODERN ECONOMIES ARE **NEITHER COMPLETELY FREE MARKET NOR PLANNED**. THERE'S A SPECTRUM OF GOVERNMENT INVOLVEMENT.



Because...

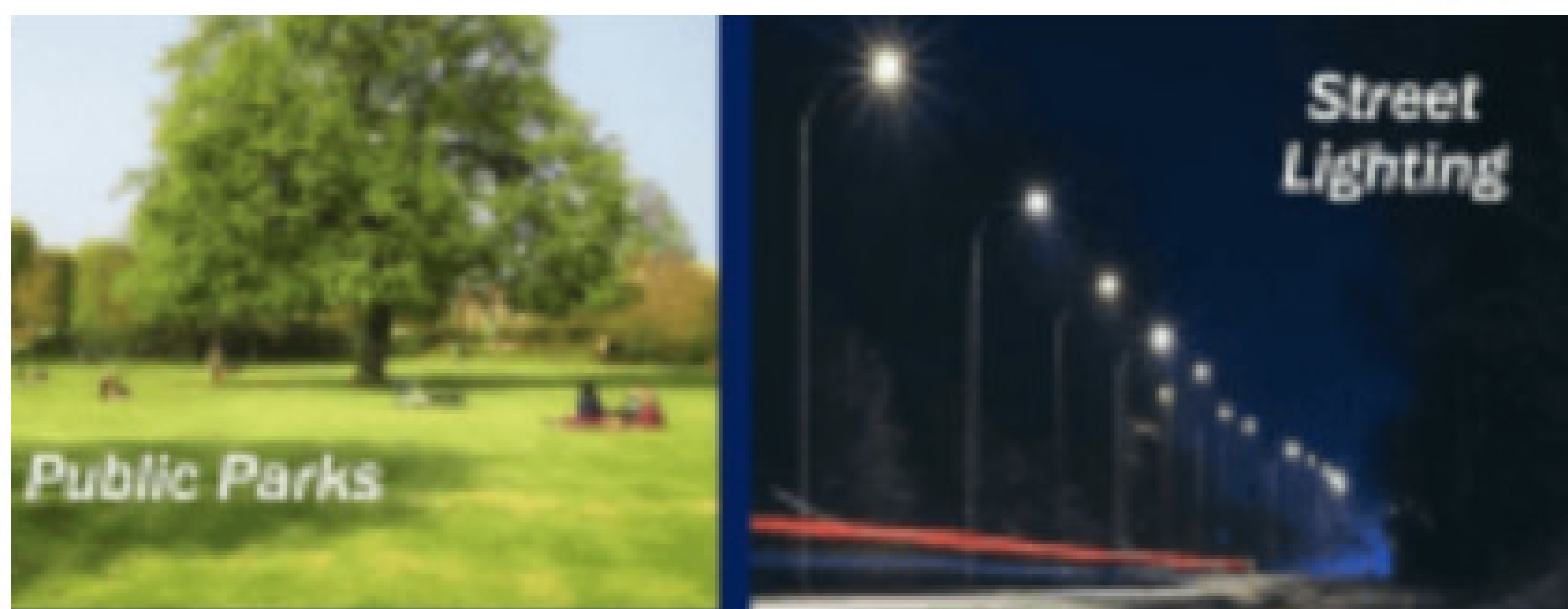


There is a bunch of things the government must do because free markets won't:

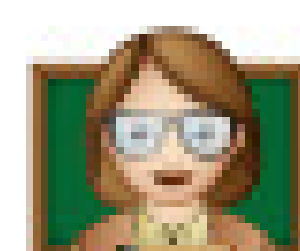
- 1 Maintain the **rule of law**: police, contracts, courts are necessary to keep things in order



- 2 We need **public goods and services**: roads, bridges, education and defense... to get goods brought to consumers



- 3 Government can and must **correct markets** when they're going wrong



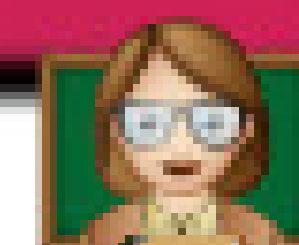
Example of market inefficiency: when dreams come true...



When I listen to my own tastes and wants, I can dream of a beautiful SUV. The only things I will worry about would be its color, whether it is autonomous or high-tech... And businesses will produce exactly what I want!!



Arrrgh. Most of us aren't worried about the air pollution that it would generate, who made that car, what they were paid, what the conditions at the factory were like...



JANE-CLARK.TUMBLR

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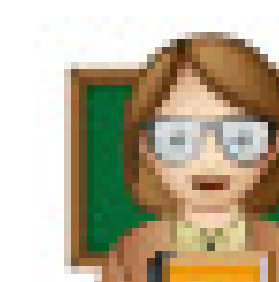
The way governments tackle market inefficiency



Pfew.

When I realize that government steps in to REGULATE production...

Cars need to meet strict emissions and safety standards. There are laws dictating how much manufacturers can pollute and how workers should be treated.



Planned economy

government intervention

Free market economy

private property and self-interest



Northern Korea

A command Economy

One government monopoly
produces everything

*In the middle we have the rest of our world... Most
modern economies are actually*

mixed economies.

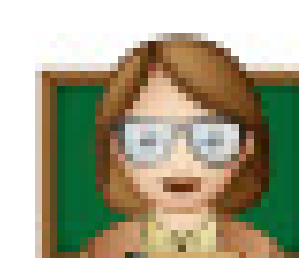


Free market economy in New-Zealand

Private property
Individual freedom
Few taxes
Few regulation
Competition
Efficiency

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Scarcity, Production and Markets

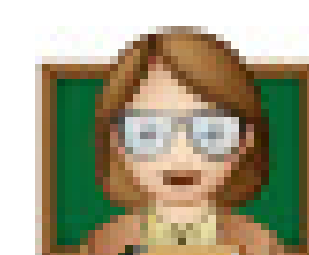


The neverending debate over free markets and government control

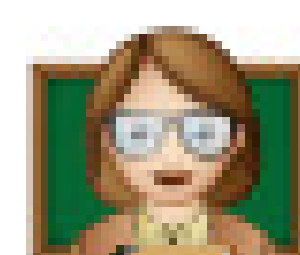
Up to you!

Play the role of Donald Trump and present the merits of free markets and the limits of government intervention.

Play the role of Greta Thunberg and present the merits of government intervention and the limits of free markets.



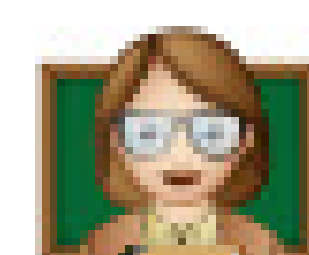
Compare your personal values... and opportunity costs



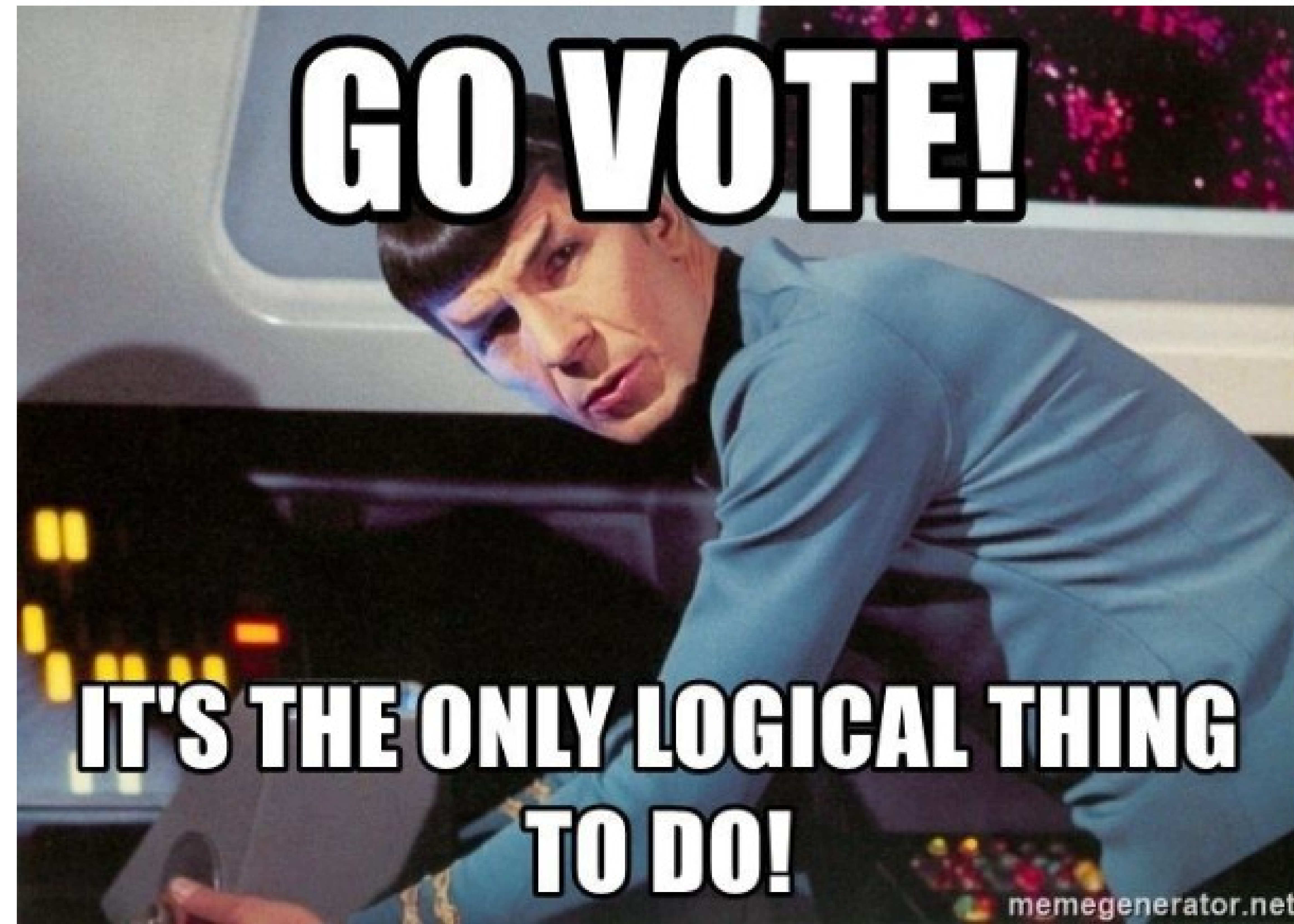
Got it ?!...Economists use to say:

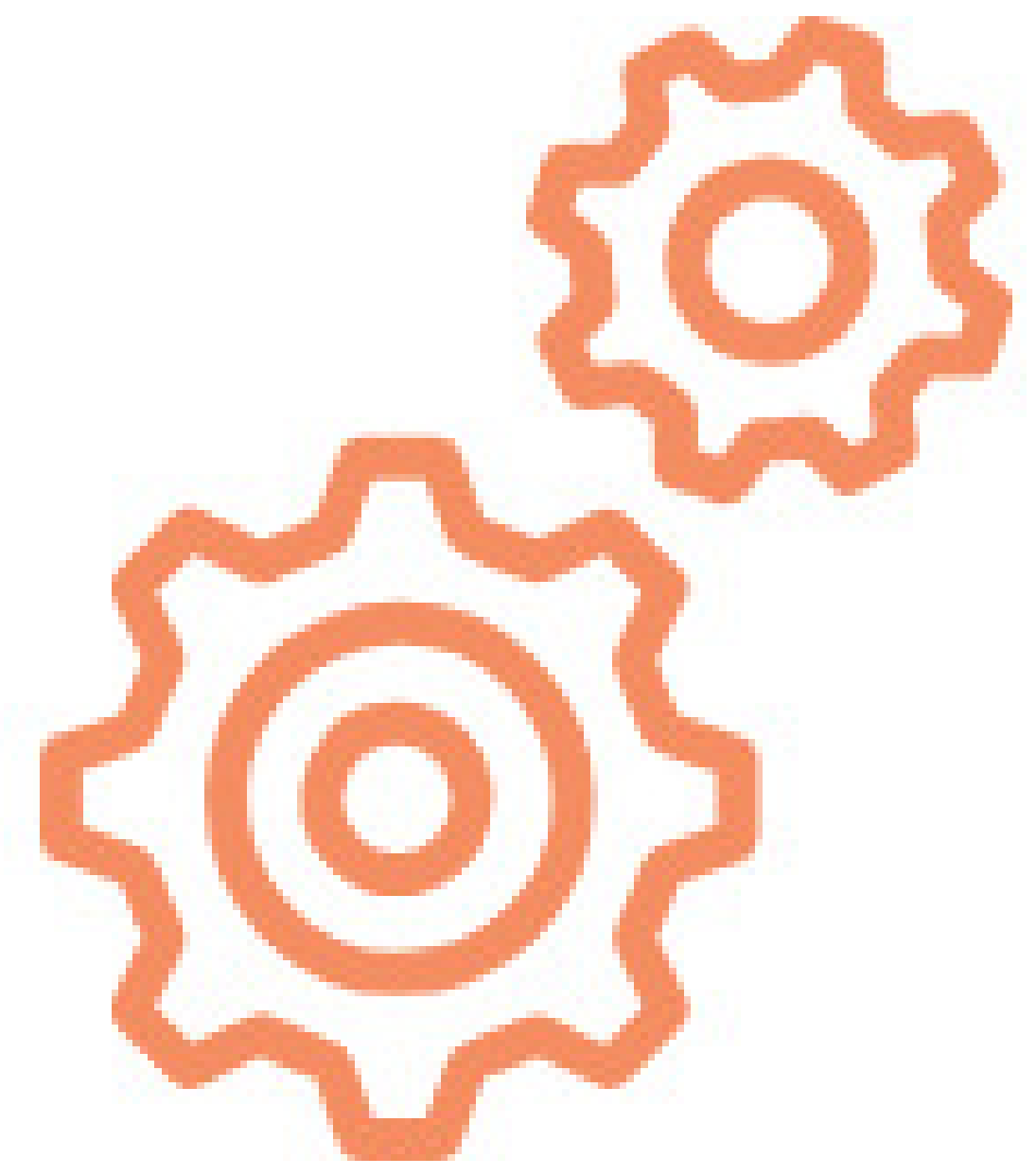


“There are no solutions, just trade-offs”
— Thomas Sowell (1930-...)



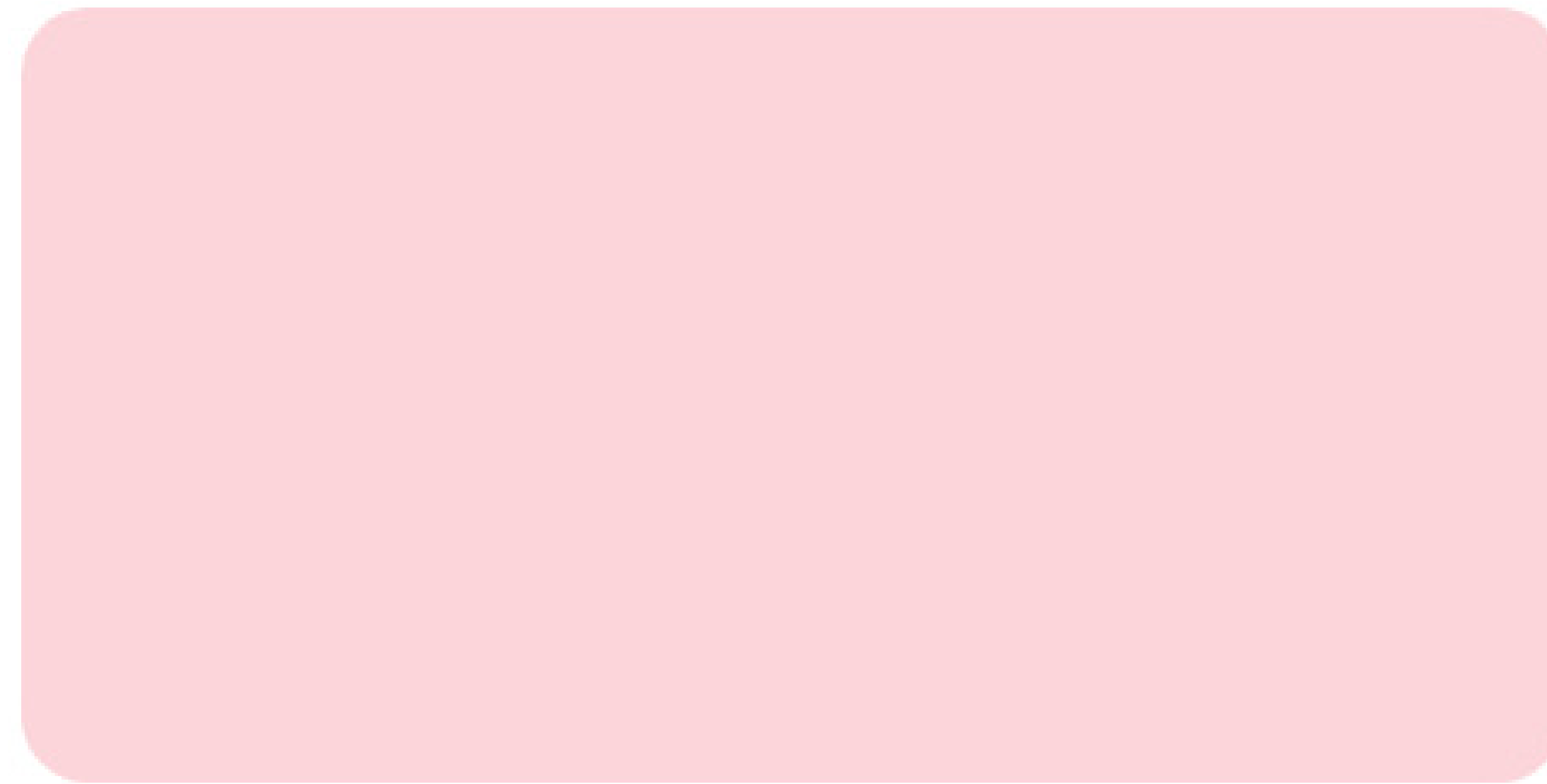
Finally, you have to choose:



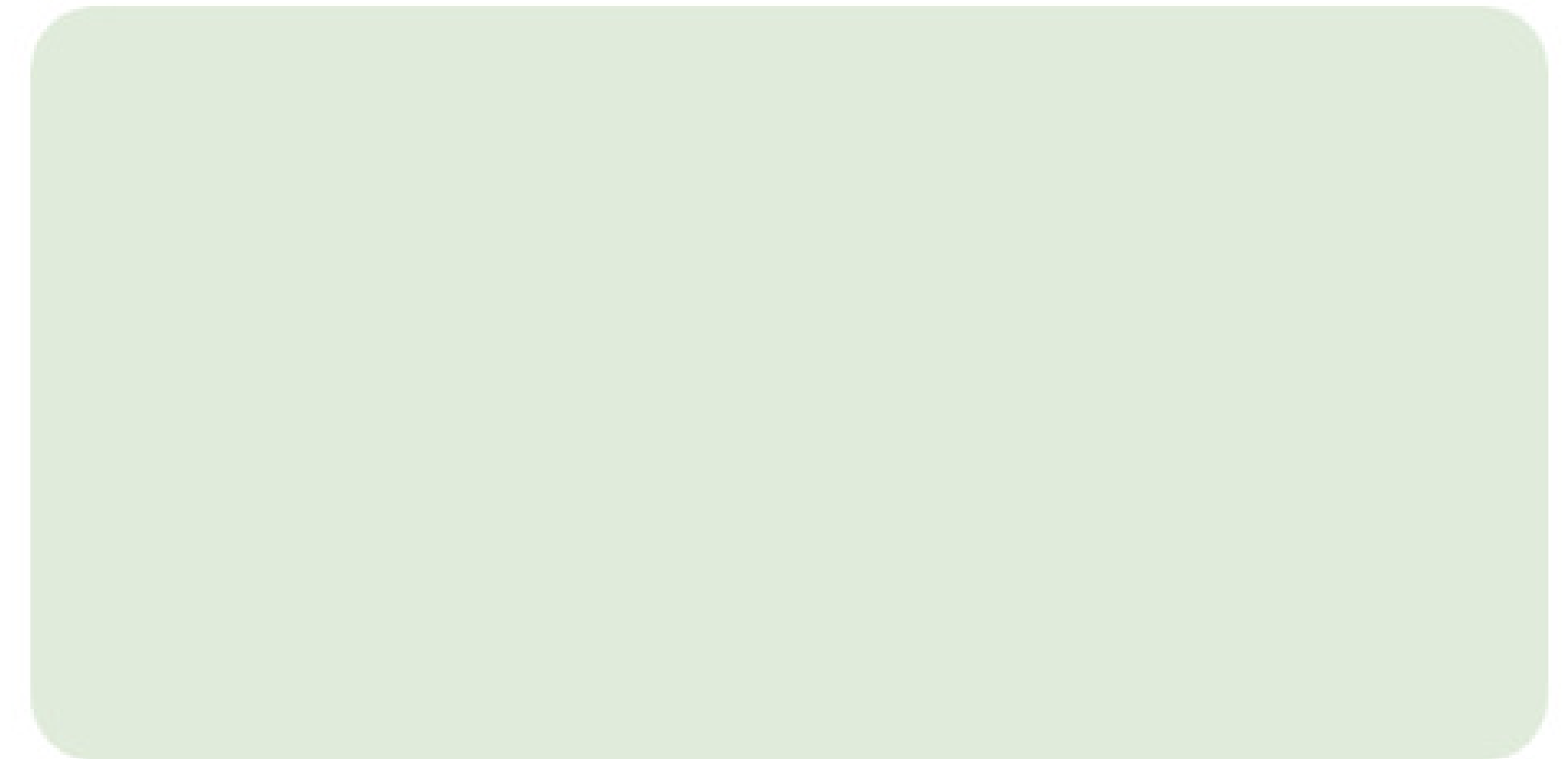


Merits

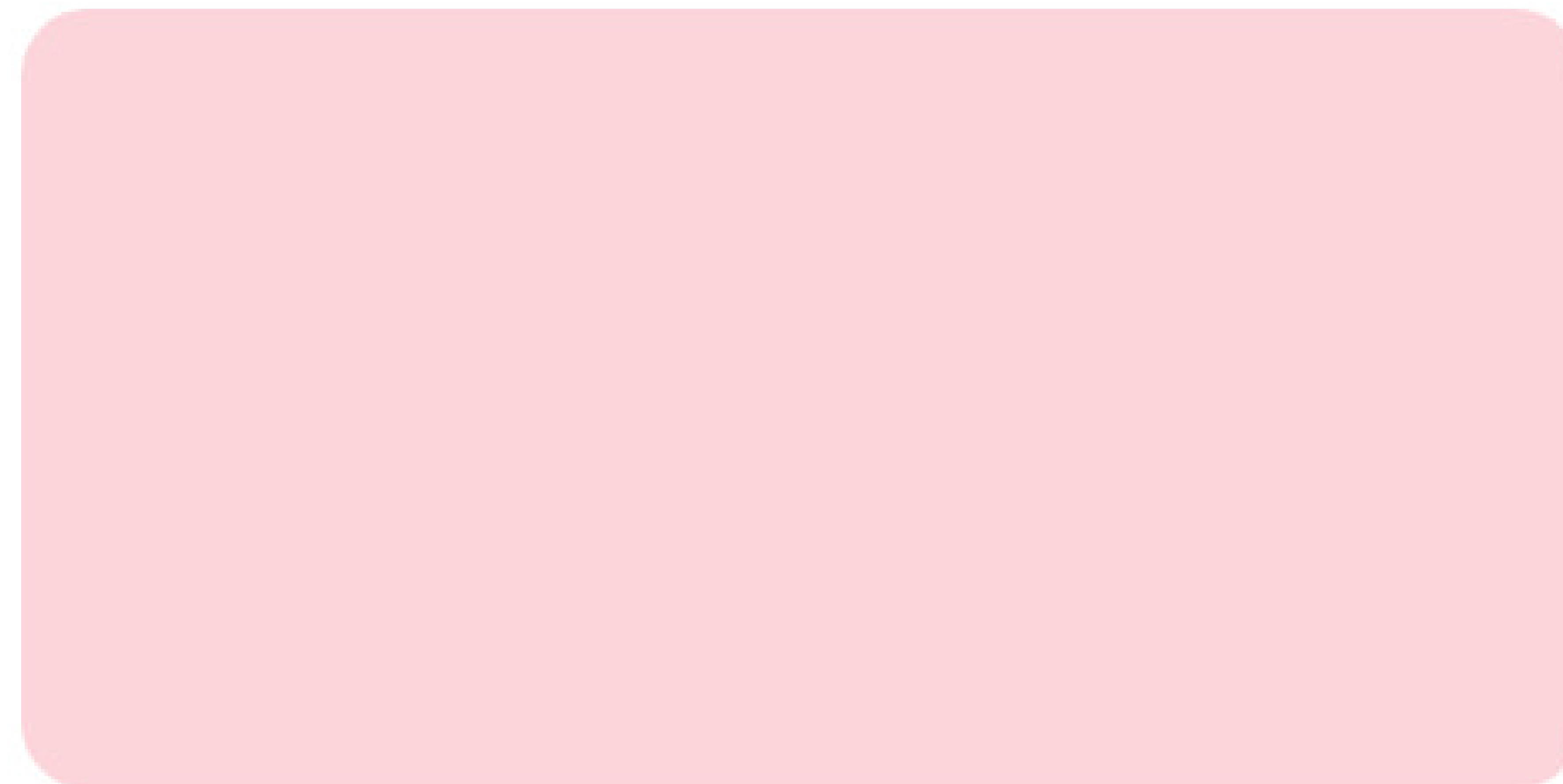
planned economy



market economy



limits





QUESTION

1

MENU

planned economy

market economy

Merits

more equal government more powerful
common goods

less inequalities

abolition of private property
low unemployment level

few taxes economy more efficient
freedom to innovate
few regulation customers drive choices
individual freedom
utilitarianism absence of Rep Tape

limits

lot of regulation

lack of competition
lack of innovation

less individual liberties

inefficiency

ecological
limits

limited product ranges
more inequalities
people using others for their proper interest
capitalist government competition
market failures
dangers of profit motive





QUESTION

2

What is at stake today for our economic system in the context of the Covid epidemic?

~~less workers = less money~~ The government favors the Non Market Economy as health structures to try to manage the impact of the pandemia

By remaining on a global vision of the crisis, this financial pressure could be the same or even worse than the economic crisis of 2008. T

The 2008 crisis was partly caused by an easy credit authorization, but is this not likely to happen again?

Because in the face of the crisis and the financial distress of businesses and individuals, are banks not going to have to be lenient?

need more solidarity

The balance will be between granting loans to allow companies to resume their activities or restricting in some factories are closed so no money produced

order to avoid a too big crisis but watching companies go bankrupt and GDP fall.

government have to pay people not wo

planned economy would better work than free market economy China better works than USA with COVID-19

the government have to deal with scarcity

avoid the drop of economy

ANSWER THE QUESTION



Barack Obama

Gov - Companies

they don't know how to produce and what produce because of the lack of workers

Economic systems

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University Now: Types of economic systems

4 essential types of economic systems

The traditional economy is based on culture in ritual and is focused on the community.

A command economy relies on the government to make all economic decisions including allocating and distributing resources and regulating prices and wages. An example of a command economy would be North Korea.

A market economy is driven by consumer whose decisions determine how the industries and financial market will operate. Individuals choose how their resources are used.

Childish Gambino - This Is America





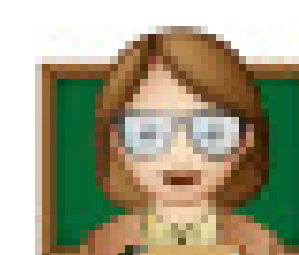
Your task: you must contribute to the creation of an online exhibition with the title: "markets and me".



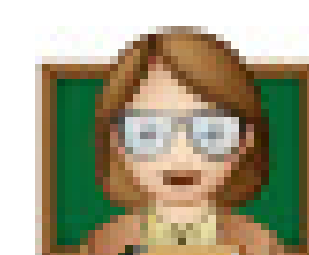
 VISIT THE MUSEUMS ONLINE

Choose an artwork that, according to you, could illustrate an idea that has been studied in this chapter. Explain why.

 PUT YOUR WORK HERE



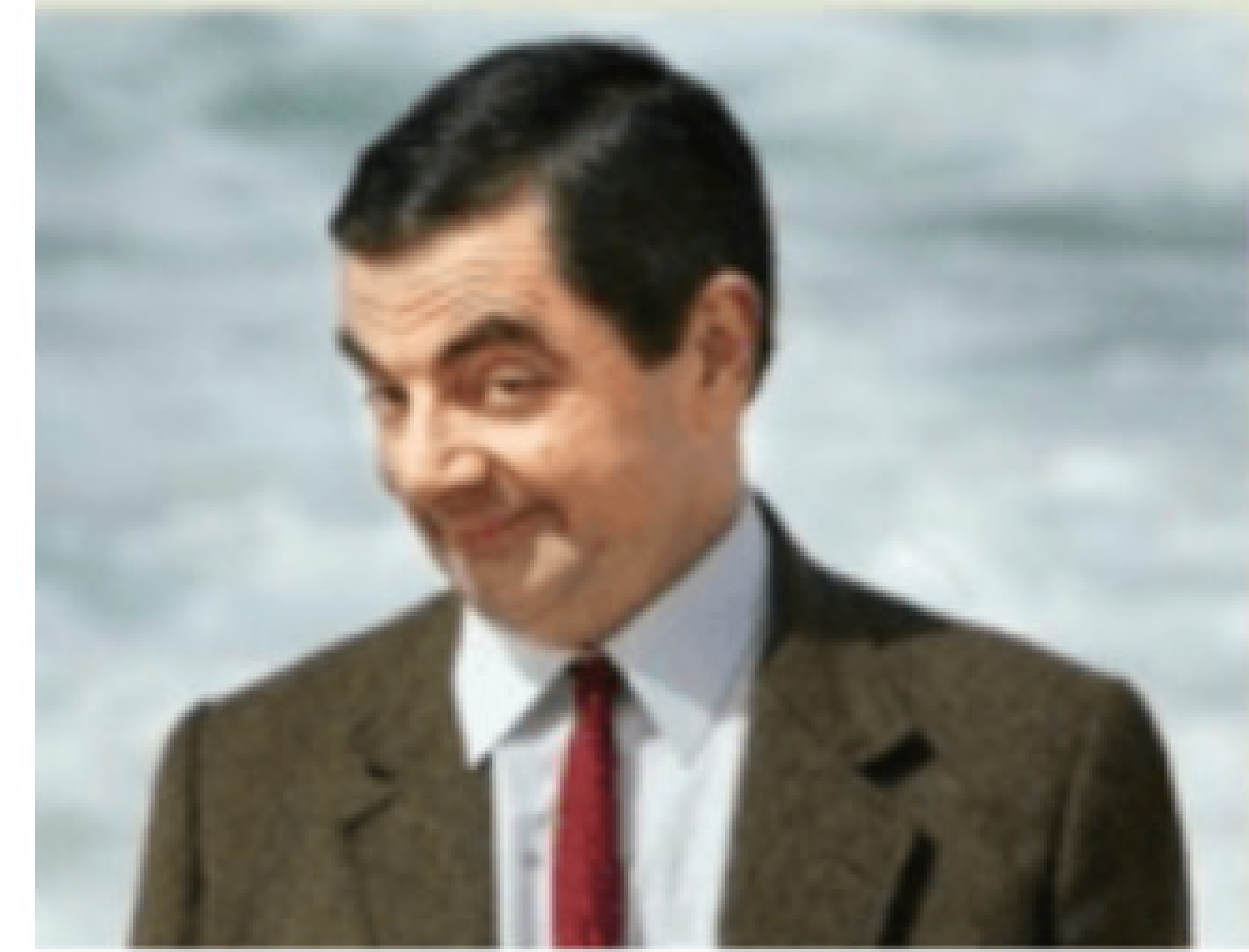
2/ Producing Means Producing Added Value



What does **production** mean in economics ?

What are **markets** for?

Is there another way to deal with **scarcity**?



1/The Economic Problem

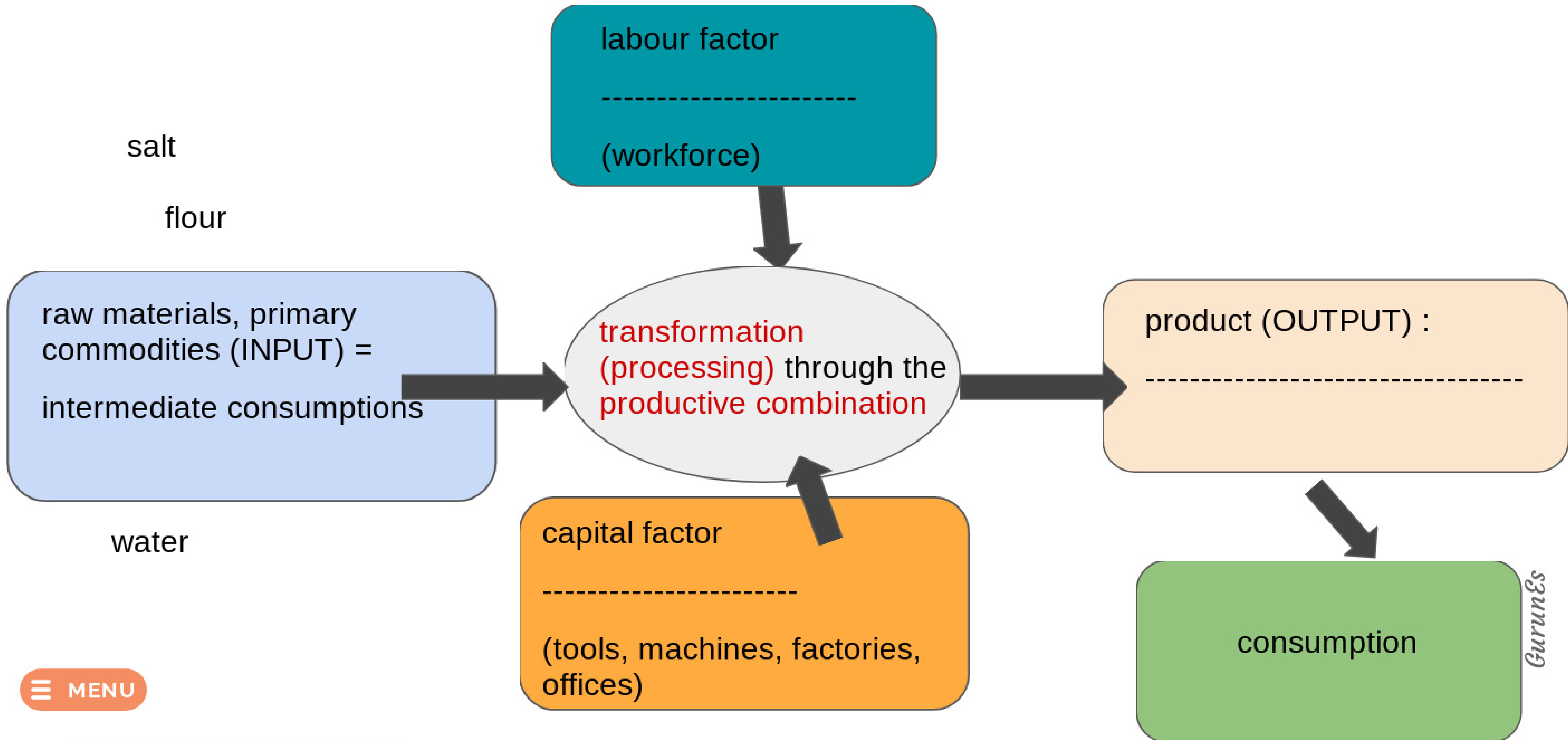
2/ Producing Means Producing Added Value

3/ How Do Market Work ?

4/ Companies Play a Major Role in the Creation of Added Value

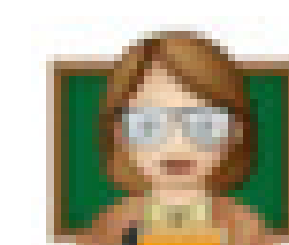
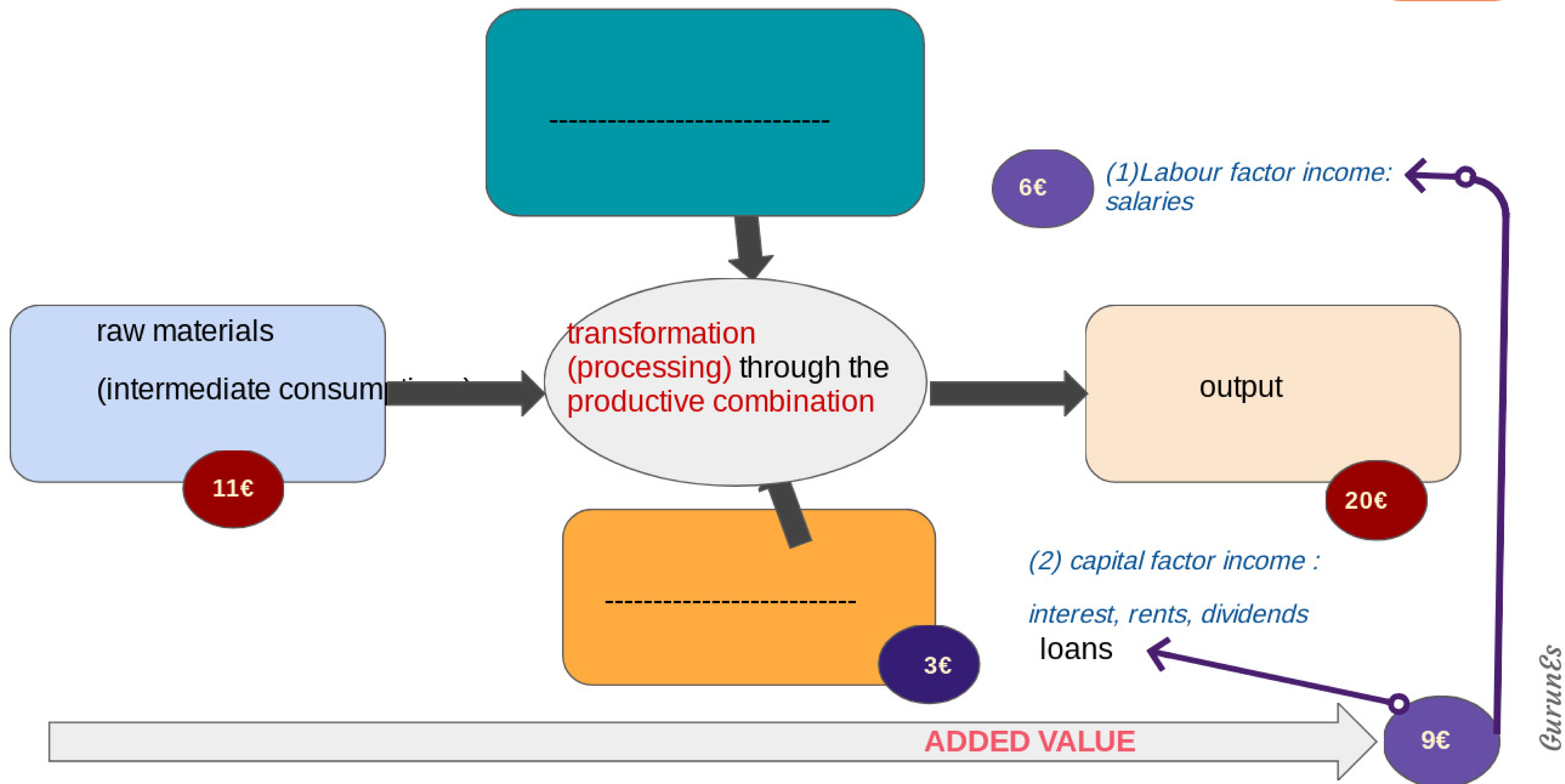


There are always 2 factors of production in the **productive combination**:

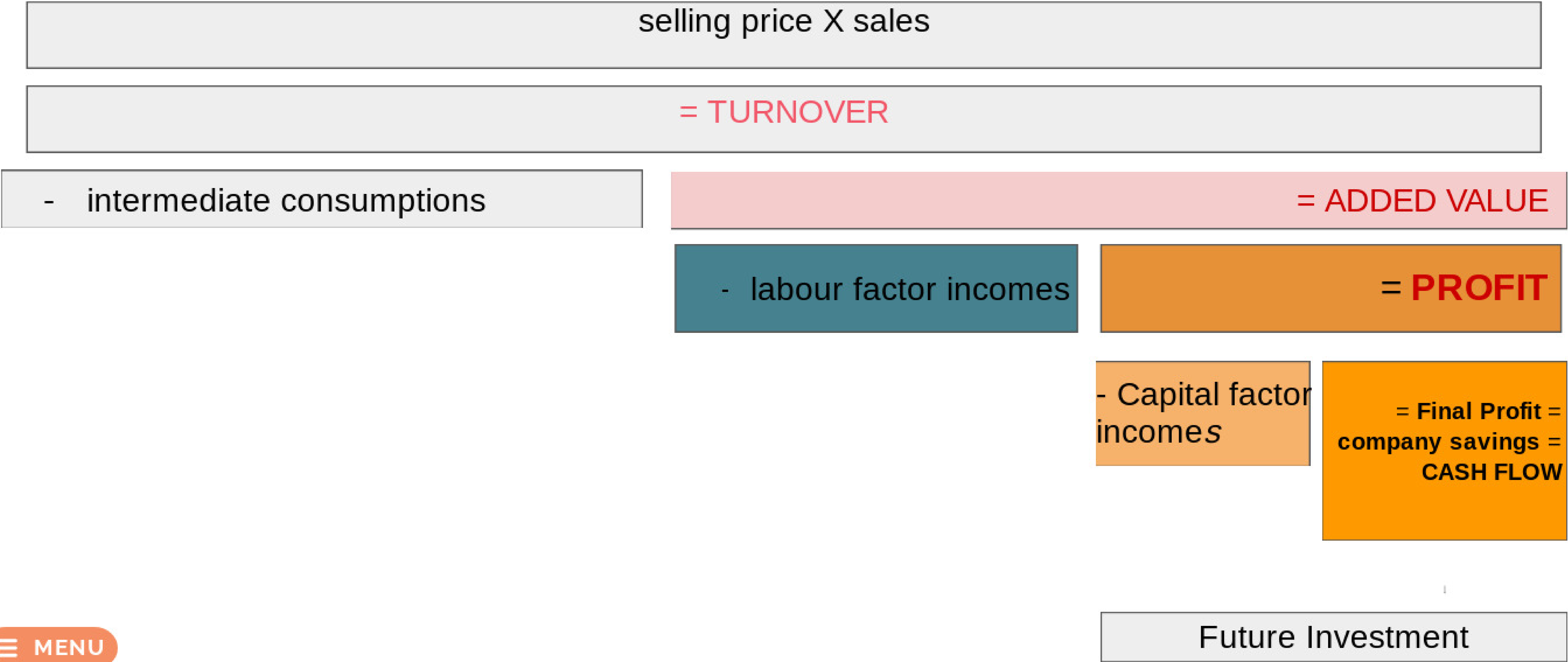


The productive combination creates **added value**:

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Finally: the **sharing** of added value in the economy



Gross Domestic Product (GDP)

is the total value of all **final** goods and services produced within the borders of a country during a given period.

The GDP estimates the total value of economic output (sum of the turnovers) and deducts costs of intermediate goods that are consumed in the process, like those of materials and services.

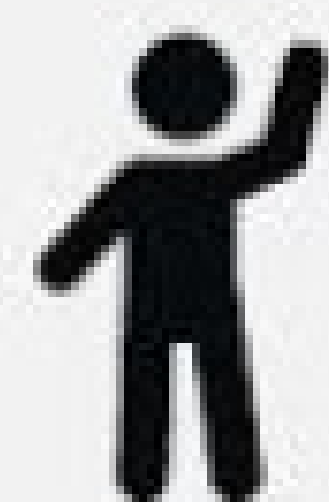
In other words, we calculate the GDP as the sum of the added values.

GDP =



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\$1



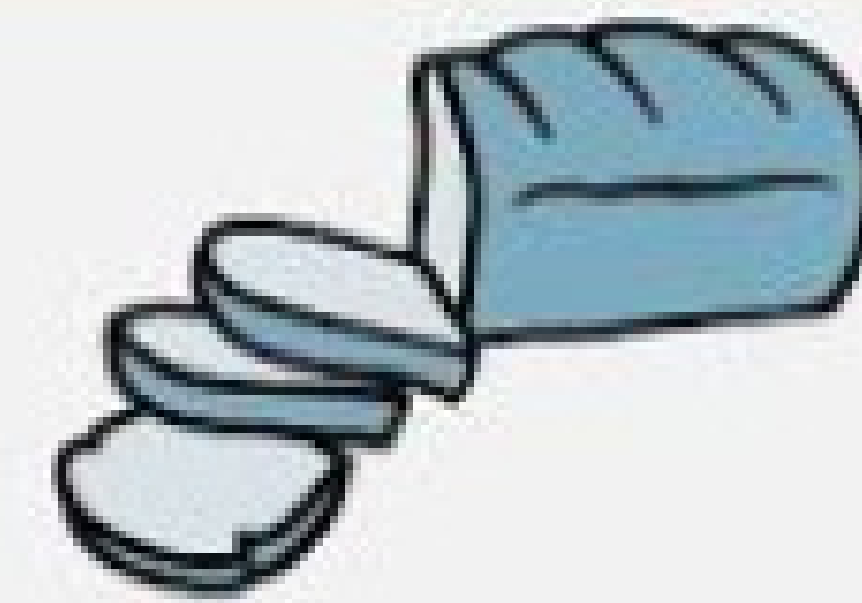
\$2



\$3



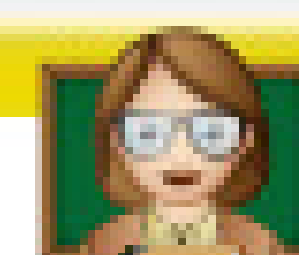
\$4



\$5



+ INFO



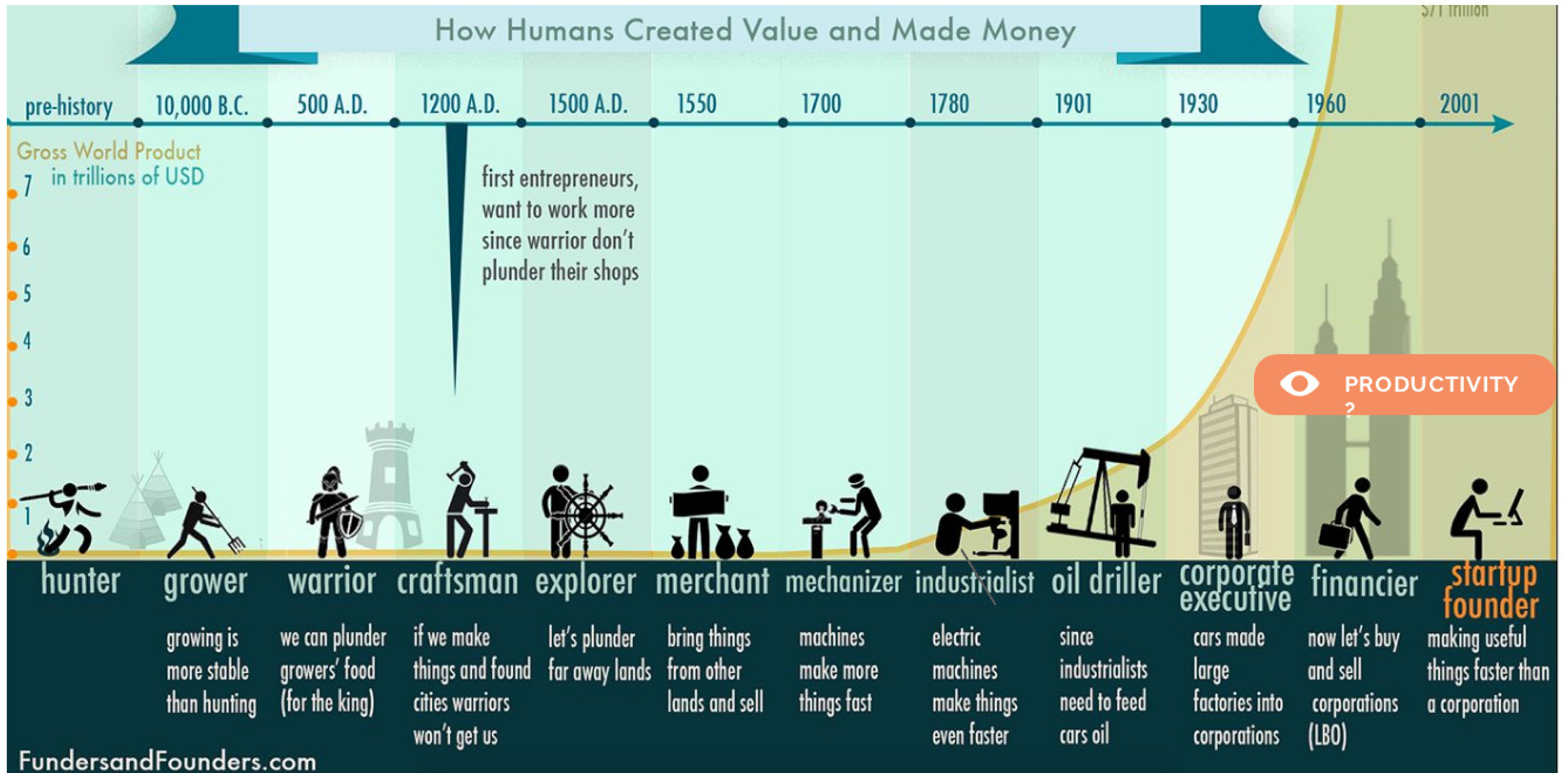
GDP per Capita

is a measure of a country's economic output that accounts for its number of people

It divides the country's gross domestic product by its total population

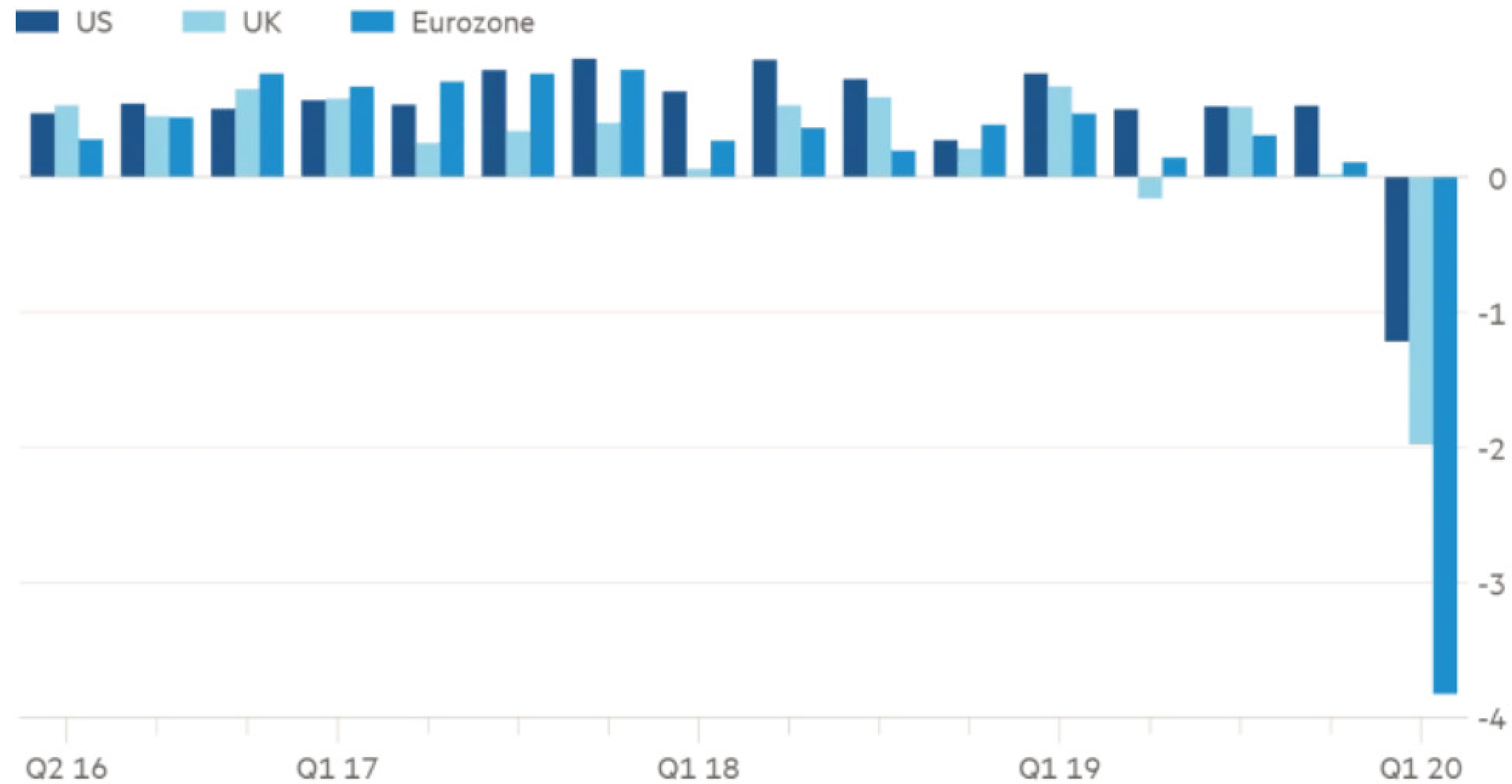
$$\text{Per capita real GDP} = \frac{\text{Real GDP}}{\text{Population}}$$





Coronavirus plunges major economies into a steep economic fall

GDP, % change over previous quarter



Source: Refinitiv

© FT

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Kolin and Colin singing about GDP!





Your task:

- Find one song related to the GDP, or the economic systems, or anything else related to what we studied...
- listen to it
- and comment on it: explain what is told in that song?

 PUT YOUR WORK HERE



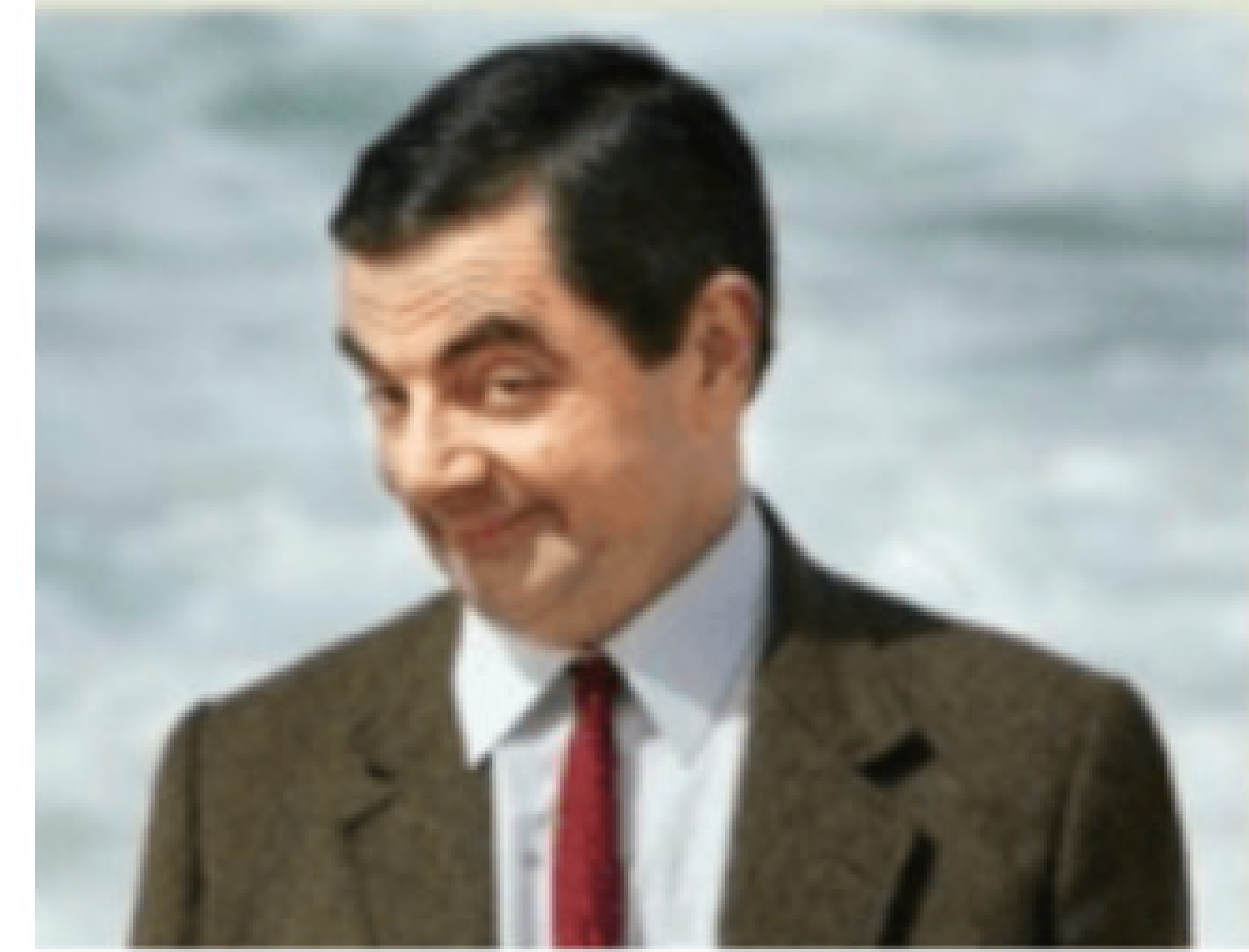
3/ How Do Competitive Markets Work?



What does **production** mean in economics ?

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1/The Economic Problem

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Market economy?!

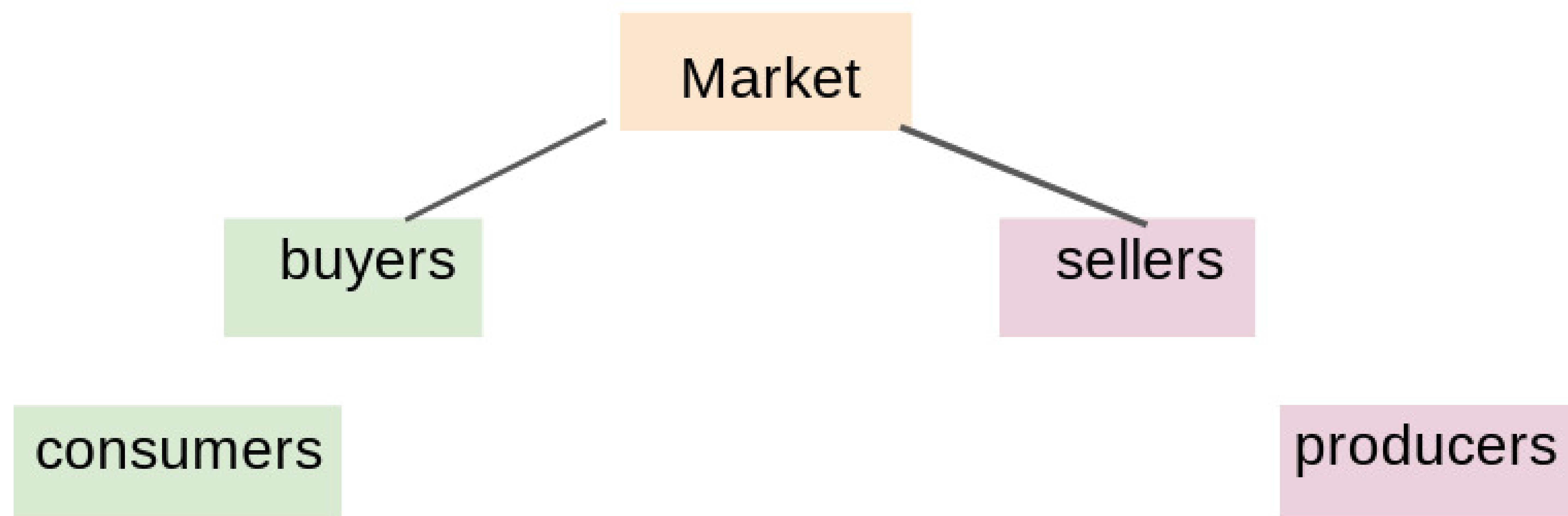


A/ What are markets?

Markets are where **Goods** and **Services** are **bought** and **sold**.



B/ Goods, Services, Demand and Supply



Demand =

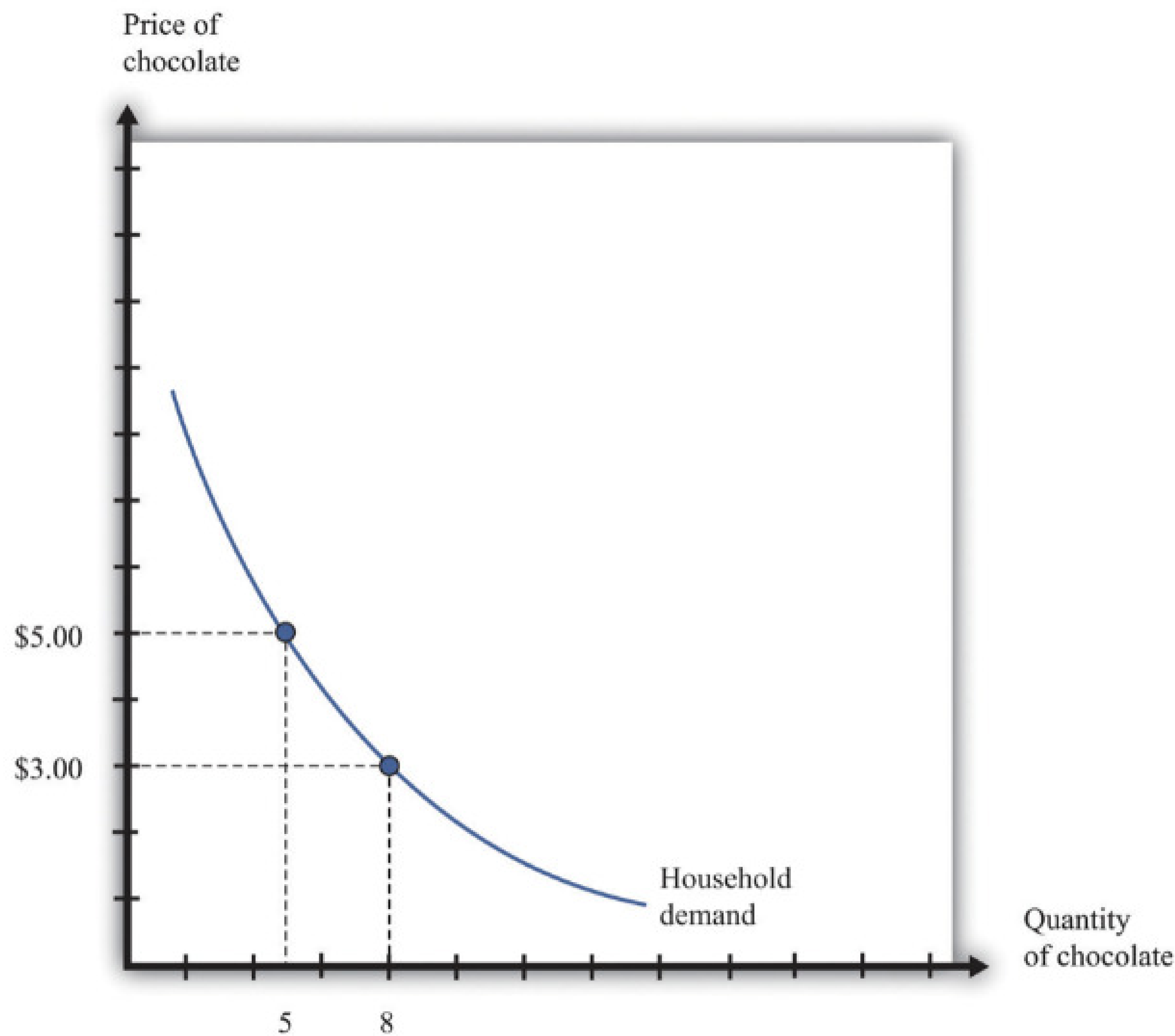
quantity of goods and services that consumers are willing and able to buy at a given price

Supply =

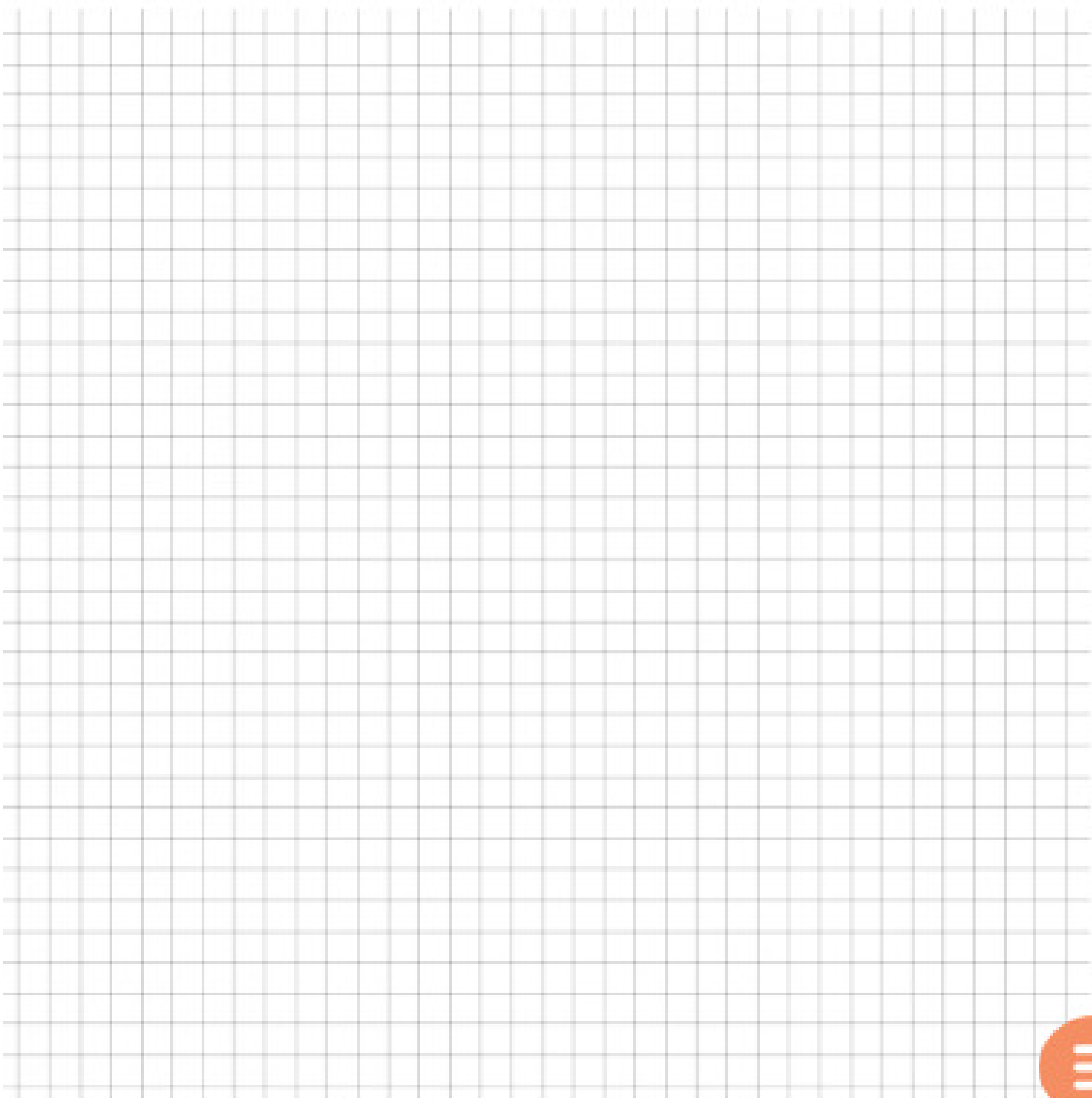
quantity of goods and services that firms are willing and able to **sell** at a given price.



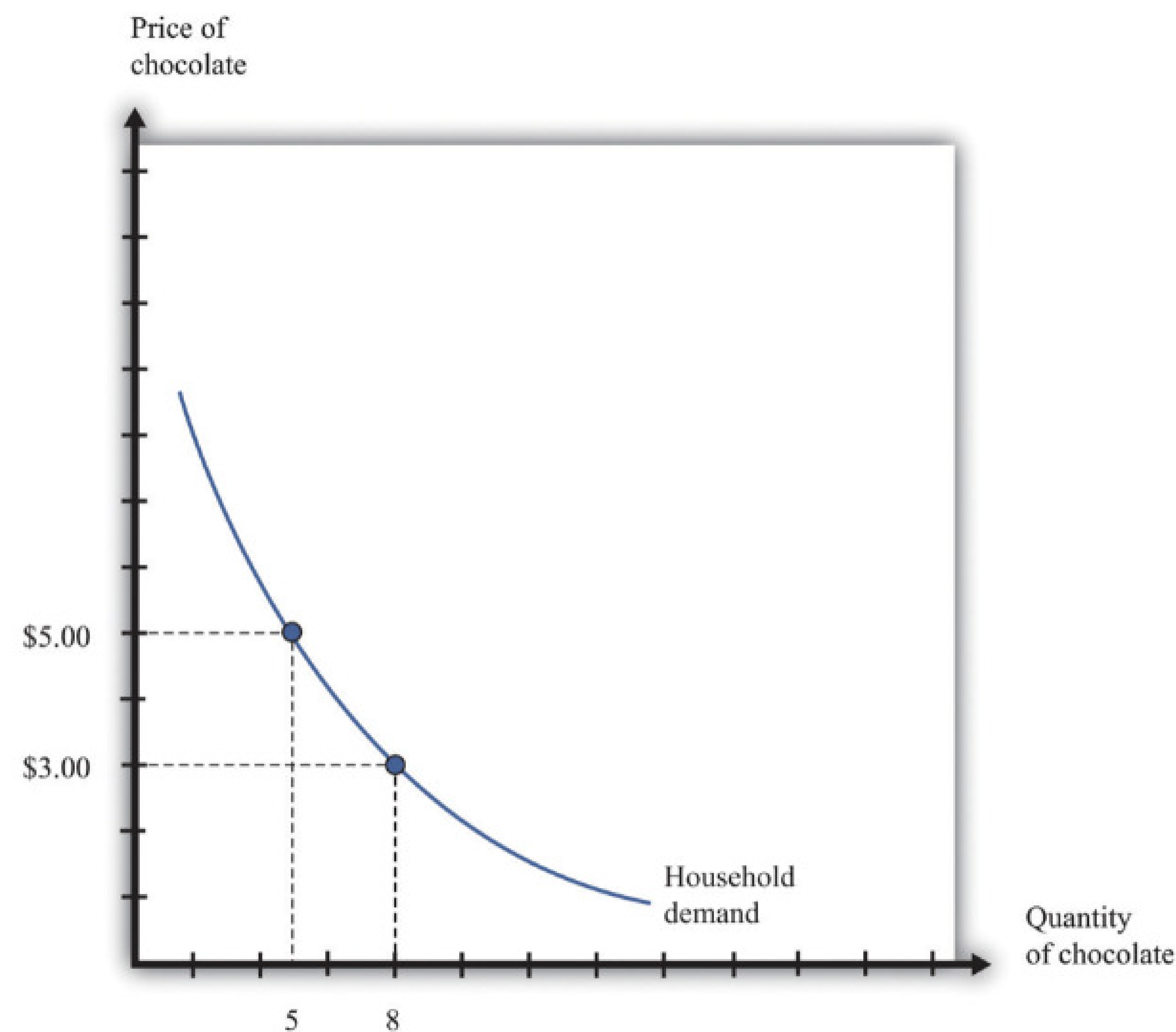
C/ Demand for goods or Services is different at different prices



Price (\$)	Household 1 Demand	Household 2 Demand	Market Demand
1	17	10	27
3	8	3	11
5	5	2	7
7	4	1.5	5.5

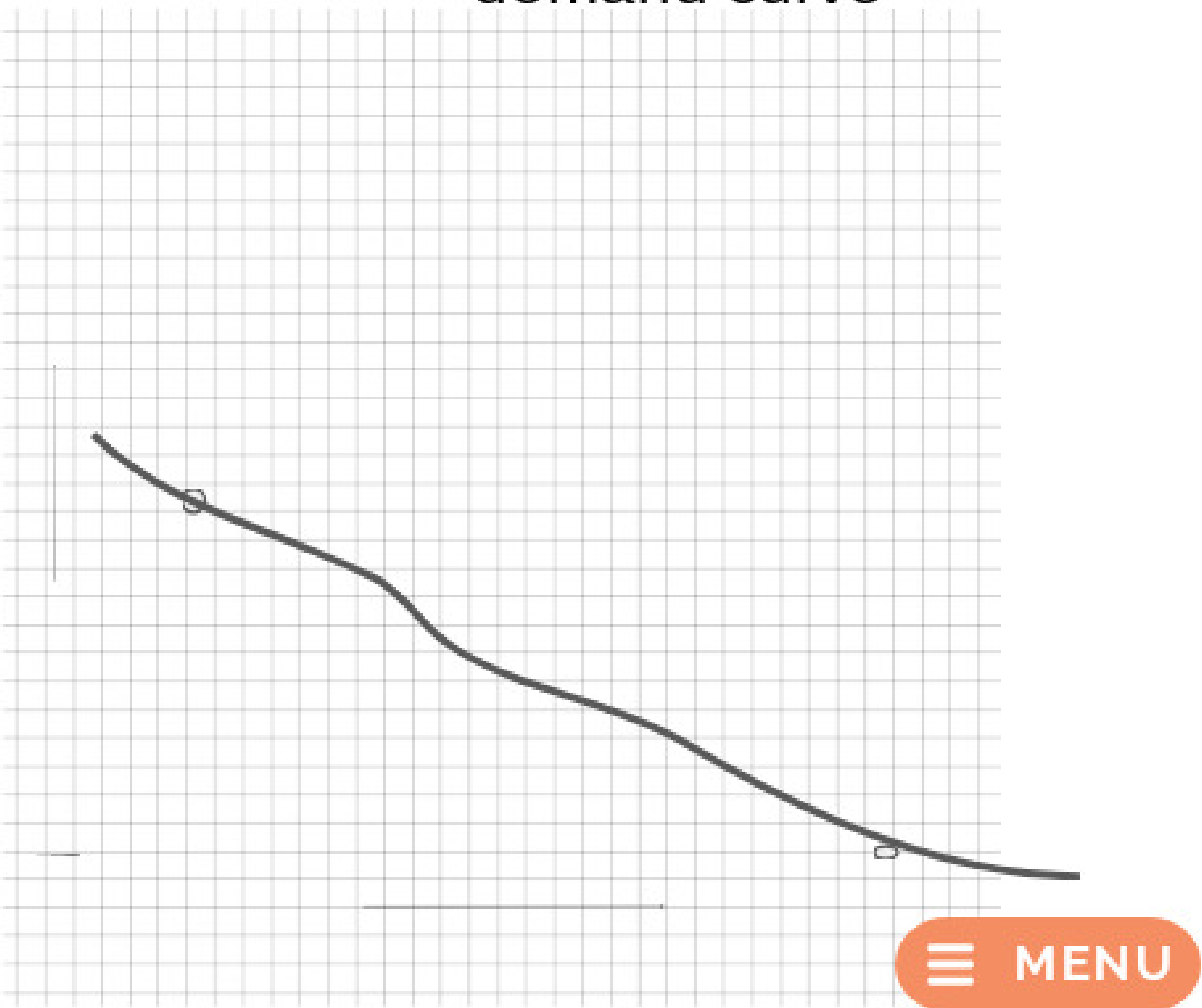


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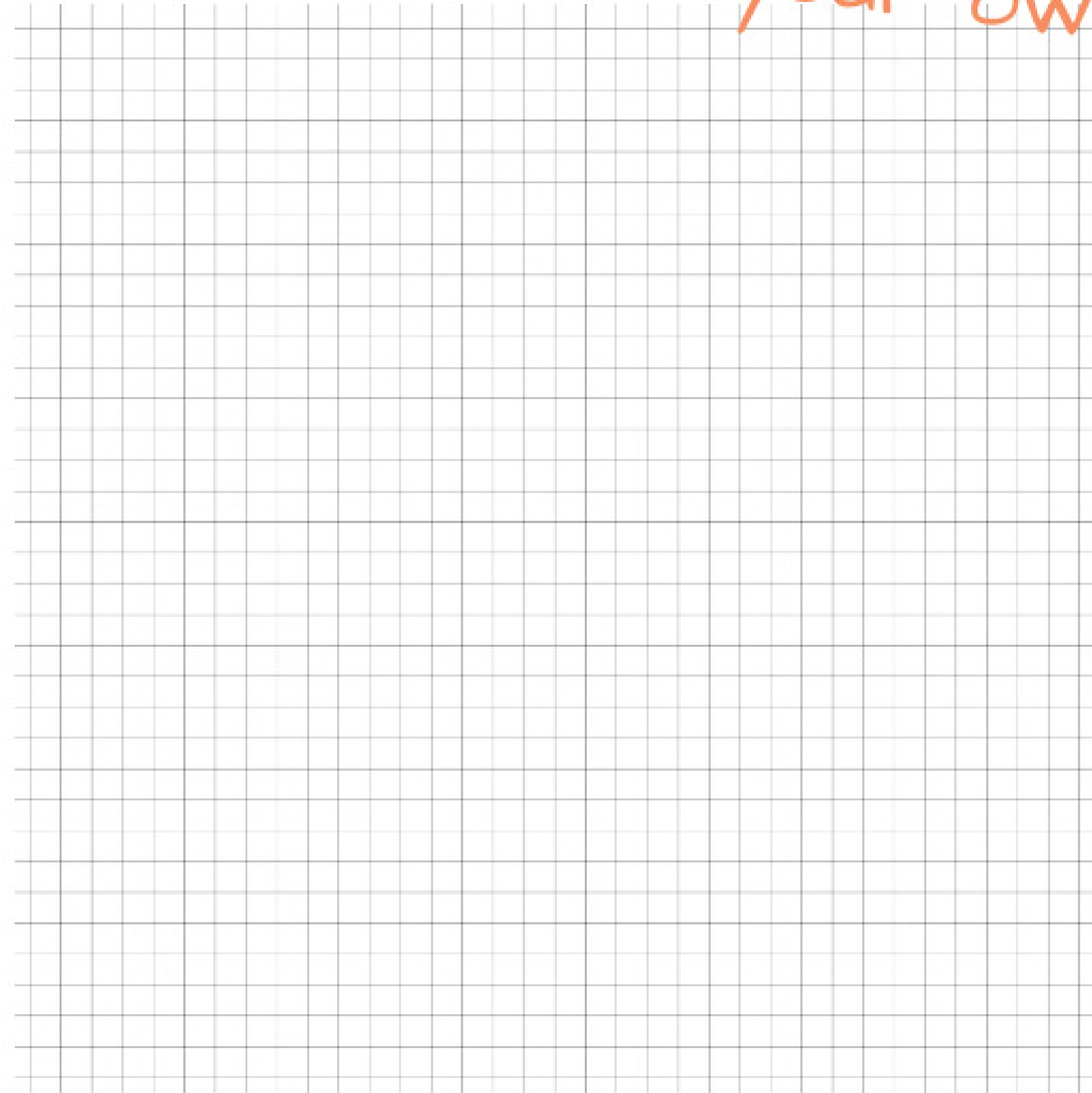
Price (\$)	Household 1 Demand	Household 2 Demand	Market Demand
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demand curve

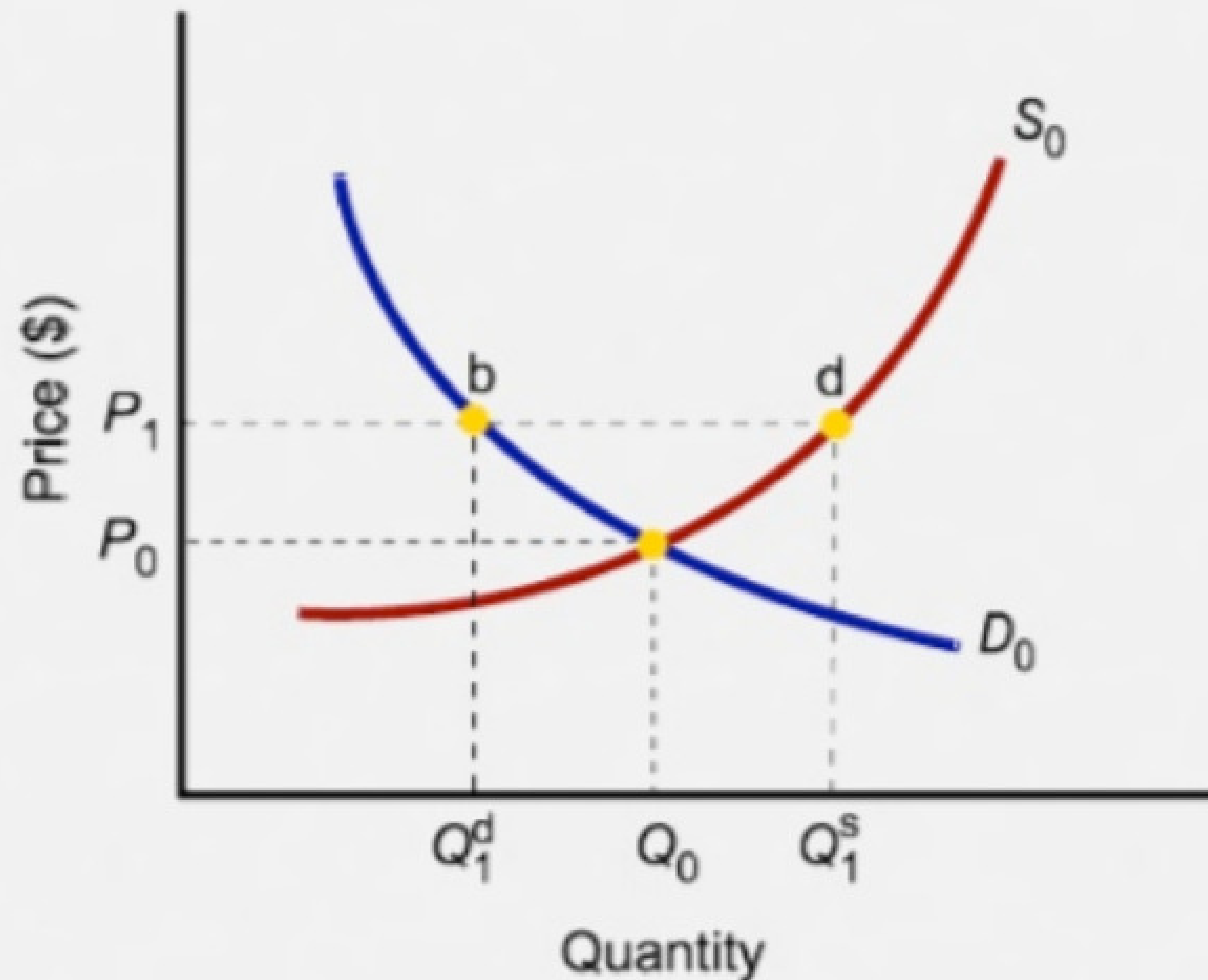


C/ **Supply** for goods or Services **is different at different prices**

Draw your own supply curve



E/ Market equilibrium



- Only in equilibrium is quantity supplied equal to quantity demanded.
- At any price level other than P_0 , the wishes of buyers and sellers do not coincide.

key words

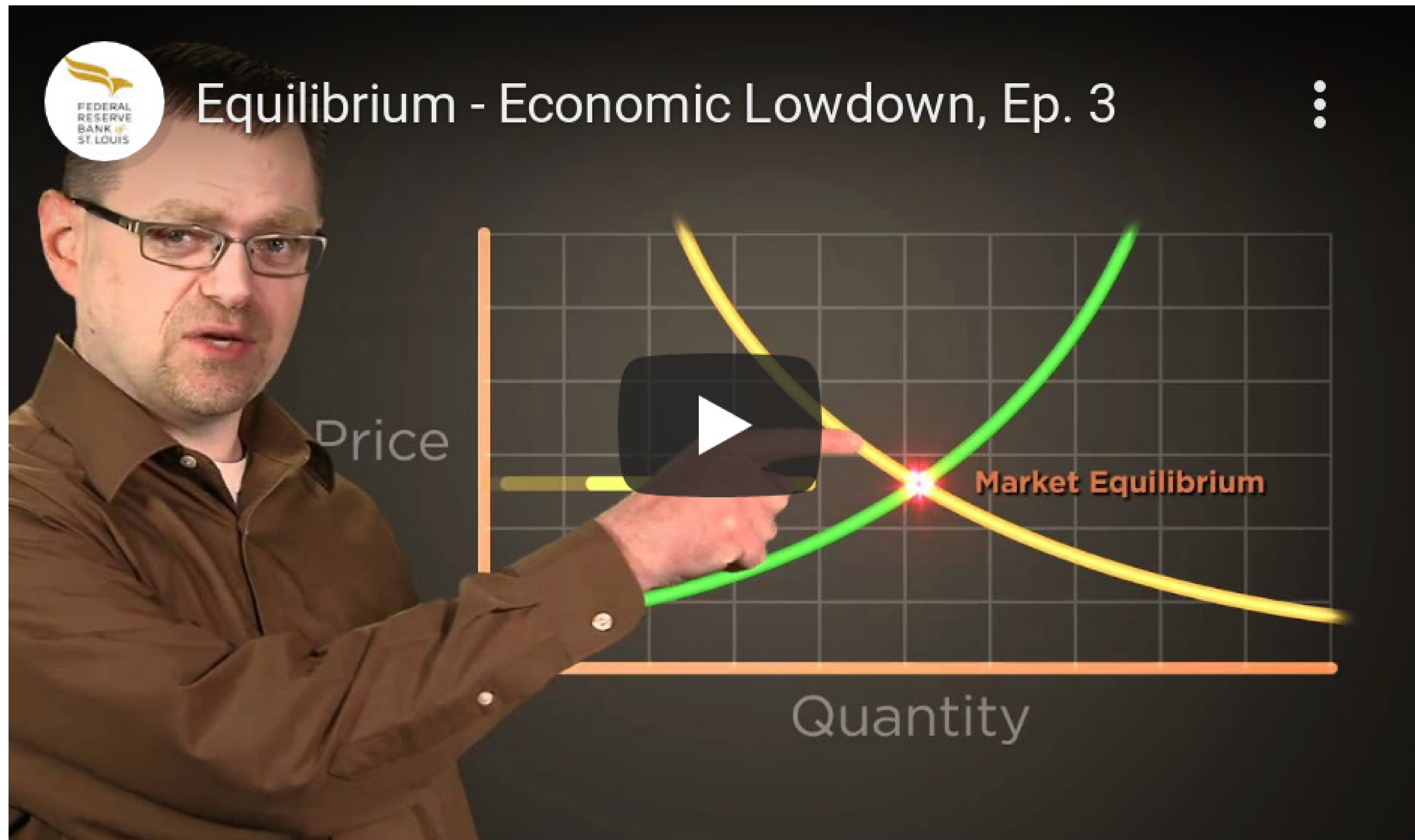
demand

supply

curve

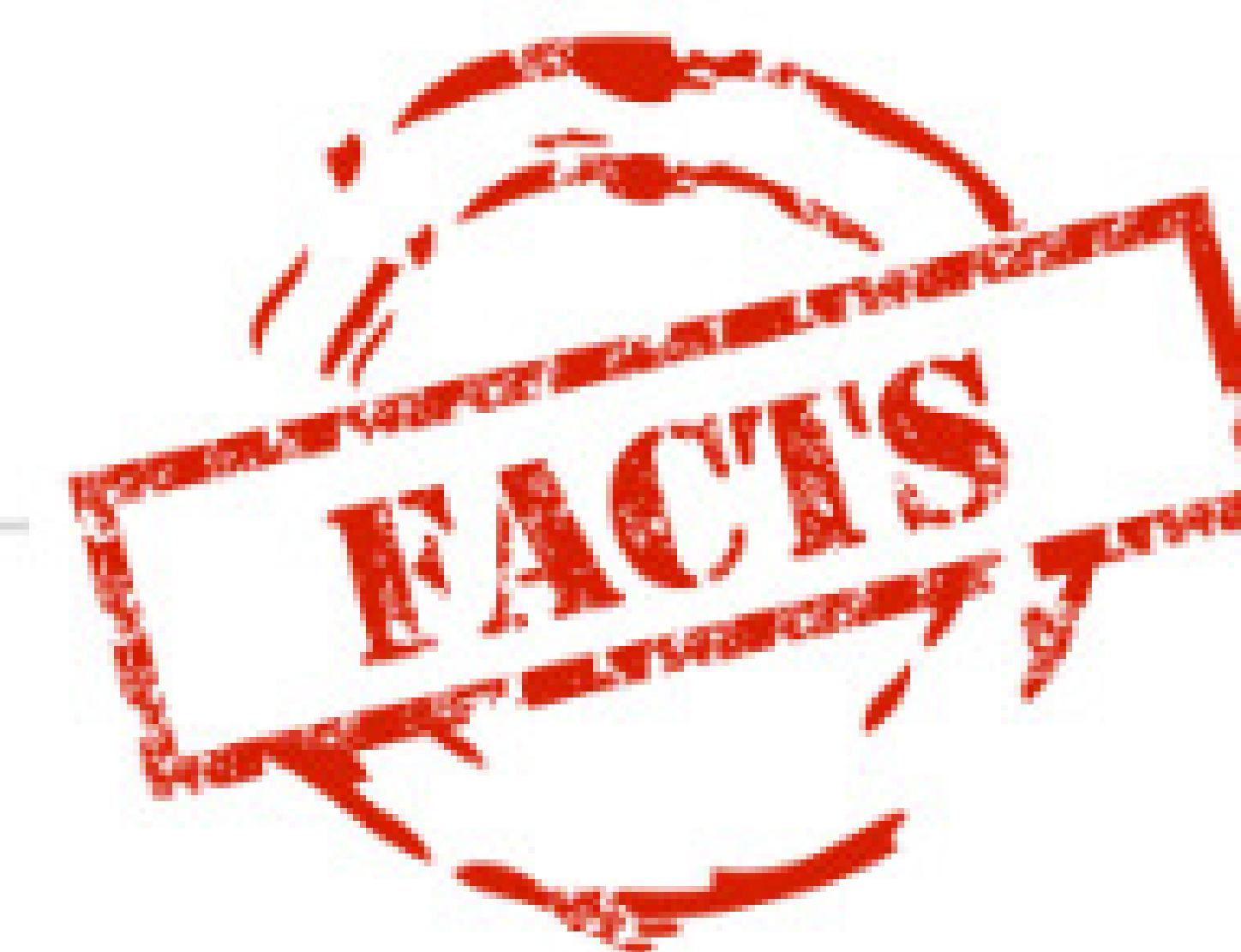


E/ Market equilibrium



US oil prices turn negative

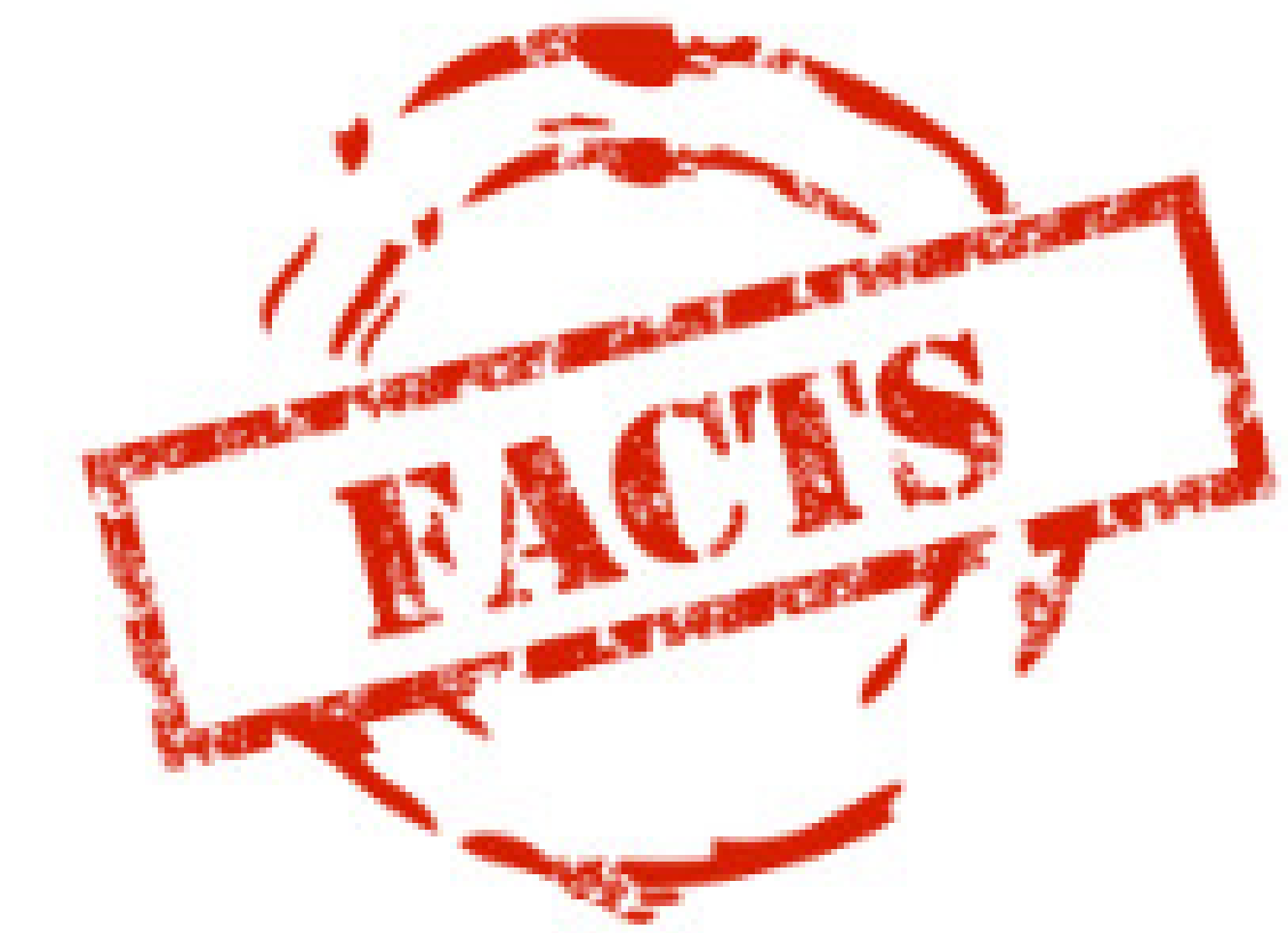
Price per barrel of WTI



Source: Bloomberg, 20 April 2020, 20:15 GMT

BBC

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Face Mask Supply

Shortages

The World Health Organization reported that face mask **demand** is up by a multiple of 100 and prices, by 20. At 20 million, the number of face masks China can produce each day needs to double.

Elsewhere, in Hong Kong, panic buying provoked a mixed reaction. While prices for masks were way up, some pharmacies were distributing them for free. One “citizens group” even secured financing and bought a mask making machine. Hoping to increase their capacity, they want to sell a cheap mask.

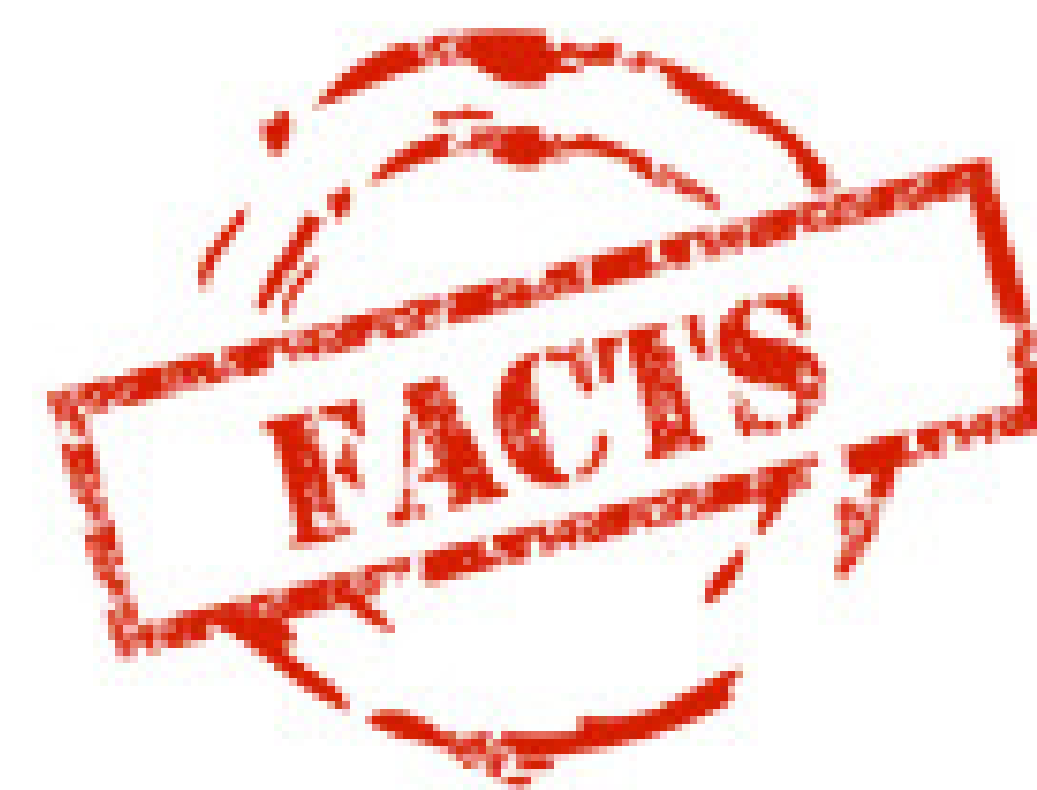
Many government said **price** hikes were illegal and sellers would be monitored. Asked about **production**, they “encouraged” manufacturers to boost **supply**.

F/ Subsidies and taxes can affect consumers and producers



UK property market could fall 13%, housing experts predict

You're a journalist. You'll have to explain this kind of facts thanks to your knowledge...



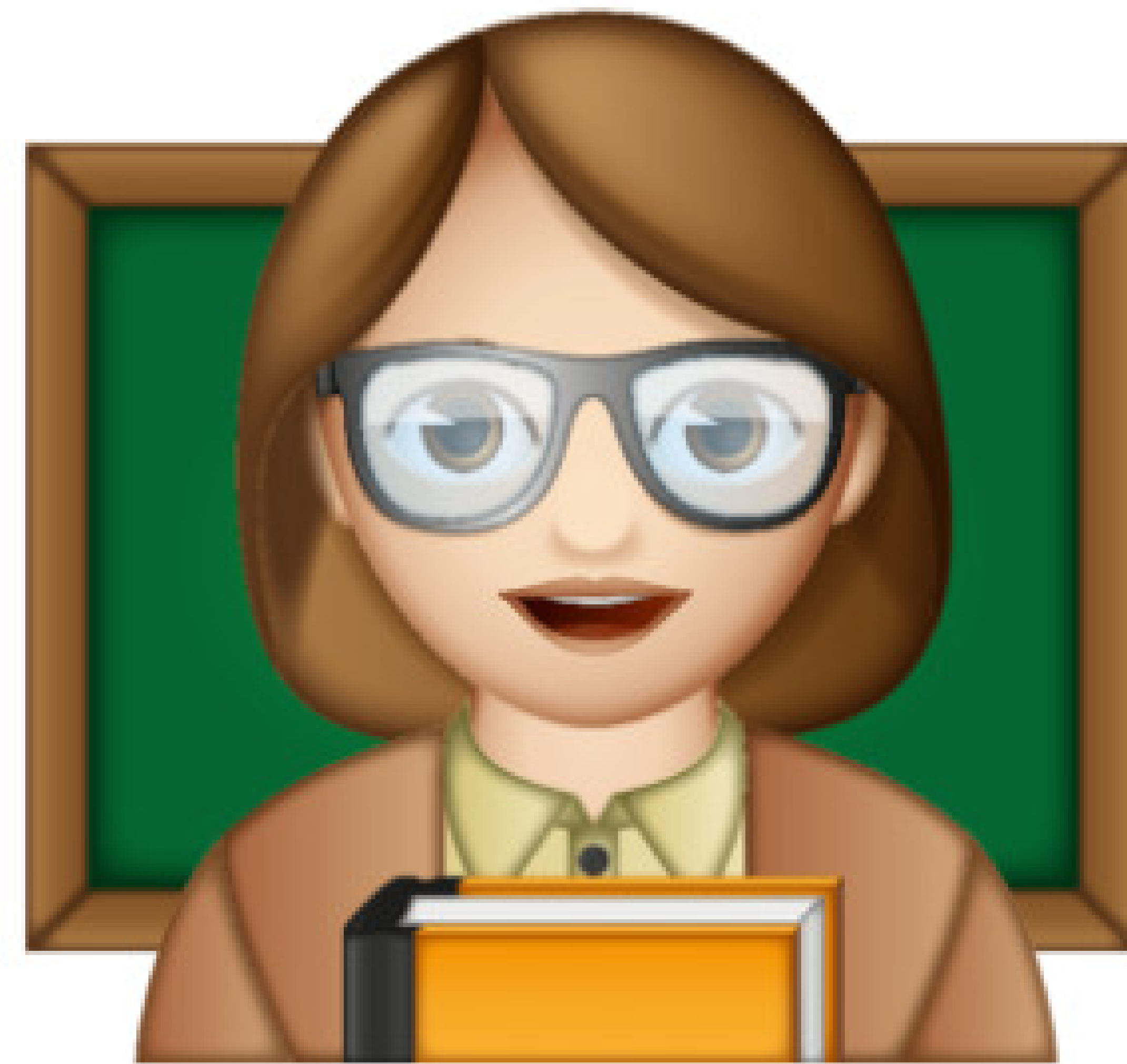
UK government extends furlough scheme until end of October

The UK gov. has extended the coronavirus wage subsidy scheme for workers until the end of October despite its spiralling cost, as he attempts to prevent a wave of job losses in the summer.



Choose a market and comment on its present situation.

that's it for today, folks!



To be continued...

