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AUTHOR McCabe, Milo P.
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ABSTRACT

Endeavoring to reach a goal of economic literacy, this K-12 economic resource guide provides the teacher with a context, concepts, and content about the economics of American society and the study of economics in general. Its purpose is to shorten the amount of work and time that a teacher needs to spend on reading and locating material. Based upon Lawrence Senesh's conceptual framework, this resource guide presents eight economic units: Man and His Environment; Socialization of Man; Economic Society: A Social Institution; Economic System or Market; Consumption Function and the Product Market; The Production Function and the Factor Market; Modifications of the Market Mechanism; and Measuring and Determining the Performance of the Economic System: Growth and Stability. Each unit includes a description of the context, a list of economic concepts related to the topic, and detailed outlines of the content areas. Short histories of money and banking in appendices conclude the guide. (This guide is part of a series, SO 008 676 through SO 008 680.) (Author/ND)

TEACHERS GUIDE TO

Man and the Economic Society

A SOCIAL STUDIES CURRICULUM SUPPLEMENT

prepared for:

DEPARTMENT OF EDUCATION AND CULTURAL AFFAIRS
DR. THOMAS KILAN, SECRETARY

and

DIVISION OF ELEMENTARY AND SECONDARY EDUCATION
F. R. WANEK, ACTING STATE SUPERINTENDENT

prepared by:

The Center for Economic Education
Professor Milo F. McCabe, Director

UNIVERSITY OF SOUTH DAKOTA
VERMILLION, SOUTH DAKOTA

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SPRING, 1975

PREFACE

Economic illiteracy is a luxury that we as a nation cannot afford. To function intelligently as responsible citizens within a capitalistic economic system and in a world torn by a conflict of ideas and ideals, it is imperative that Americans understand their own economic system. Without a firm understanding of our economic system, it is ridiculous to expect students to compare it intelligently with other systems. Students must understand such concepts as the role of supply and demand, private property, freedom of choice, gross national product and the distribution of income. Nor can we ignore the roles of major economic groups - management, labor, investors, businessmen and farmers.

This economic resource guide is an endeavor to reach the goal of economic literacy by providing the teacher with a context, concepts and content about the American Economic Society and the study of economics in general.

Although this resource guide is comprehensive and may contain more content than can possibly be used in a teaching unit; it can be an aid to shorten the amount of work and time a teacher need spend reading and locating material.

The guide is designed to be used as a whole, but an efficient teacher will select from it the material that is appropriate for the course goals and the students' needs in their respective grade or class.

The author appreciates the opportunity to contribute to the advancement of economic education for the students of the State of South Dakota. Special gratitude is expressed to Lawrence Senesh, Professor of Economics, University of Colorado, for the inspiration and influence he has had on the authors background in economic education and for his development of various teaching materials and units. Although this resource guide is based upon the Senesh conceptual framework, the author takes full responsibility for any and all variations and revisions that he has taken the liberty to present.

Others to whom thanks are due are Dr. Calvin Kent, Executive Director of the South Dakota Council on Economic Education, Dean Dale E. Clement, School of Business, University of South Dakota and Mrs. Gladys Bymers, Education Consultant, Division of Elementary and Secondary Education, all of whom made helpful suggestions at different stages of the manuscript.

Special note of recognition is extended to Mrs. Mona Fennel and Cabrini Engelhardt and the staff of the Business Research Bureau, University of South Dakota, for their diligence in typing and compiling the various drafts of this text.

This teachers' guide represents another in the series of curriculum material by the South Dakota Council on Economic Education which has been prepared for and funded by the State of South Dakota's Department of Cultural Affairs: Division of Elementary and Secondary Education.

Other materials completed at this time include: South Dakota in Maps, Economic Concepts: K-3, Economic Concepts: 4-6, Economic Concepts: 7-9, and Economic Concepts: 10-12.

Milo F. McCabe

Milo F. McCabe, Director
Center for Economic Education
University of South Dakota

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CONTEXT: Analysis of Unit Organization:

In general, economics is the scientific study of man and his environment. As in the case of each of the other social sciences, this must be analyzed from their own respective points of view. To understand this generalization, it is necessary to analyze in detail the particular aspects of the interrelatedness and interdependence of man and his environment.

Man is a human being composed of a body with its functions and instincts, derived from his biological heritage; and an intellect and free will which constitute his intrinsic value or human dignity. These characteristics and potentialities enable him to function as an individual. Because of man's gregarious nature, he has a natural need, inclination and aptitude for social living. Thus, man functions not only as an individual but also as a member of a group.

The environment includes all of those external forces in the realm of man's behavior which have an influence on his socialization. All organized life must act in accordance with established rules of social contact and relationships. These rules must operate through a system of social controls. Those characteristics that are deemed important are maintained and transferred from one generation to another, being constantly preserved, revised, or completely abandoned in time.

The more important patterns of behavior are molded into the structural elements of society and enable man to function as a member of a group as well as an individual. These institutions provide the framework within which people's value preferences originate and develop.

The economic society is only one of the major basic social institutions through which man functions. It is here where we analyze that aspect of social behavior dealing with man's activities devoted to obtaining the material means for satisfying his individual wants.

This endeavor by the individual to satisfy his unlimited wants by means of limited economic resources provides the basic problem upon which the fundamental idea relationships of economic knowledge are based. . . Concept of Scarcity.

Since the resources of the world are scarce and thus do not satisfy the wants of mankind, man must learn to make sensible economic choices, based upon knowledge, scientific comparisons, and analytical judgments.

Specialization makes for interdependence of man and his environment, and thus necessitates an economic society, which in turn will determine the types and patterns of specialization.

The economic Society is the tool through which the conflict of unlimited human wants and limited economic resources is mediated. Not all Societies solve this basic problem in the same way. The impact of cultural lags and social disorganizations occuring while societies are attempting to solve their economic problem may result in stagnation or oblivion.

Economists use "models" to describe an economic system and its relationships. The decision-making groups within the model are the Household and business. Economic activity is represented by the essential elements (consumption, production, distribution, exchange) of the economic cycle or Circular Flow.

The consumption function, measured in the Product Market, determines the direct utilization of goods and services produced. The level and nature of demand will, therefore, depend greatly upon consumers' income, preferences, prices, ease of substitution, and the knowledge of alternative substitutes. The level and nature of supply, in turn, will depend upon the costs of economic resources, the price of the product in the market, the costs of substitution, the influence of new industries into the economy, the advancement of technology, etc.

The productive function, measured in the Factor Market, determines how the factors of production, or economic resources, will be used in the further production of other goods and services. The determinants of demand for those factors depends primarily upon consumer demand for those products which contain these resources. Other determinants influencing demand are: the desire of the owner for profit, technology, prices in both markets. The determinants of supply for economic resources depends upon the availability of substitutes, the variations of occupations available, and the willingness of producers to pay for the resources.

The employment of economic resources in the productive process generates income: for land, rent; for labor, wage; for capital, interest; for management, profit; which is the distribution function.

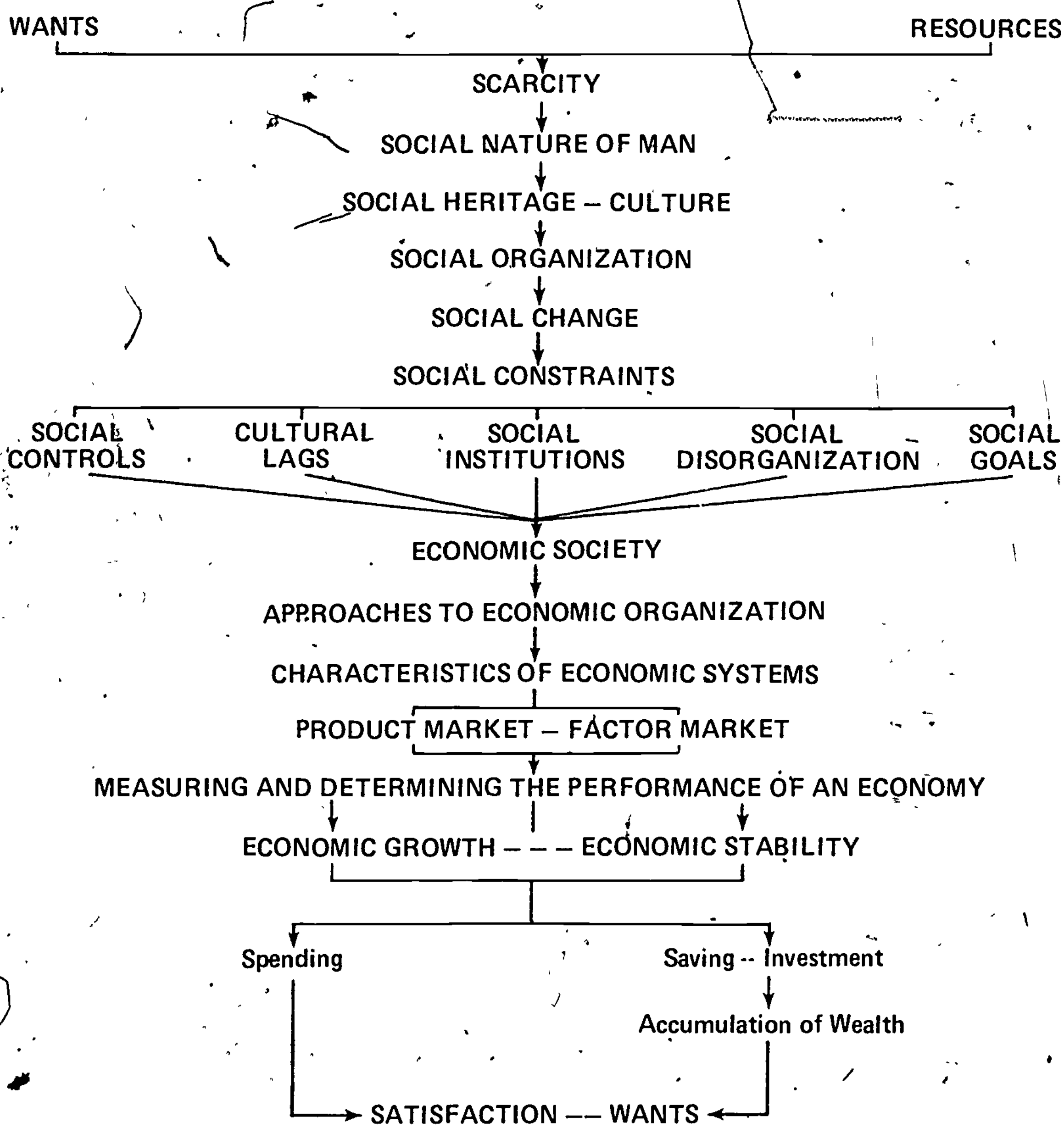
The free transfer of wealth, goods, and services, for mutual benefit is known as the exchange function. The operation of exchange is most often facilitated by money and transportation. Money payments serve as a rationing and a directive device to the system. Decisions to save and invest, that is capital accumulation, influences the flow of money expenditures, thus increasing the economy's output of goods and services.

The performance of the economic system is thus measured through the distribution of income and also through the exchange of goods and services. Economic progress can be referred to as any change that results in the increased output of any valuable thing per man hour time expended.

Economic Growth requires the devotion of resources towards capital accumulation, as well as the satisfaction of current needs. As current wants are satisfied, new ones are created, thus rejuvinating the basic economic problem of Scarcity. Through feedback, the cycle continues to function.

FIGURE 1

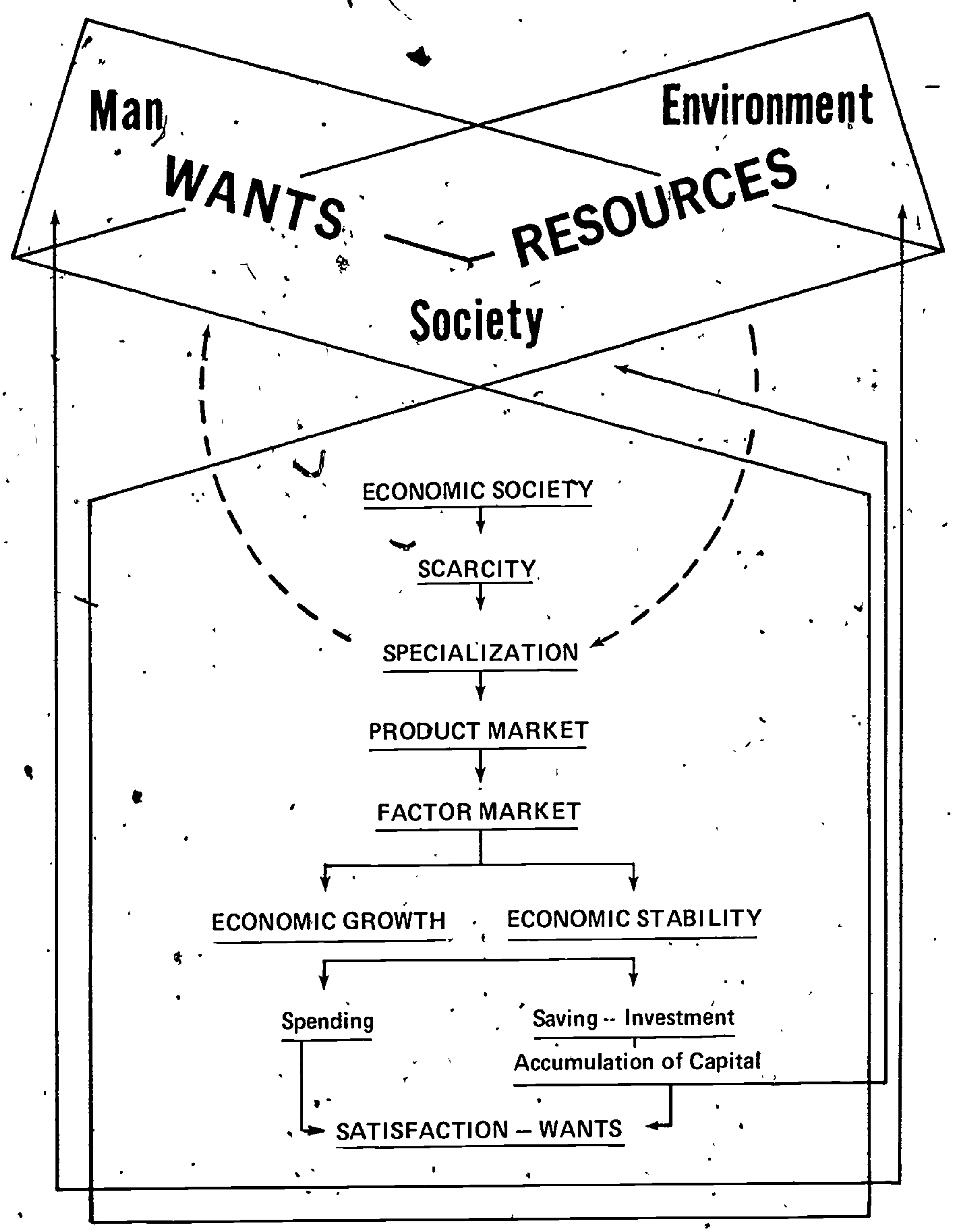
CONCEPTUAL STRUCTURE OF ECONOMICS



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

FIGURE 2

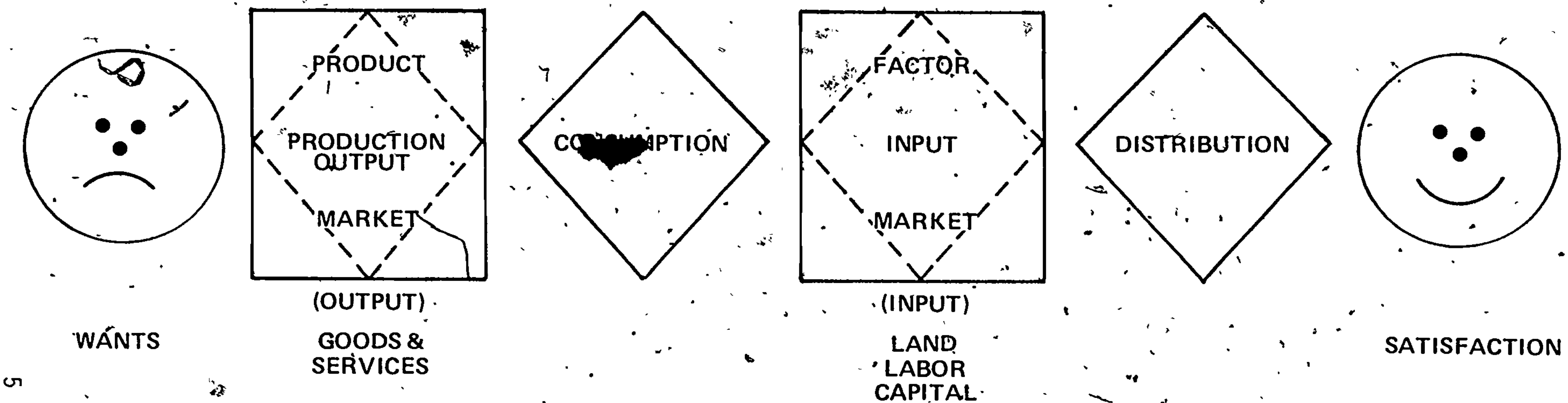
THE CONCEPTUAL FRAMEWORK OF MAN & THE ECONOMIC SOCIETY
SHOWING THE PROCESS OF CHANGE AS: THE INTERACTION OF MAN AND
HIS ENVIRONMENT WITHIN THE ECONOMIC SOCIETY



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968.

FIGURE 3

WANTS – SATISFACTION CHAIN



SUMMATION: Man has unlimited individual wants. These unlimited individual wants, when backed-up by the willingness and ability to buy, act as a directive device in determining the vast goods and services that are produced in the Product Market. In order to secure these goods and services for consumptive purposes, the individual must have an income. He, usually, receives one by selling his productive services to a Firm in the Factor Market, which is willing to buy them. Through the application of various combinations of economic resources or imputs in the Product Market, goods & services are produced, and incomes are created & distributed to the resources. While the individual spends or saves his income respectively; satisfaction for old wants is acquired; while new wants have emerged to be satisfied.

Source: Economics in Society, Dr. Suzanne Wiggins Helburn and James E. Davis, Addison-Wesley Publishing Co. Inc., 1973

UNIT I: Man and His Environment

CONTEXT: Economics is the scientific study of man and his environment. As is the case of each of the other social sciences, economics must be analyzed from its own respective point of view. To understand this generalization, it is necessary to analyze in detail the particular aspects of the interrelatedness and interdependence of man and his environment.

Man is a human being composed of a body with all of its functions and instincts, derived from his biological heritage; and of an intellect and free will which constitute his intrinsic value or human dignity. These characteristics and potentialities enable him to function as an individual.

Man's environment includes all of those external forces, such as ideas, ideals, people, goods, and services, in the realm of his behavior which have an influence on him, as an individual as well as a member of a group.

CONCEPTS:

1. The social sciences are those subjects which deal with the scientific study of the various aspects of man's social behavior.
2. Economics is a social science.
3. In the study of any one of the social sciences, vast interrelatedness and interdependence exists with the other social sciences.
4. Inefficiency of language, the difficulty in adhering to the purpose of economics, the reluctance by many to apply empirical methods to social and personal problems, and "ethnocentrism" are some of the factors which place constraint on Economic Analysis and Policy Making.
5. Economics relies heavily on the truths and theories of the other social sciences.
6. Man's biological heritage provides him with the physical potentialities which can be developed within an environment.
7. The environment is any external force which influences man and his development.
8. The intrinsic value of man consists of his intellect and free will (Human Dignity...that characteristic which distinguishes him from all other animals).

CONTENT: A. INTRODUCTION TO ECONOMICS AND THE OTHER SOCIAL SCIENCES

1. Social Sciences
   a. Definition: The Social Sciences are made up of those bodies of knowledge obtained through the application of the scientific method to the forms and content of human interaction.

b. Classifications: Social Sciences or academic disciplines
   (1) Cultural Anthropology
   (2) Economics
   (3) Geography
   (4) Political Science
   (5) Sociology

2. Nature of a Science

   a. Characteristics of a science:
      (1) Empirical
      (2) Theoretical
      (3) Cummulative
      (4) Non-Ethical

   b. Application of the scientific method or approach
      (1) Define the problem
      (2) Gather and record data
      (3) Analyze and organize the data
      (4) Formulate hypothesis
      (5) Test the hypothesis with more data

3. Economics as a Social Science

   a. Definition: Economics is that social science which studies man's activities devoted toward obtaining the material means for satisfying his individual wants.

   b. Requirements in Economic Reasoning:
      (1) a careful use of the language
      (2) abide by the ordinary rules of logic
      (3) employ accurate information and tools of measurement
      (4) assume objectivity by using rational examination of data

   c. Steps in Economic Analysis:
      (1) Identify the problem and clarify the issues by studying their background and origin.
      (2) Identify the objectives and requirements that must be met in treating the problem.
      (3) State or pose alternative courses of action and analyze their consequences.
      (4) Appraise the alternatives and make a decision based on how well each alternative fulfills the objectives and requirements.

   d. Handicaps in the study of economics
      (1) Inefficiency of the language of economics: Terminology
         (a) Complexity of terms
         (b) Common terms with too many connotations
      (2) "Ethnocentrism": belief that one's group and its ways are superior to all others
      (3) The reluctance by many to apply empirical or scientific methods to social and personal problems
         (a) Social facts are emotion-laden

(b) Individuals tend to resist new knowledge in favor of superstitions and prejudices
(c) Preferences for one's own experiences over many scientific observations

(4) The difficulty of adhering to the purpose of economics

e. The value of Economics as an academic discipline
(1) To society...it is the basis for sound social policy.
(2) To the individual:
(a) aids in the understanding of our own complex society
(b) aids in the understanding of other societies so as to gain perspective for evaluation of one's own society
(c) a democratic society demands an enlightened electorate

4. Postulates for this unit of study (See Figure 4, Page 11.)

a. Definition: a postulate is a truth or theory proven in one science and accepted and used in another science.

b. Postulates:
(1) Man's biological heritage
(2) Man's environment
(3) Intrinsic value of man: Human Dignity
(4) Rights of man
(5) Duties of man

B. THE COMPOSITE NATURE OF MAN: BIOLOGICAL HERITAGE

1. Definition: the total set of characteristics which man receives from his parents and which he is already equipped with at birth (the physical potentialities of an individual)

2. What man actually inherits

a. A body, its functions and instincts
b. A blood type
c. A nervous system and brain
d. External and internal senses
e. Susceptibility to certain diseases
f. Other characteristics

3. Defects through biological inheritance

a. Myopia, near-sightedness
b. Color-blindness
c. Deaf-mutism
d. Mongolism

4. Theories and laws

a. Mendel's "Law of Heredity"
b. Galton's science of eugenics
(1) Mercy killing
(2) Birth control
(3) Sterilization

5. What man does not inherit

a. Acquired traits, anything that must be learned
b. Many diseases

C. ENVIRONMENTAL FACTORS AFFECTING MAN'S BIOLOGICAL HERITAGE

1. Definition of environment: any external force which has an influence on man and his development

2. Types of environment

a. Physical environment
(1) Definition: the materialistic objects and conditions that man encounters
(2) Classifications
(a) Geographical: climate, mountains, prairies, tropics, rural area, urban area (See: South Dakota in Maps, Sections I and II)
(b) Economic: man-made goods or products

b. Psychosocial environment
(1) Definition: the direct personal contacts (social and mental) an individual has with others
(2) In-group relationships: brother-sister, parent-child, employer-employee, teacher-student, friends, minister-parishioner
(3) Out-group relationships: buyer-seller, crowds, students in a class, audiences, other personal contacts

c. Psychic environment
(1) Definition: the mental impact resulting from either physical or mental contact with others
(2) Classifications
(a) Ideas
(b) Sounds
(c) Ideals (hero-worship): a type of excellence, good or bad, which an individual hopes to attain
(d) Attitudes: a certain way of looking at things, negatively or positively
(e) Prejudice: an unreasonable attitude for or against something

D. INTRINSIC VALUE OF MAN: HUMAN DIGNITY

1. Basis

a. Man possesses a free will
b. Man possesses an intellect

2. Qualities of human dignity

a. It is possessed by man alone
b. Derived from man's purpose in life
c. Basis for human equality
d. It is not destroyed by physical or mental defects

E. RIGHTS OF MAN

1. Definition: a right is a moral or legal title or claim to have, to do, to demand, to omit, or to acquire something without interference

2. Classifications

   a. Natural or inalienable: life, liberty, authority, truth, justice, private property ownership, to live socially, to marry
   b. Acquired: e.g. economic

F. DUTIES OF MAN

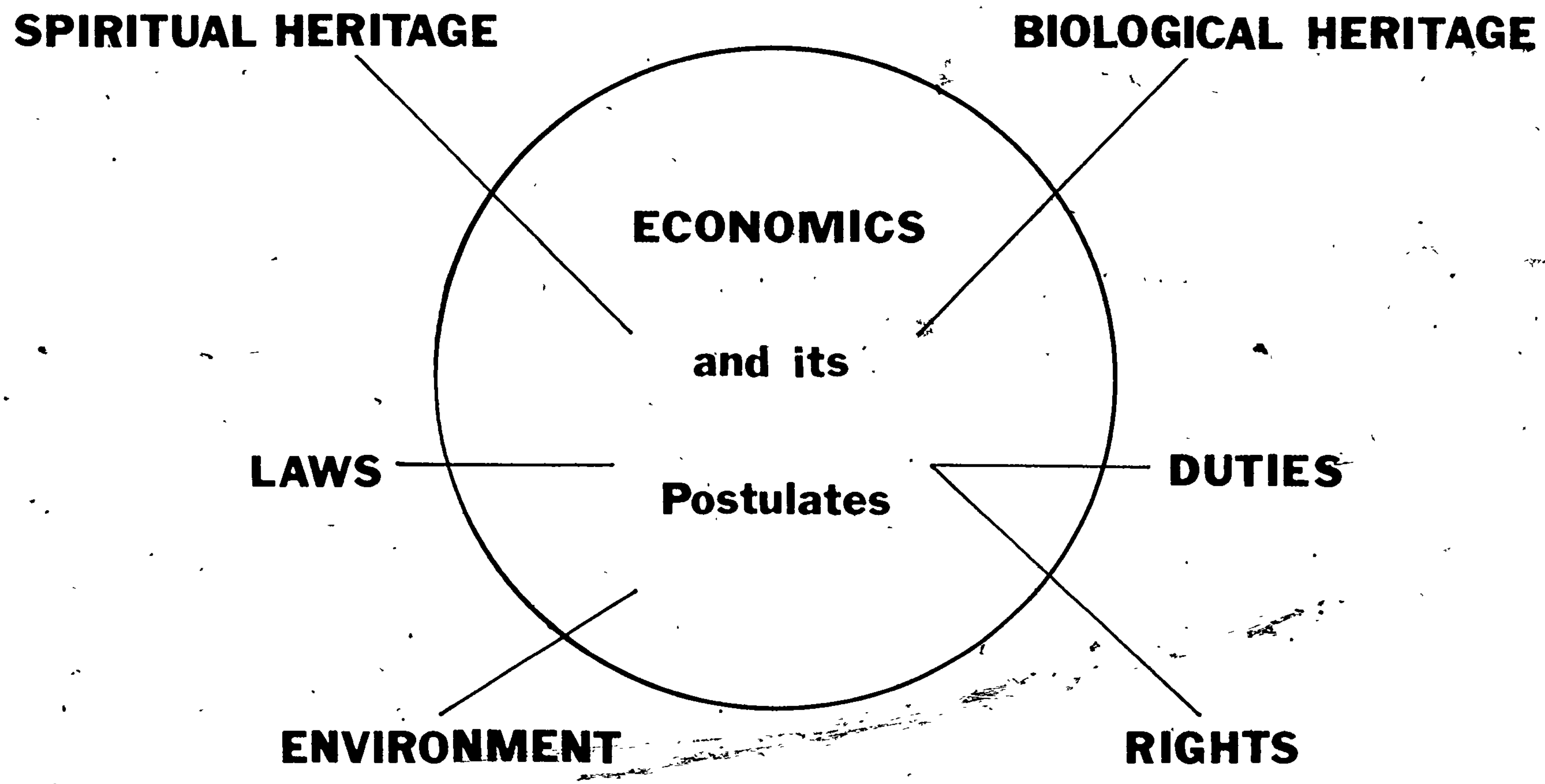
1. Definition: a moral obligation to do what the law commands and to omit what it forbids

2. Classifications

   a. To self
   b. To one's fellow man
      (1) Charity
      (2) Justice
         (a) Commutative justice: deals with man's responsibility to his fellow man (buyer-seller)
         (b) Distributive justice: deals with the state's responsibility to its citizens (social goods and services: police and fire protection, recreation facilities, education, national defense)
         (c) Legal or Social justice: deals with the individual's responsibility to the state (pay taxes, obey the laws)

FIGURE 4

Economics and its Postulates Unit 1



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

UNIT II: Socialization of Man

CONTEXT: Because of man's gregarious nature, he has a natural need, a natural inclination, and a natural aptitude for social living. Thus, man not only functions as an individual, but also as a member of various groups.

All organized life must act in accordance with established rules of social contact and relationships. These rules must operate through a system of social controls. Those characteristics that are deemed important by man and society are maintained and transferred from one generation to another; being constantly preserved, revised, or completely abandoned in time.

All cultures are stable and changing at the same time. These differences emerging in a culture resulting from the satisfaction of man's needs over a long period of time identify the fact that social change occurs. The satisfaction of man's needs is not in itself a social change, but a change in the way the needs are satisfied is a social change.

The more important patterns of behavior are molded into the structural elements of society, and thus enable man to function as a member of a group and yet maintain his individuality. These social institutions or set patterns of behaviorism provide the framework within which an individual's as well as society's value preferences or social goals originate and develop.

CONCEPTS:

1. Man is social by nature.
2. The socialization of man is a process by which he acquires a cultural content along with a social self-concept and personality.
3. Socialization enables man to be identified as an individual and also as a member of a group.
4. Man's activity in attempting to carry out social interaction is called "role playing".
5. Social Inheritance is the transmission of cultural traits from one generation to another.
6. Diffusion is the borrowing and accepting of cultural traits and/or patterns from other social units or individuals.
7. All cultures are stable and changing at the same time.
8. Social Change is the result of a culture being enriched by additions or impoverished by losses.
9. Social Organization is necessary for specialization to ease the conflict between man's unlimited wants and the limited economic resources available.
10. Societies void of innovations are in a state of stagnation or oblivion.
11. Societies in which individuals and/or groups resist social change experience cultural lags and social disorganization.

12. Social Control is the process or means employed by a group to achieve social stability by limiting the deviations from existing social norms.

13. Social stratification and conflicts of interest are two basic limitations on the effectiveness of Social Control.

14. A Social Institution is a set of socially significant customs (folkways, mores, norms) revolving around one or more basic functions of man.

15. The structural aspect of a social institution ~~which carries out its~~ functions and thus makes possible the social system is the Association.

16. Public policy or social behavior is derived from the interaction of people's value preferences or social goals, which are:

Economic Growth:	the desire for an increasing standard of living for an increasing population
Economic Stability:	the desire for a high level of employment without inflation
Economic Security:	the desire for continuity of income in the face of physical and economic hazards
Economic Justice:	the desire to minimize inequalities of opportunities and income
Economic Freedom:	the desire of producers to select their occupations and of consumers to spend their income knowledgeably
Economic Efficiency:	the desire for the most efficient allocation of economic resources

17. Man's social self-concept involves his awareness of what he shares with others, and also of how he differs from them, through the adoption of their attitudes towards himself.

CONTENT: A. MAN A SOCIAL BEING (See Figure 5, Page 19)

1. Reasons why man is social by nature: Thomas Aquinas

   a. Because he has a Natural Need for social living
   b. Because he has a Natural Inclination towards social living
   c. Because he has a Natural Aptitude for social living

2. Kinds of socialization

   a. Deliberate
   b. Spontaneous (product of human interaction)

3. Mediums of socialization

   a. Individuals
   b. Groups
   c. Institutions

4. Results of socialization

   a. Individual identification
      (1) As self
      (2) As a member of a group

b. Adjustments and conformities
c. Conflicts
d. Specialized behavior for social positions, e.g., "role playing"

B. ROLE OF MAN IN SOCIETY: SOCIAL ORGANIZATION (See Figure 6, Page 20)

1. Group behavior

a. Definition of a group: a collection of people bound together by a distinctive set of social relations

b. Characteristics of groups
(1) Statistical: membership in this group results from circumstances of statistical arrangement (group is not formed by its members, but by statisticians)
(2) Consciousness-of-kind: members are conscious of having something in common, some shared attribute or characteristics, e.g.'s, females, Southerners, the aged, all ethnic, state or national and occupational groups
(3) Social interaction: membership results from social relationships with other people; includes all social contacts and communications, social interactions, and social intercourse, e.g.'s, classroom groups, crowds, cliques, neighborhoods
(4) Social organization: membership results from people joining together because of common or similar interests in order to pursue these interests, e.g.'s, clubs, fraternities, work group, family, political society, religion

2. Processes of group integration

a. Assimilation: sense of belongingness
b. Cooperation: teamwork toward common goal
c. Conflict: effort to subdue
d. Accommodation: the mutual adjustments of groups that retain their own identity and interests
e. Competition: rivalry toward a similar goal

3. The degree of group integration or social organization

a. the extent to which all groups share - common outlook
b. how well the various groups communicate with each other
c. how much they depend on each other
d. how well they share responsibility for maintaining the social order

C. MAN'S SOCIAL HERITAGE (See Figure 6,Page 20)

1. Culture. . ."Pattern of Action"

a. Definition: the socially transmitted system of idealized ways in knowledge, practice, and belief, along with the artifacts that ~~knowledge~~ and practice will produce and maintain; as they change in time. . .It is the sum total of those relatively stable and standardized ways of satisfying human needs which are the product of social interaction.

b. Divisions of culture
   (1) Material. . .artifacts (man-made objects)
   (2) Non-material. . .menifacts (ideas, beliefs, customs, and institutions)
c. Forms and content of culture
   (1) Cultural traits: Manners, language, dress, food, recreation...
   (2) Cultural patterns
      (a) Folkways: fads and fashions - general habits or ways of doing things
      (b) Mores: any folkways which are considered by a group to be so essential to its welfare that it cannot be eliminated
      (c) Laws: a systematic body of generalized rules
      (d) Institutions: a set pattern of behaviorism

2. Cultural process: all cultures are stable and changing at the same time. These differences emerging in a culture resulting from the satisfaction of man's needs over a long period of time, identify the fact that social change occurs. The satisfaction of man's needs is not in itself a social change, but a change in the way the needs are satisfied is a social change.

3. Social inheritance: the transmission of established cultural traits to future generations by means of social groups and the education derived from these groups.

D. SOCIAL CHANGE: PROCESS OF CULTURE MODIFICATION (See Figure 7, Page 21)

1. Definition: evidence that the goods and services and the ways of life of the present are different from those of the past.

2. Steps necessary for social change:

   a. It must represent a real response to a felt need
   b. It is a sudden and drastic departure from present thought or action of that particular society
   c. It must not appear to impose a burden on society which will outweigh its advantages
   d. It cannot impose grave injury to vested interests

3. Proof of social change: take an inventory of the goods and services and ways of life of the past and compare it to those of the present

4. Means of social change

   a. Innovations
      (1) Inventions: a new application of knowledge
      (2) Discovery: an addition to previously existing knowledge
   b. Diffusion
      (1) Definition: the transmission of cultural traits or patterns from one society to another
      (2) Types of diffusion

(a) Direct diffusion occurs when persons or groups have actual contact, e.g., migration, colonization, wars, trade or commerce, and by missionaries
(b) Indirect diffusion is the spreading of traits and patterns without personal or group contact, e.g., printed material, radio and television, and the infiltration of ideas and goods through trade and commerce

c. Stagnation: a culture in which there is little or no change occuring.
d. Oblivion: a lost culture

4. Factors influencing social change

a. Requires many individual bearers of different cultures to come in contact
b. It depends upon the prestige of those who display it
c. It doesn't occur if the cultural item is in strong opposition to items already in use
d. Cultural lag: the tendency upon parts of a culture to remain comparatively stationary while related and dependent parts are changing
e. Taboo: a forbidden practice of a group
f. Tradition: a use of the past which has become a norm for the present and future
g. Myth: an anticipated future happening
h. Legend: a tale of an actual or assumed event of the past
i. Social disorganization
(1) Definition: the upsetting of established group life (disagreement with the status quo)
(2) Kinds of social disorganization
(a) Individual: crime
(b) Group: civil war
(3) Causes of social disorganization
(a) Too much or too little social control
(b) Poverty-ghettos
(c) Unemployment
(d) Crime and delinquency
(e) Cultural lags

E. SOCIAL CONTROL: NORMS OR LAWS (See Figure 7, Page 21)

1. Definition: the processes and means whereby deviations from social norms are limited by the group so as to achieve social order

2. Techniques of social control

a. Rewards: bonus, medals, praise, recognition, gift
b. Punishments: fine, imprisonment, unemployed

3. Types of social control

a. Mores
b. Laws
c. Institutions
d. Propaganda
e. Public opinion

4. Factors limiting the effectiveness of social control

   a. Stratification of society-caste and/or class distinctions
   b. Man's personal attempts to gain recognition and success
   c. Social adjustments cause conflicts, emotional instability in individuals

5. Result of social control: social stability

F. SOCIAL INSTITUTIONS (See Figure 8, Page 22)

1. Definition: a set of related folkways, mores, and laws integrated around a principle function or functions of a society (a set pattern of behavior)

2. Basic social institutions and their associations

   a. Marriage - Family
   b. Religious society - Church
   c. Political society - State
   d. Economic society - Work Group
   e. Education - School
   f. Recreation - Play Group
   g. International society - World Organizations

3. Purpose of social institutions

   a. Maintain cultural values
   b. Promote the social order
   c. To facilitate the accomplishment of social goals

4. Social goals (as applied to the Economic Society)

   a. Growth: the desire for an increasing standard of living for an increasing population
   b. Stability: the desire for a high level of employment without inflation
   c. Security: the desire for continuity of income in the face of physical or economic hazards
   d. Justice: the desire to minimize the inequalities of opportunities and of income
   e. Freedom: the desire of producers to select their occupations and of consumers to spend their income knowledgeably
   f. Efficiency: the desire for the most efficient allocation of economic resources

G. SOCIALLY-DEVELOPED MAN: THE PROCESS BY WHICH MAN ACQUIRES A CULTURAL CONTENT ALONG WITH A SOCIAL SELF-CONCEPT AND A PERSONALITY (See Figure 9, Page 23)

1. Cultural content

   a. Social heritage
   b. Social change and controls
   c. Social institutions

2. Social self-concept

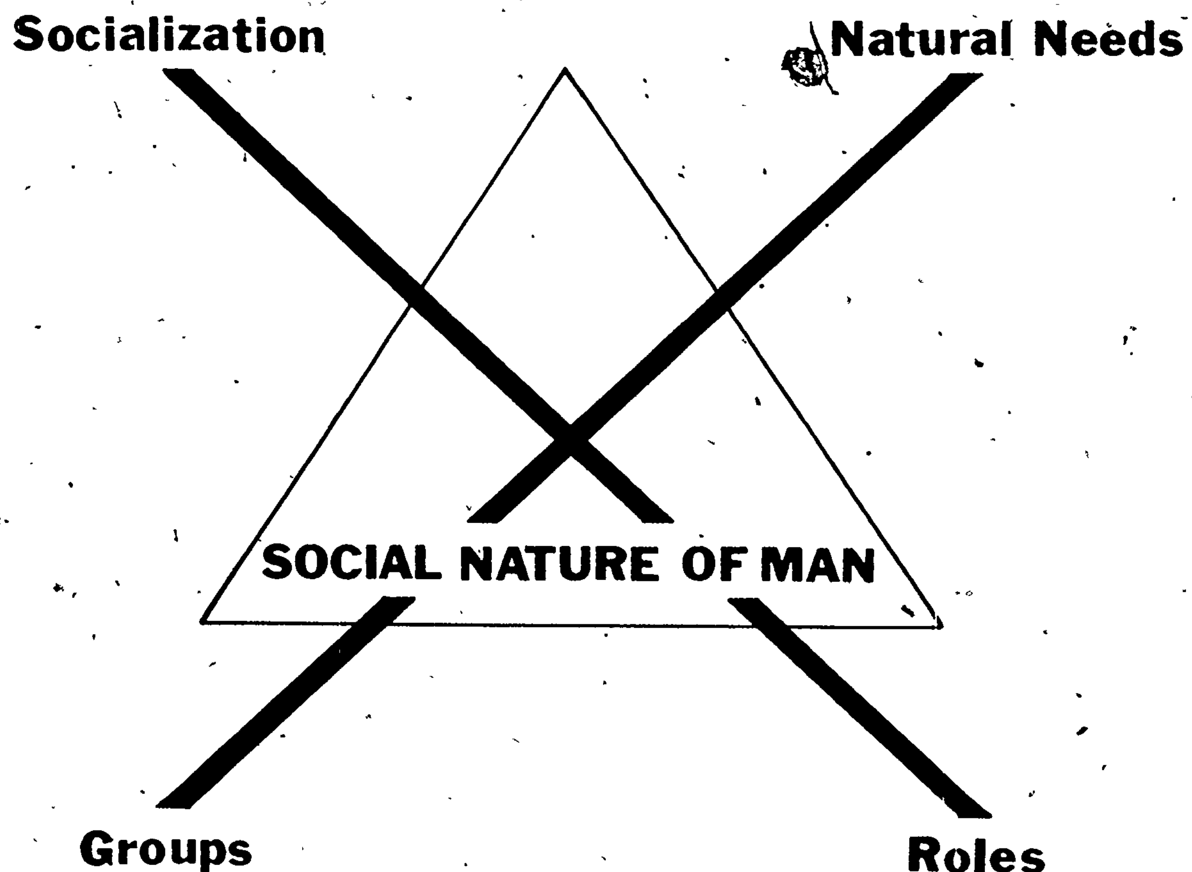
a. Definition: an awareness of what one shares with other personalities (the introjection on one's culture) and also of how one differs from other personalities, through the adoption of their attitudes toward himself
b. Process
(1) Early frustrations
(2) Identification of self
(3) Role-playing: assigned, assumed, projected

3. Personality

a. Definition: the sum of a person's values (goals, ideals, prestige, power) plus his nonphysical traits (habits) and their dynamic organization
b. Function: a purposeful striving Unity of Man, at the core of which lies the self conception
c. Basic conditions of personality
(1) Physical environment
(2) Biological heritage
(3) Social environment
(a) Culture
(b) Individual experience

FIGURE 5

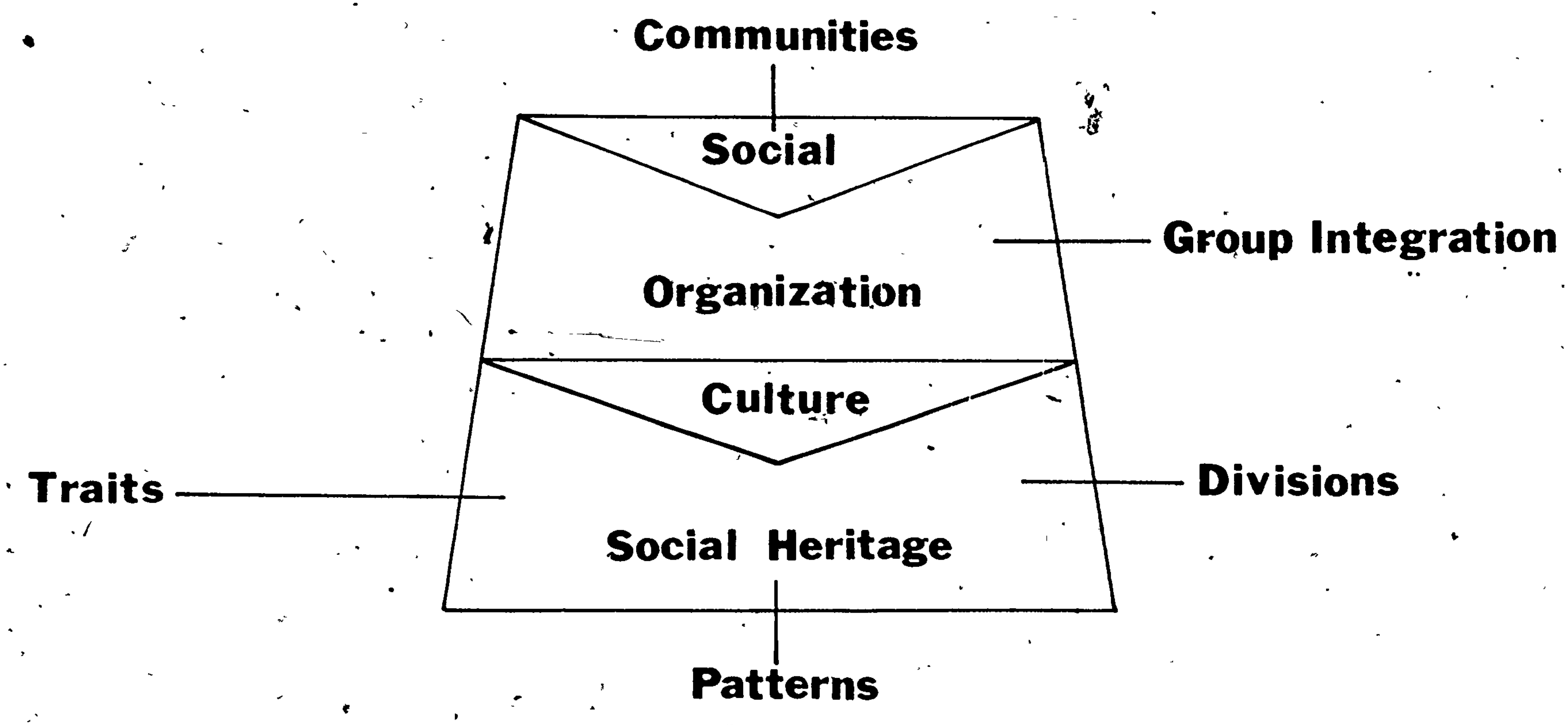
Social Nature of Man Unit II



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

FIGURE 6

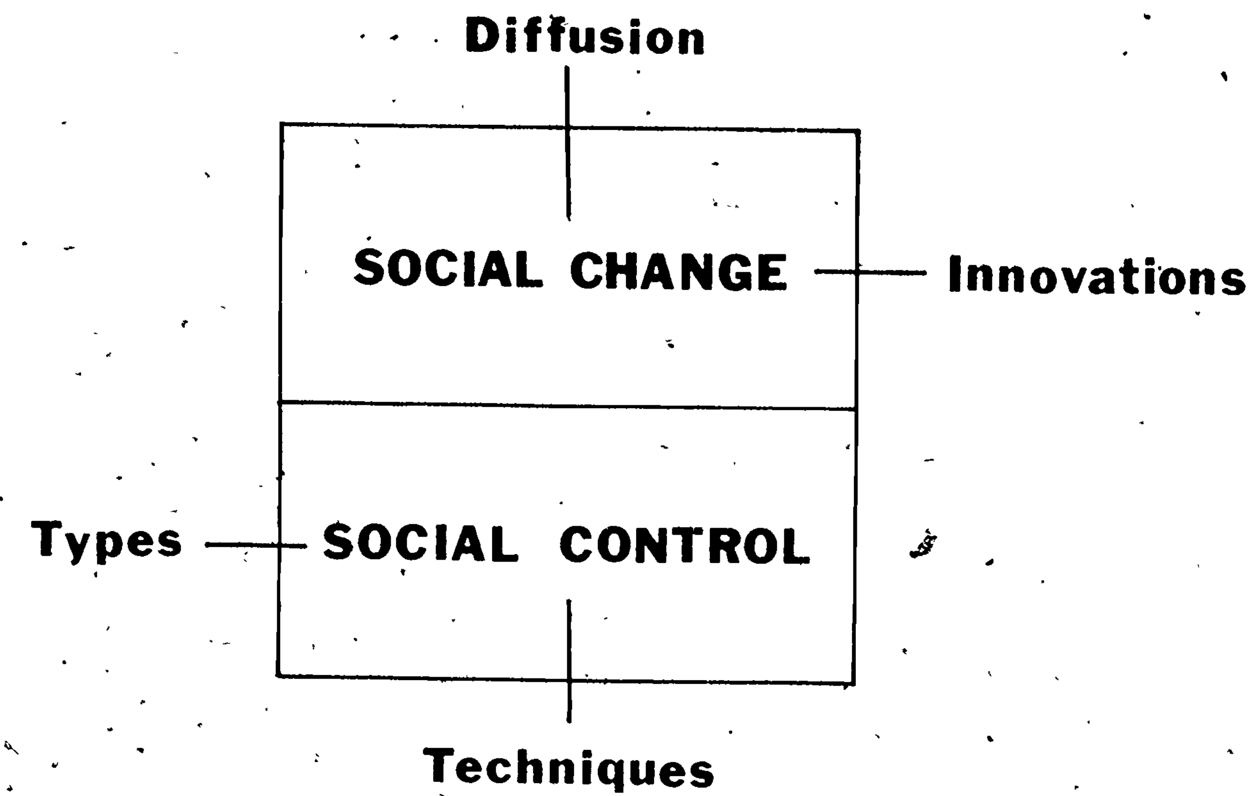
Social Organization - Social Heritage   Unit II



Source: Economics 12, Milo F. McCabe, Ohio Universtiy, Athens, 1968

FIGURE 7

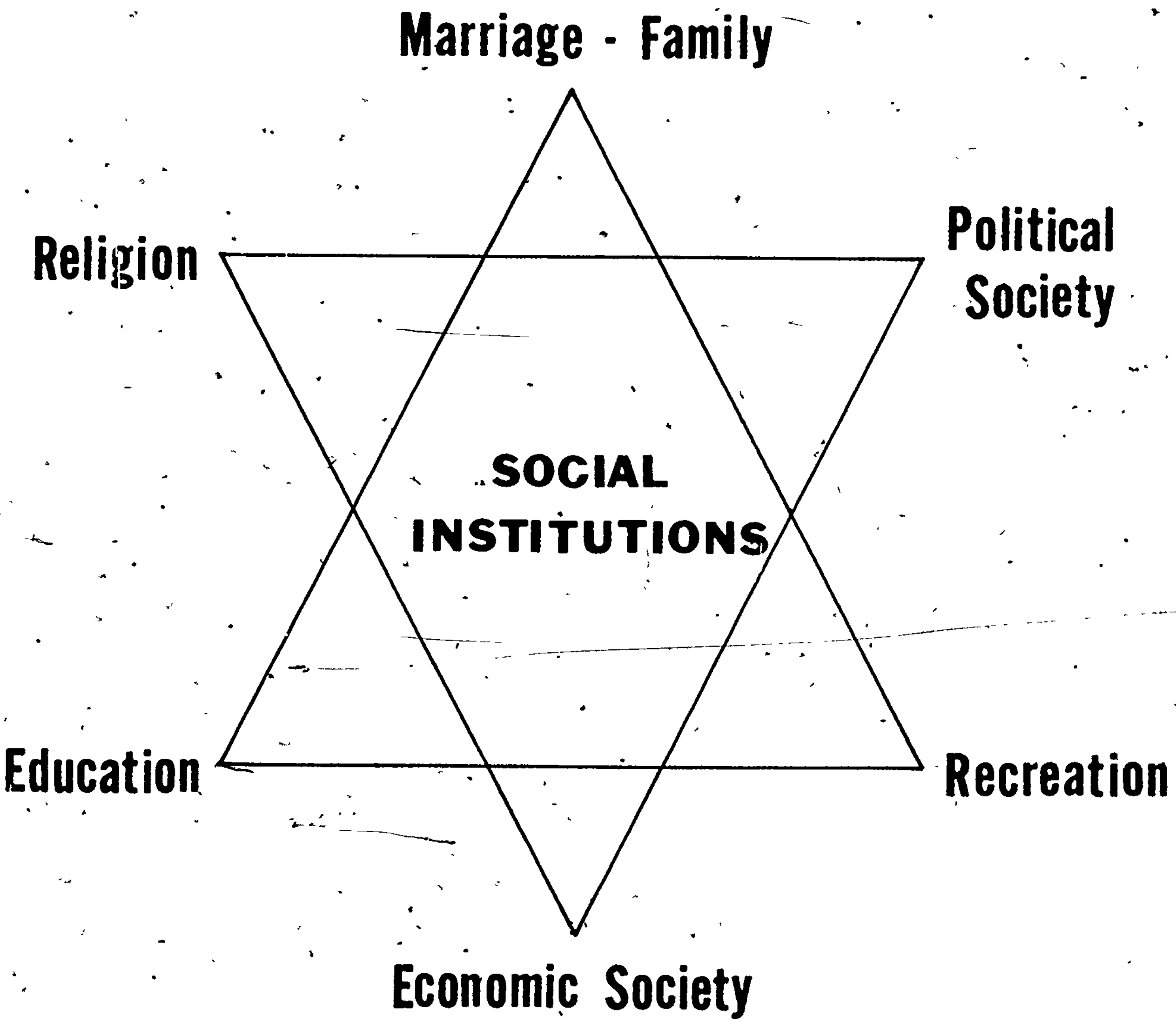
Social Change---Social Control (Unit II)



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

FIGURE 8

Social Institutions Unit II



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

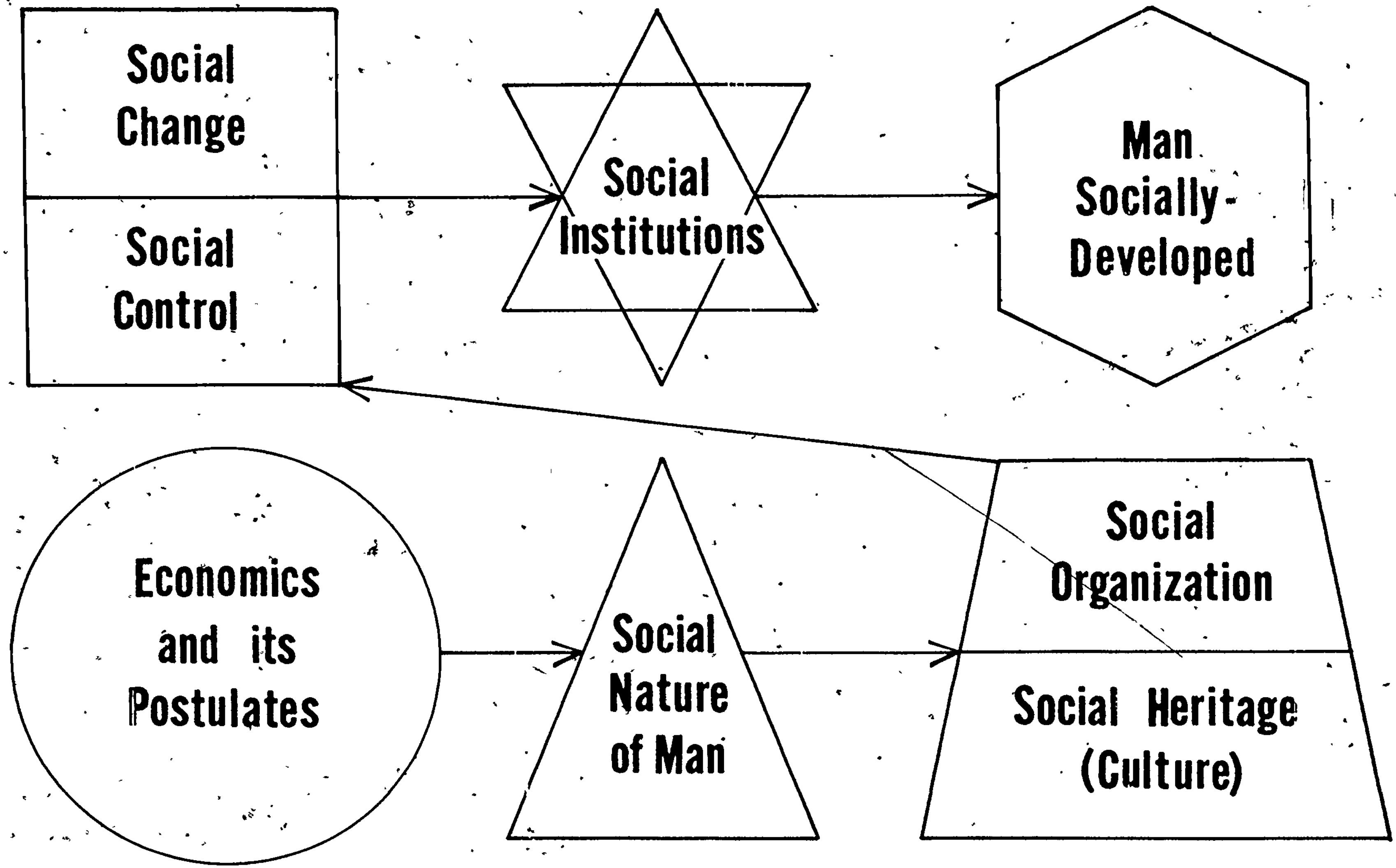
FIGURE 9

Man Socially-Developed Unit II

Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968.

FIGURE 10

Summation of Socialization of Man (Unit II)



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968.

UNIT III: Economic Society: A Social Institution

CONTEXT: The economic society is only one of the basic social institutions through which man functions. It is here where that aspect of social behavior dealing with man's activities devoted towards obtaining the material means for satisfying his individual wants is analyzed.

This endeavor by man to satisfy his unlimited wants by means of limited economic resources provides the basic problem upon which the fundamental idea relationships of economic knowledge are based. . . Concept of Scarcity.

Since the resources of the world (S.D.) are scarce, and thus are insufficient to satisfy all of the wants of its citizenry (mankind), man must learn to make sensible economic choices based upon knowledge, scientific comparisons, and analytical judgements (guesses).

. . .Concept of Choice Making - Economic Choices

In the process of selecting certain goods and services in the satisfaction of specific wants, other goods and services must be set aside and thus overlooked. This selection process denotes the costs involved in the process of making economic choices.

. . .Concept of Opportunity Costs

Through specialization man is able to increase his productive efficiency, thus enabling him to satisfy a greater number of wants. For specialization to exist there must be an economic system or market in which to operate or function. Thus, specialization necissitates a market--a place where buyers and sellers meet. In turn, the market determines the types and patterns of specialization that will prevail.

. . .Concept of Specialization

. . .Concept of Economic System or Market

CONCEPTS:

1. The fundamental idea relationships of economic knowledge arises from the basic economic problem; which is the conflict between man's unlimited wants and the limited economic resources available.

2. The resources of the world are scarce and do not satisfy the wants of mankind; thus, man must learn to make sensible economic choices, based upon knowledge, scientific comparisons, and analytical judgements.

3. This "economizing" problem involves decisions as to WHAT, HOW, HOW MUCH, and FOR WHOM goods and services are to be produced.

4. This process of establishing priority of wants through choice-making results in the expression of "opportunity costs".

5. Specialization makes for interdependence and thus necessitates an economic system, which in turn determines the patterns or types of specialization.

CONTENT: A. THE CONCEPT OF SCARCITY (See Figure 11, Page 28)

1. Definition: the conflict between man's unlimited wants and the limited economic resources available to satisfy these wants

2. Symbolic representation of the problem: W>R

3. Analysis of unlimited individual wants

   a. Primary wants: deals with the basic necessities for life: food, clothing, shelter
   b. Secondary wants: deals with those things which will add luxury or increased comfort to one's way of life
   c. Non-economic wants: those wants of man which deal with the emotional, spiritual, and cultural (aesthetic) needs of man
      (1) the desire for self-confidence
      (2) the desire for work which is enjoyable
      (3) the desire for respect from one's group
      (4) the desire for success or felt accomplishment
      (5) the desire for genuine affection

4. Analysis of limited economic resources

   a. Land or Natural Resources. . .raw materials which are found on, above, or beneath the surface of the earth
   b. Labor or Human Resources. . .any human physical or mental activity employed in the production process
   c. Capital resource. . .any product of past industry used in the further production of other goods and services
   d. Management. . .plans, coordinates, controls, and directs the entire productive cycle

B. THE CONCEPT OF ECONOMIC CHOICE

1. Economic activity essentially consists of the necessity to make choices (decision-making) subject to certain constraints or limitations within a market structure

2. "Opportunity costs". . .denotes what goods and/or services must be given up when other wants are satisfied

3. "Alternative uses". . .requires the proper allocation of economic resources in striving for efficiency in the process of satisfying unlimited wants

C. THE CONCEPT OF SPECIALIZATION (See Figure 12, Page 29)

1. Value of specialization: it increases productive efficiency so as to ease man's problem of unlimited wants vs. limited economic resources

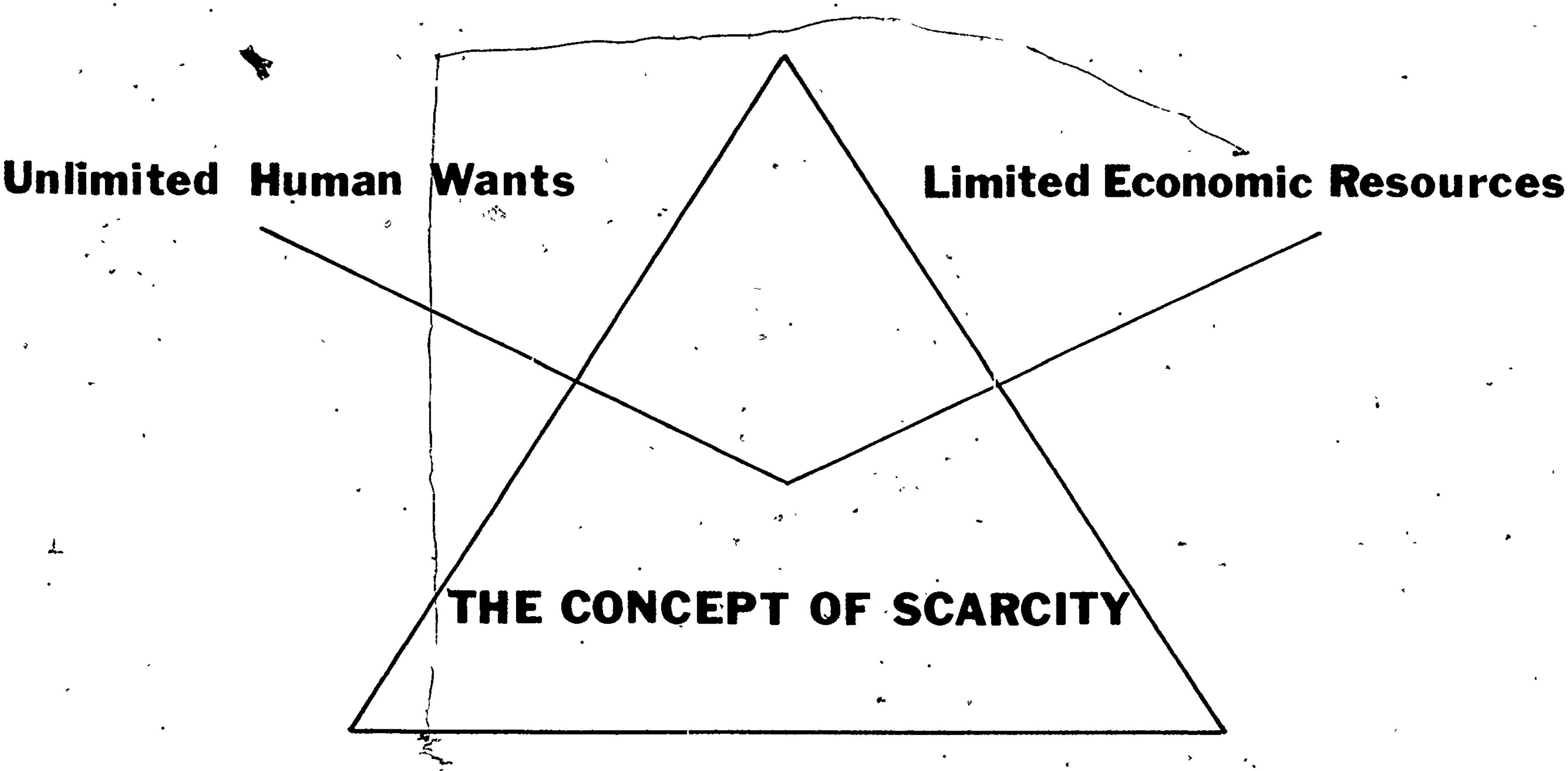
2. Specialization necessitates a market or economic system (a place where buyers and sellers meet)

3. Types and patterns of specialization as determined by a market

   a. Geographical specialization: based upon exploration and transportation (See SOUTH DAKOTA IN MAPS: Section XV)
   b. Occupational specialization: based upon expanding knowledge and education (See SOUTH DAKOTA IN MAPS: Section IX)
   c. Technological specialization: based upon innovations (inventions and discoveries

FIGURE 11

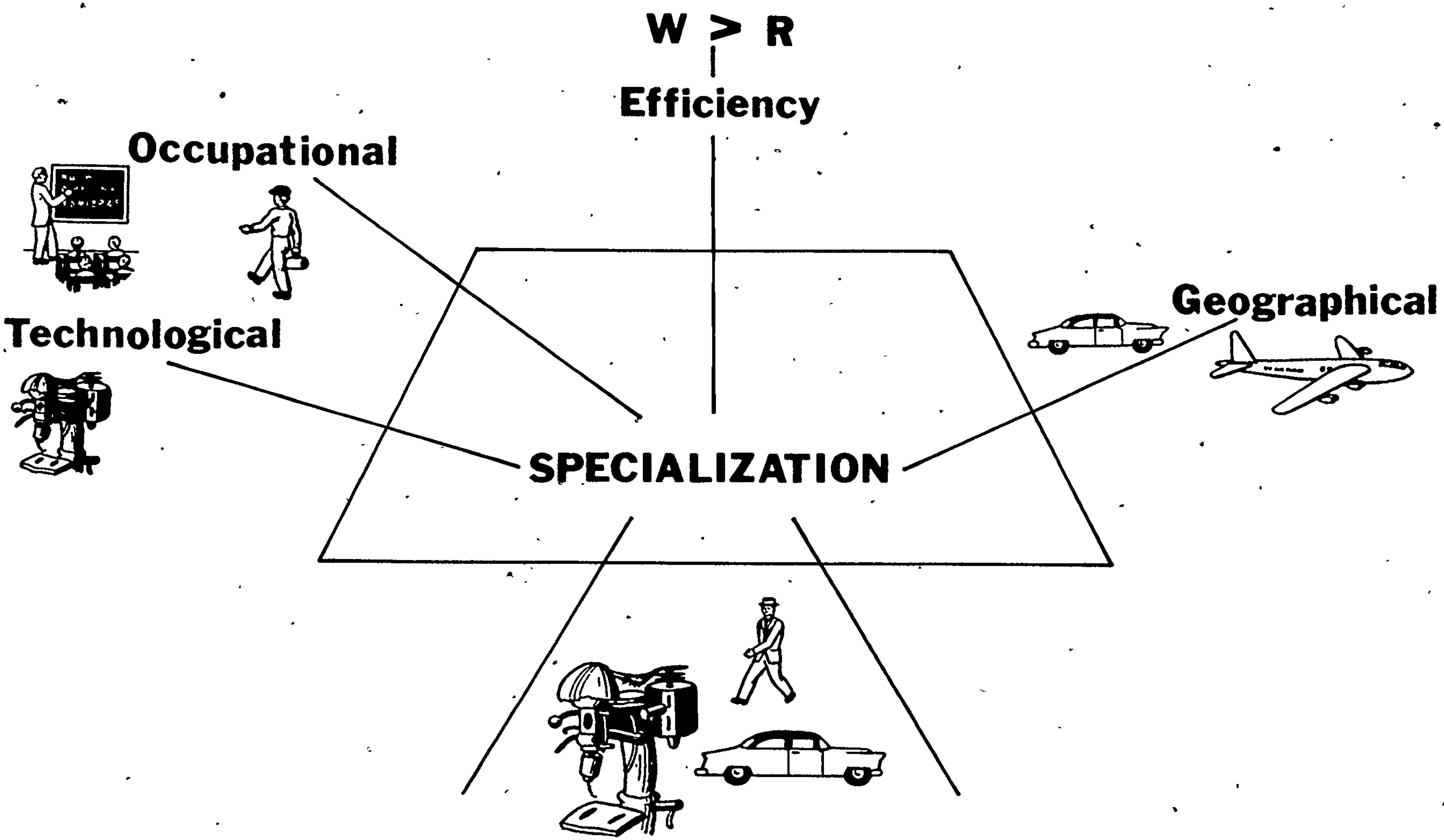
The Concept of Scarcity



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

FIGURE 12

The Concept of Specialization



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

UNIT IV: Economic System or Market

CONTEXT: The economic system or market is the tool through which the conflict of unlimited human wants and limited economic resources is mediated through the interaction of supply and demand. Not all societies or systems solve this basic problem of man in the same way. The impact of cultural lags (parts of society changing while parts are steeped in tradition) and social disorganizations (riots, demonstrations) is felt by the system, thus influencing its attempts to solve man's basic economic problem. Conditions of stagnation or oblivion may result for a system.

There are several approaches to economic organization as evidenced in today's world:

The three basic approaches are the following:

--the traditional or Free Society, which allows man to make all decisions free of government control or influence.

--the command or Centrally Directed Economy, which provides for the government to make all decisions.

--the decentralized or Mixed Market System which provides for varying degrees of man-made decisions and government intervention in the process of solving man's basic economic problem.

Figure 13: Basic Approaches to Economic Organization

Free ------------------ Mixed ----------------- Centrally-Directed

The basic types of economic organization as to structure are: Pure Competition, Monopolistic Competition, Oligopoly, and Pure Monopoly.

Figure 14: Types of Economic Organization

Pure Competition | Monopolistic Competition | Oligopoly | Pure Monopoly

The functional basis for these structures is known as the "Circular Flow". The "Circular Flow" is known as a "model"--the tool used by economists to describe an economic system and its relationships. The decision-making groups within the model are the Household or Consumer and the Business. Economic activity between these groups is represented by the essential elements (consumption, production, distribution, exchange) of the economic cycle or circular flow.

CONCEPTS:

1. Different societies solve economic problems in different ways.

2. The resource use problem is solved through some aspect of organized economy or system.

3. Economists use "Models" to describe an economic system and its relationships.

4. Decision-making groups in the market model are the Household, the Business Organization, and those who own productive resources.

5. Economic activity is represented by the essential elements of the economic cycle or Circular Flow.

6. The economic system is most often facilitated by money and transportation.

7. Money payments serve as a rationing and a directive device to the economy.

CONTENT: A. ECONOMIC ORGANIZATION: "MODEL BUILDING"

1. Approaches to Economic Organization

   a. Traditional society...free market economy: all economic decisions are freely made by the private sector of the economy - the businesses and the consumers, without any government intervention
   b. Command society...centrally-directed economy: all economic decisions are established by a central authority (government) and are dictated to the private sector
   c. Decentralized society...mixed market economy: economic decisions are derived through the actions of both the public and the private sectors of the economy

   Free <---------------> Mixed <---------------> Centrally-Directed

2. Determinants of Economic Organization

   a. The number of firms or producers involved
   b. The degree of competition among these firms
   c. The conditions for entry and/or exit from the market
   d. The type of product involved

3. Types of Economic Organization

   a. Pure Competition:
      (1) a vast number of firms or sellers
      (2) no individual firm seriously influences the total supply or the price of the good in the market
      (3) complete freedom of entry and/or exit of individual firms
      (4) all firms supply an identical product. . .#1 corn, prime beef
      (5) Example: Field of agriculture in U.S. Economy
   b. Monopolistic Competition:
      (1) a relatively large number of firms or sellers
      (2) the individual firm has a slight influence on the total supply and the price of the good in the market
      (3) sellers determine their production and pricing policies independent of the effects of competitive policies.
      (4) there is freedom of entry and/or exit of individual firms
      (5) the product is similar but differentiated - vast use of advertising employed
      (6) Example of Monopolistic Competition: retail-trade
   c. Oligopoly:
      (1) only a few firms or sellers (2-10)

(2) there is mutual interdependence among the firms; that is, one seller's policy in pricing and supply affects the actions of the other seller
(3) there are strong barriers to entry and exit, e.g., economies-of-scale, vast investment, etc.
(4) the products are either standardized (steel, oil) or differentiated (cars, appliances)

d. Pure Monopoly:
(1) only one seller or firm
(2) complete control of the marketing of a given good or service (price and supply)
(3) there are strong barriers to entry and/or exit: e.g., government franchise, trademark, etc.
(4) the product is unique or identical: e.g., economical to consumer if there is only one supplier
(5) Example of Pure Monopoly: public utilities

4. The Economic System or Market (See Figure 16, Page 35)

a. Definition: an intangible collection of laws, devices, institutions and arrangements which enable individuals, groups, and agencies to make the necessary economic choices.

b. Characteristics of an economic system
(1) it is man made
(2) it is developed on a day-by-day basis
(3) it changes continuously
(4) in a Free Economy, the decisions are made by everyone to help build this economic architecture
(5) in a Centrally-Directed Economy, the decisions are made by a central authority (government) according to some pre-determined scheme or national plan
(6) in a Mixed-Market Economy, the individual is free to make decisions within reason as he acts or performs within a market; with guidance and supervision from a governing authority. . .

c. Basic institutions involved in a Mixed-Market Economy
(1) private property ownership
(2) freedom of contract
(3) process of competition
(4) pursuit of self-interests
(5) a standard monetary unit: Dollar
(6) a standard monetary system: Gold Bullion Standard
(7) fiscal controls - actions by Congress, President, Supreme Court

B. CIRCULAR FLOW OF ECONOMIC ACTIVITY MODEL (See Figure 15, Page 34)

1. Definition: the continuous flow of productive services (labor) and finished products in one direction, implemented by the flow of money in the opposite direction and guided by the price system into thousands of different directions

2. Working explanation of the Circular Flow: To buy something, the consumer must have an income. He receives an income by selling his productive services to a business which is willing to buy them. In return the business offers finished products and services which the consumer buys with his income. Thus income, prices, employment, and production are interrelated and interdependent one upon the other. Therefore, if there is a change in one, it affects the others.

3. Decision-making groups in the Circular Flow Model

   a. Consumer or household
   b. Business organization or firms

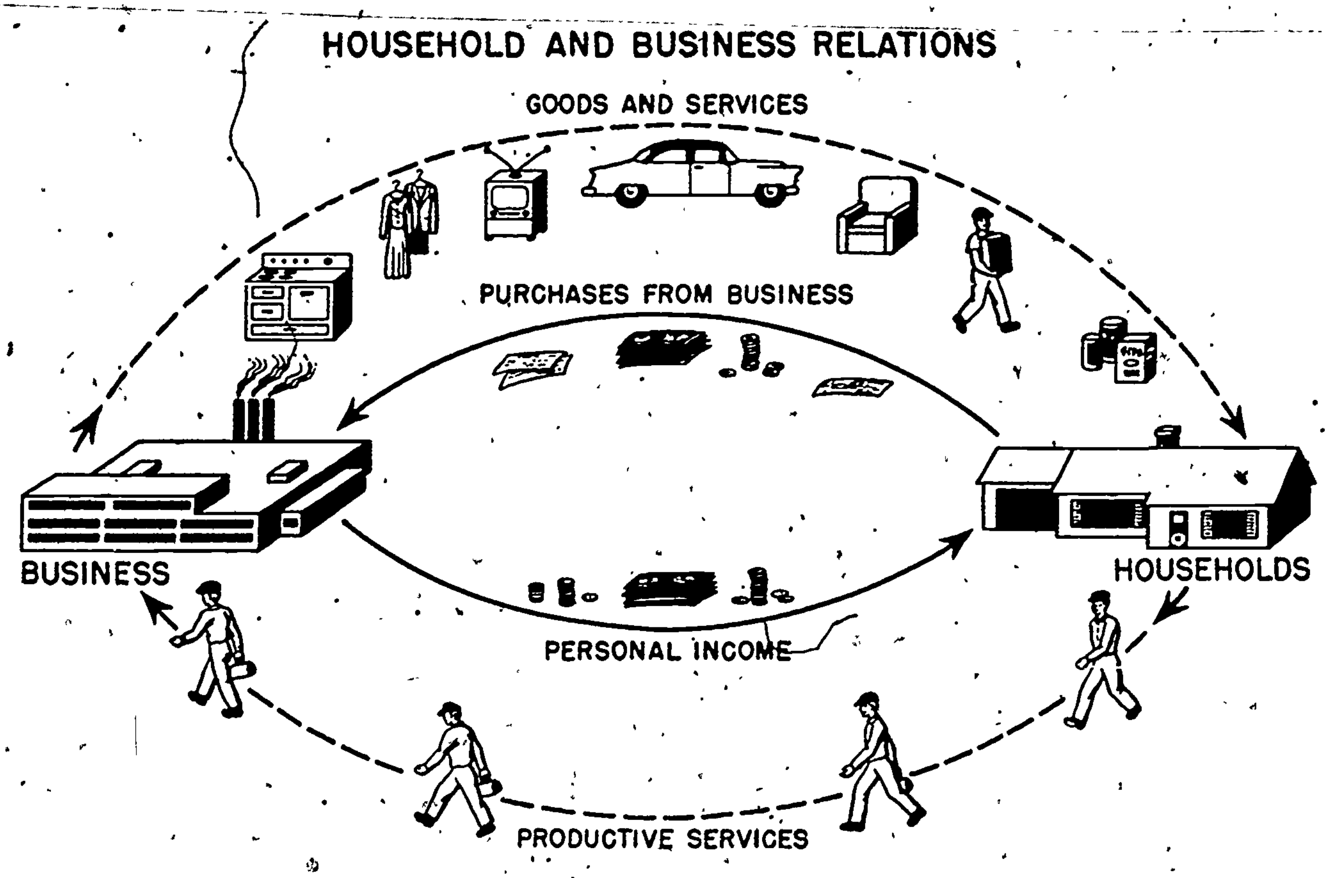
4. The essential elements of the Economic Cycle

   a. Consumption
   b. Production
   c. Distribution
   d. Exchange

5. Wagner's Circular Flow Model (See Figure 15, Page 34)

FIGURE 15

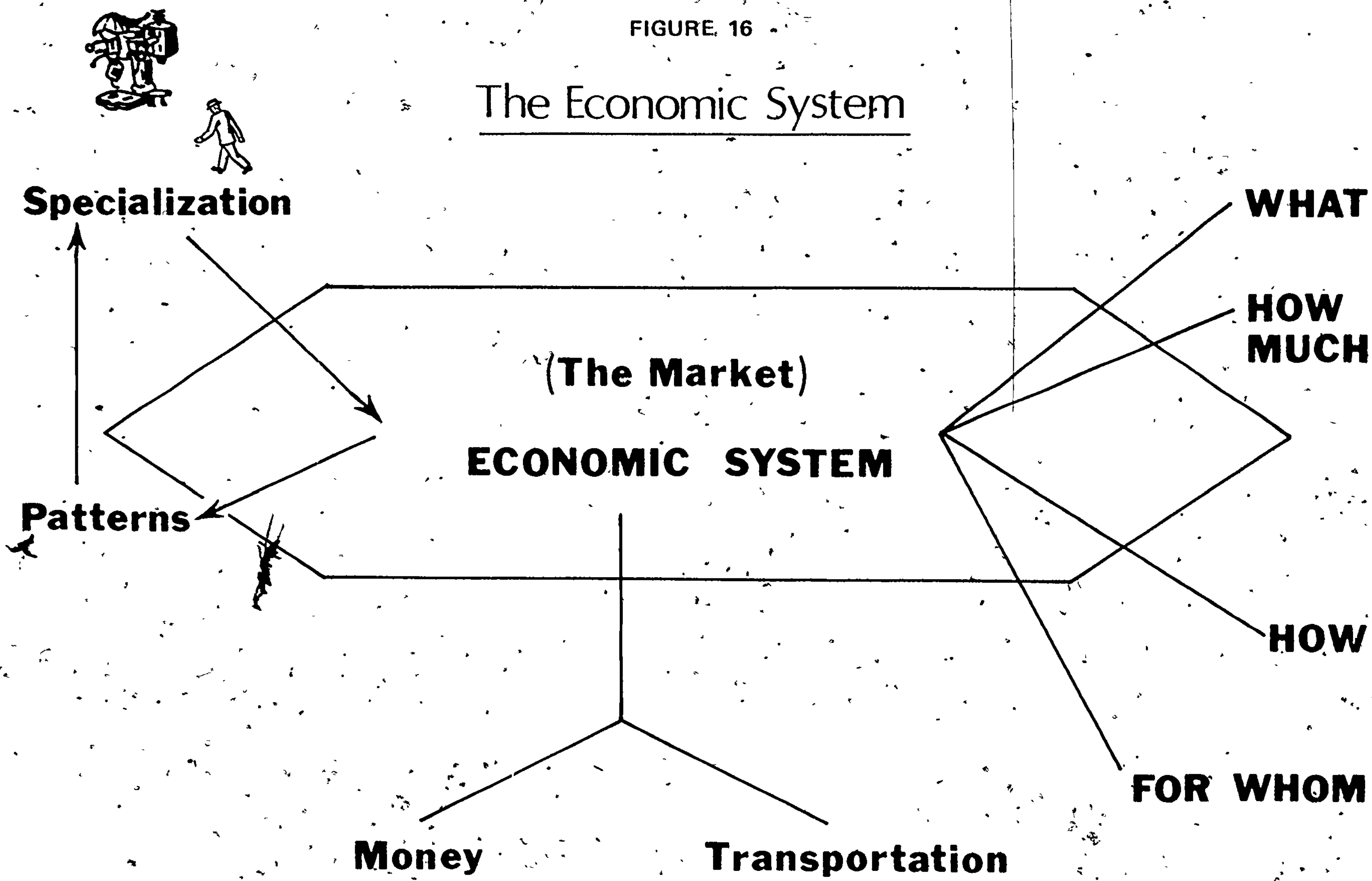
Circular Flow Of Economic Activity



Source: Measuring The Performance Of The Economy, by Lewis E. Wagner. Bureau of Business and Economic Research, The University of Iowa, Iowa City, 1971.

FIGURE 16

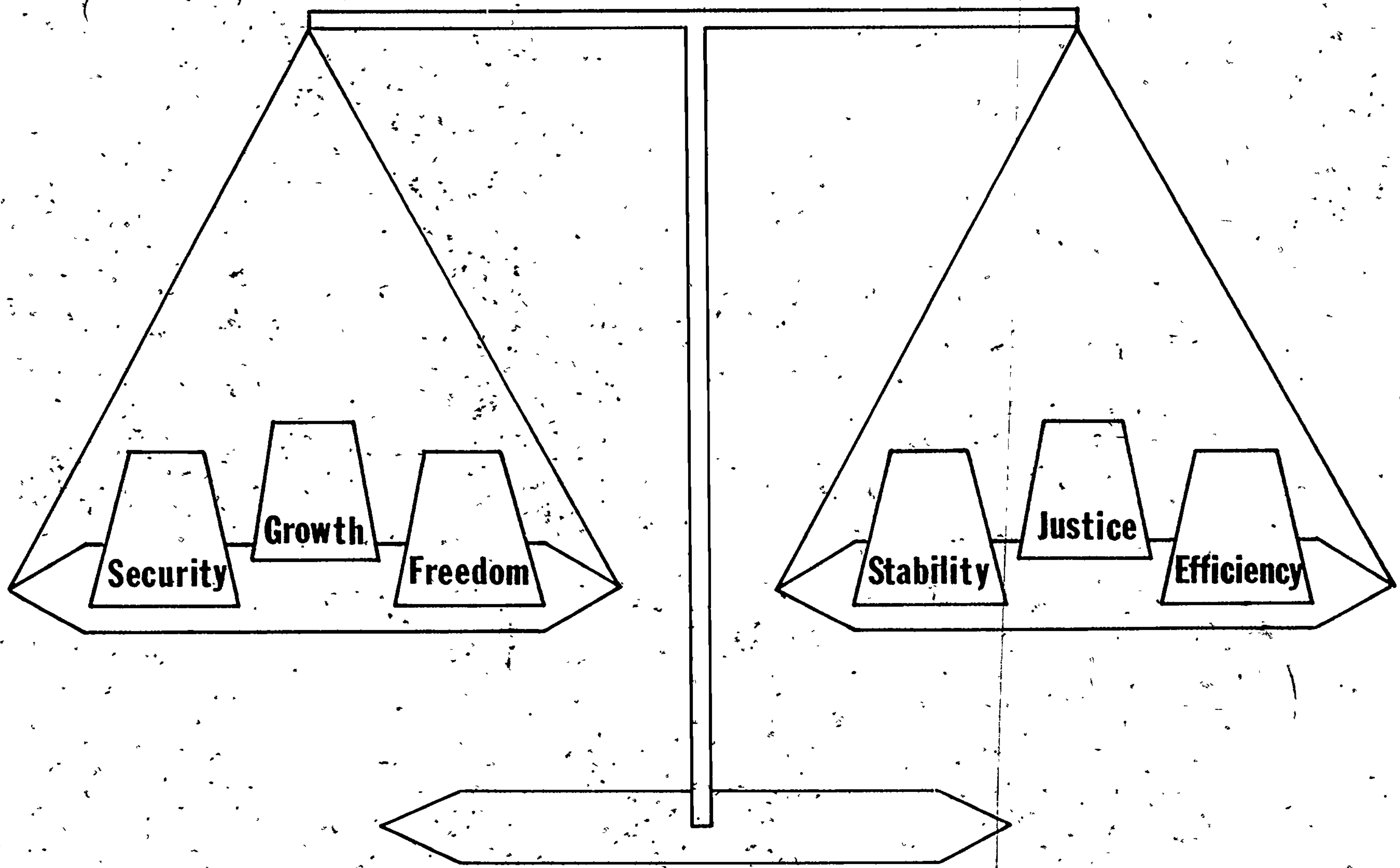
The Economic System



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

FIGURE 17.

Public Policy (Social Goals)



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

UNIT V: CONSUMPTION FUNCTION AND THE PRODUCT MARKET

CONTEXT: The consumption function, measured in the Product Market, determines the direct utilization of goods and services produced. Thus, the unlimited individual wants, when backed up by the willingness and the ability to buy, act as a directive device in determining the vast types and quantities of goods and services that are to be produced in the Product Market. The level and nature of demand will therefore depend greatly upon consumers' income, preferences, ease of substitution, prices, and the knowledge of alternative goods and services. The level and nature of supply, in turn, will depend upon the costs of economic resources, the price of the product in the market, the costs of substitutes, the influence of new industries into the economy, the advancement of technology, etc.

The free transfer of wealth, goods and services, for mutual benefit is known as exchange. The operation of exchange is most often facilitated by money and transportation. Money payments serve as a rationing and a directive device to the system.

CONCEPTS:

1. The Consumption Function determines the utilization of goods and services through an impersonal system of prices, markets and controls.
2. Market prices or controls act as signals in the economy by indicating the levels and patterns of consumption, and the levels and patterns of production.
3. Business motivated by the profit motive strives to produce those goods and services in greatest demand.
4. Households or consumer demand is one of the basic determinants of what will be produced.
5. The level and nature of demand depends greatly upon consumer's income, preferences, prices, the ease of substitution, and the knowledge of alternative choices of goods and services.
6. The equilibrium goal is reached when there is no increased satisfaction in buying more of one thing and less of another.
7. Prices representing shifting demand and supply conditions are the main regulators of the allocation of scarce resources into the production of the most desired goods and services.
8. Resource ownership largely determines the individual's income in a market economy.
9. The economic system is most often facilitated by money and transportation.
10. The Range of Mutual Benefit will determine whether or not a buyer or seller will be in the market at any one time.
11. The Consumption Function is measured in the Product Market.

CONTENT: A. CONSUMPTION FUNCTION

1. Definition: the direct utilization of finished goods and services.

2. Aspects of Consumption

   a. Services: any action which satisfies an individual want without involving a product (TV repair, haircut, dry cleaning, etc.)

   b. Finished Goods

      (1) Definition: any product or commodity that satisfies an individual want

      (2) Types of Goods:

         (a) Free Goods - those supplied by nature in large and convenient quantities for everyone without cost (air, sunlight, rainfall)

         (b) Economic Goods

            ((1)) Definition: those goods whose usefulness has been improved upon by man

            ((2)) Types of Economic Goods

               ((a)) Consumers...goods which are directly used by the individual for his own personal use

               --Durable Consumer Goods...those products which can be used again and again over a long period of time (car, house, tools, appliances, etc.)

               --Nondurable Consumer Goods...those products which are used only once (food, electricity, gasoline, etc.)

               ((b)) Producers...those goods which are used in the further production of other goods and services (machines, tools, etc.)

3. Classifications of Human Wants:

   a. Primary - wants which satisfy the basic necessities for life

   b. Secondary - wants which add pleasure and increased comfort to one's life when satisfied

   c. Non-Economic - wants which deal with the emotional, cultural, and spiritual needs of man

4. Consumer Demand

   a. Definition: an individual want which is backed up by the willingness to buy and the ability to buy a given good or service.

   b. Nature of Consumer Demand: It is a determinant of, or an influence on, the level of income and economic choice-making for individuals in a given society.

B. ANALYSIS OF EXCHANGE

1. Definition: that essential element of the economic system that facilitates the free transfer of wealth (goods & services) for mutual benefit.

2. Types:

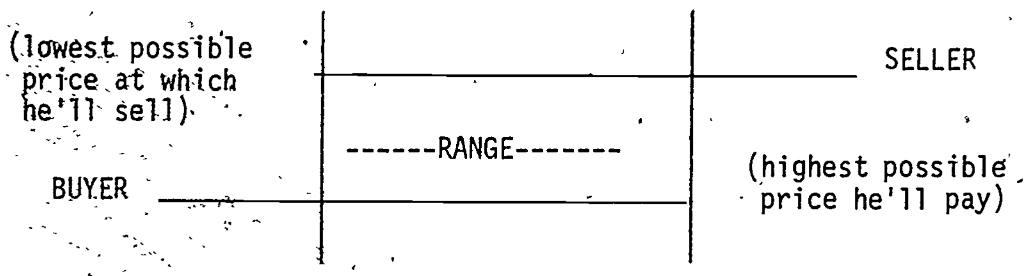
   a. Direct Exchange: Barter: the free transfer of goods and services without the use of money
   b. Indirect Exchange: the free transfer of goods and services with the use of money

3. Methods of Exchange:

   a. Haggling: the simplest form of exchange...it is the process of determining price through argumentation in an effort to determine the range of mutual benefit
   b. Auction: the process in which the price for a good or service is determined by the most eager bidder.
   c. Market: a place where buyers and sellers meet and in which the price is determined through the interaction of supply and demand for goods and services (Retail, Wholesale, Farmers, Commodity, Securities, etc.)

4. Analysis of the Range of Mutual Benefit:

   a. Definition: the range or area in which a buyer and seller will mutually agree upon the price of a good or service, thus, facilitating a transaction
   b. Range of Mutual Benefit Model: Figure No. 18.



C. PRODUCT MARKET (See Figure 19, Page 40)

1. Major questions to be answered:

   a. <u>WHAT</u> goods and services are to be produced or supplied
   b. <u>HOW MUCH</u> will be demanded

2. Product Market Model: (See Figure 19, Page 40)

3. Product Markets in South Dakota: (see SOUTH DAKOTA IN MAPS)

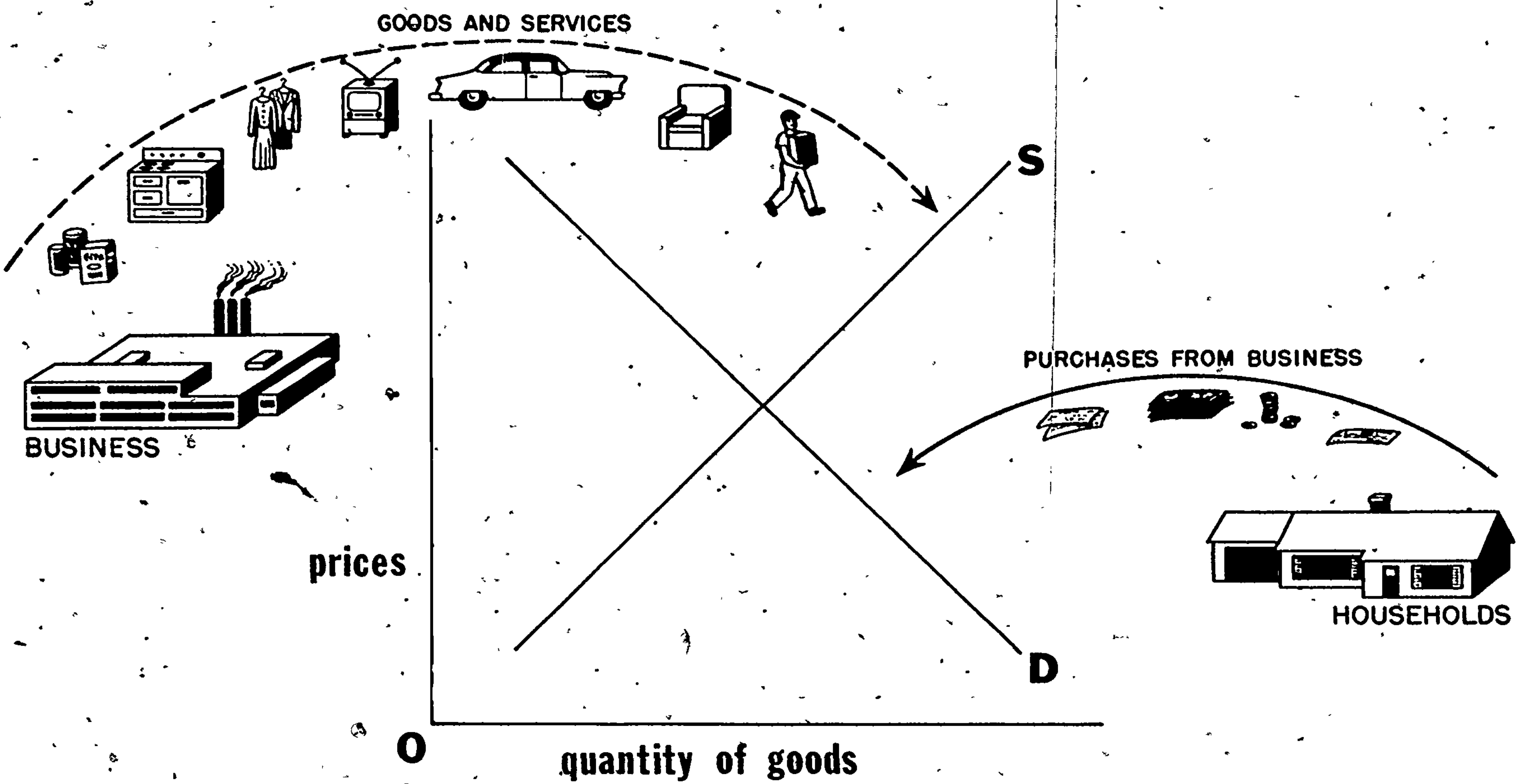
   a. Cattle ranching - Livestock production: see Section VII
   b. Farming: see Section V
   c. Manufacturing and Commerce: see Section VIII
   d. Tourism: see Section IX

4. Concept of Market Demand

   a. Definition: demand is a schedule or a series of quantities of a given good or service which would be purchased at various possible prices

FIGURE 19

PRODUCT MARKET MODEL: Goods and Services



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

b. Determinants of Demand:
   (1) consumer's income
   (2) consumer's tastes and preferences
   (3) consumer expectations in respect to their future income and future prices
   (4) prices of related goods - substitutes and complements
   (5) number of buyers in the market

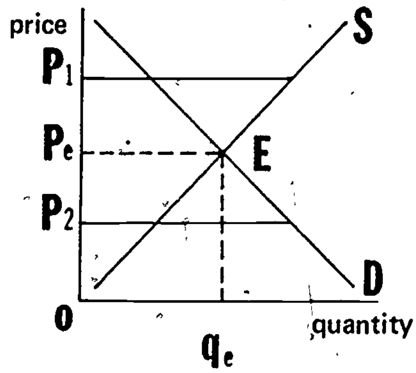
5. Concept of Market Supply

   a. Definition: supply is a schedule or series of quantities of a given good or service which would be produced or offered for sale at various possible prices
   b. Determinants of Supply:
      (1) the costs for the economic resources (labor, land, capital) the basic determinant
      (2) the price of the good or service in the market - price expectations
      (3) the number of industries in the field of production
      (4) the price of alternatives
      (5) advancements in technology - techniques of production

6. Price Determination: Perfect Competition

   a. Prices equate the amount demanded and the amount supplied
   b. Equilibrium price is the price from which there is no tendency or force to move...it is a position of balance within the market; a point at which all producers and buyers are satisfied
   c. Changes in either the Demand or Supply for a product will affect the equilibrium price and quantity demanded or quantity supplied.

7. Pure Competitive Market Model: (S=D): Figure No. 20



   a. Price: "too high for equilibrium" (P_1) S > D - the supply of the goods is greater than the demand for the good, which will result in the decline in its price in order to clear the market of that good.
   b. Price: "too low for equilibrium" (P_2) S < D - The demand for the good is greater than the supply for the good, which will result in the increase in price as more goods are produced to meet the needs of the excess demand.

UNIT VI: THE PRODUCTION FUNCTION AND THE FACTOR MARKET

CONTEXT: The Production Function, measured in the Factor Market, determines the production or creation of goods which are used in the further production of other goods and services. The major decisions to be made in the Factor Market are:

-How Much of each economic resource will be used in the productive process?
-How each economic resource will be properly allocated or substituted?
-For whom will the goods and services be produced - a response to consumer demand.

The important economic resources or factors of production in the Factor Market labor or human resources, land or natural resources, capital resources, and management or organization. The determinants of demand for these resources depends primarily upon consumer demand for those products which utilizes these resources. Other determinants influencing the demand for them are: the desire of the owner of the resource for profit; technology; prices in both the Product Market and the Factor Market; etc.

Some of the determinants of supply of economic resources are: the availability and closeness of substitutes; the variations of occupational skills available; and the willingness of producers to pay for these economic resources.

The employment of these resources in the productive process generates income to their owners: for labor the income is Wage; for land the income is Rent; for capital the income is Interest; and for management it is Profit.

Prices representing shifting demand and supply conditions are the main regulators for the allocation of scarce resources into the production of the most desired goods and services.

The performance of the economic system is thus measured through the distribution of income and also through the exchange of goods and services.

CONCEPTS:

1. The Production Function is measured in the Factor Market.

2. The important economic resources in the factor market are labor, land, capital, and management.

3. The use of these resources in the productive process generates income - for labor: wage; for land: rent; for capital: interest; for Management: profit.

4. Money prices are signals in the market indicating the allocation of scarce resources, and the levels and patterns of income distribution.

5. Prices representing shifting supply and demand conditions are the main regulators of the allocation of scarce resources into the production of the most desired goods and services.

6. Resource ownership largely determines the individuals' income in a market economy.

7. The demand for productive services depends in part on the ease with which one productive factor can be substituted for another in the productive process.

8. Demand for productive services depends on the demand for the products which employ these services.

9. Capital formation through savings is a major way of increasing the nation's output of goods and services.

10. Effective competition in markets is a necessary condition, if a basically private enterprise system is to allocate resources effectively in accordance with consumer demand.

11. Return to the producer must cover the costs of production in order to sustain economic activity.

12. Cost and revenue information aid in telling how much to produce, and where the point of maximum return is located.

CONTENT: A. PRODUCTION FUNCTION: "the creation of utility"...the furnishing of finished goods for use by man everywhere...the making of goods used in the further production of other goods and services.

B. FACTOR MARKET

1. Major decisions to be made:

a. HOW MUCH of each economic resource will be used in the productive process.
b. HOW each economic resource will be properly allocated or substituted.
c. FOR WHOM goods and services will be produced; based upon the incomes generated from each of the economic resources employed in the productive process.

2. Factor Market Model: (see Figure 21, Page 44)

3. Determinants of Demand for Economic Resources:

a. depends upon the consumer demand for the product which contains these resources
b. depends upon technology
c. depends upon the desire for profit by the owners of the resources

4. Determinants of Supply for Economic Resources:

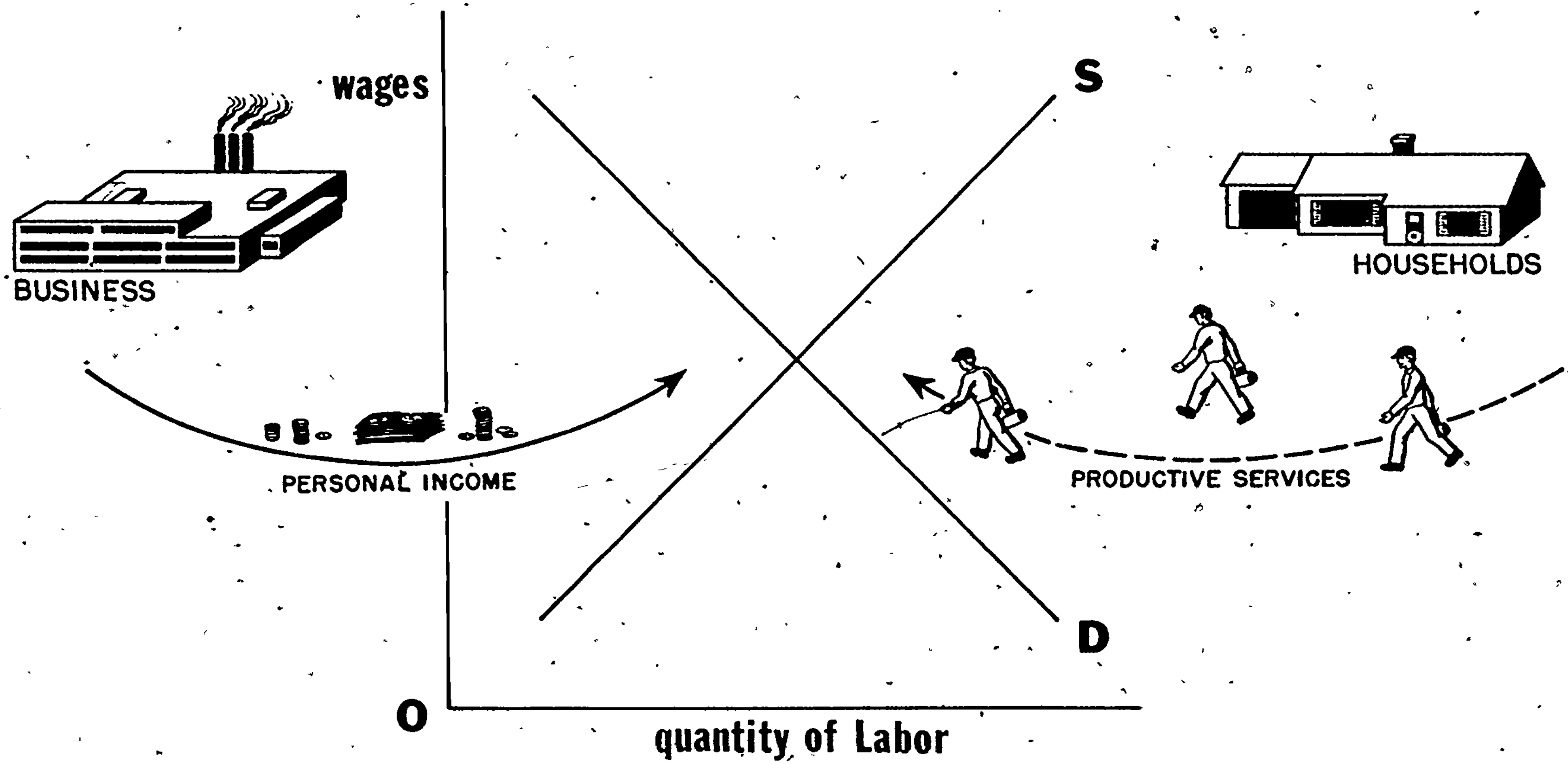
a. availability of substitutes
b. price of substitutes

C. ANALYSIS OF THE FACTORS OF PRODUCTION: ECONOMIC RESOURCES:

1. Land or Natural Resources

FIGURE 21

Factor Market Model: Labor or Human Resources



Source: Economics 12, Milo F. McCabe, Ohio University, Athens, 1968

a. Definition: raw materials supplied by nature that are on, above, or beneath the surface of the earth
b. Types:
(1) Permanent: those supplied by nature in large and convenient quantities for everyone at no cost. (air, sunlight, rainfall...)
(2) Replaceable or Renewable: raw materials which can be restored in quality to some degree through conservation. (fresh water, soil, forests...)
(3) Non-Replaceable or Non-Renewable: Raw materials, once used, cannot be restored. (minerals: gold, oil, coal, iron ore, natural gas, copper...)
c. Ways of using natural resources or land:
(1) Extensive Use: only a small amount of labor and capital are applied to land in the production process. (example: ranching in western South Dakota)
(2) Intensive Use: a vast amount of labor and capital are applied to land in the production process. (examples: Midwestern farms; factories in metropolitan areas)

2. Labor or Human Resources

a. Definition: any human physical or mental activity used in the productive process.
b. Human Resource Base:
(1) Labor Force: any person 16 years of age and older who is working, looking for work, or out of work because of illness, vacation, bad weather, labor disputes, or temporary lay-offs.
(2) Composition of the Labor Force of South Dakota: (See SOUTH DAKOTA IN MAPS: Section IV: Population)
(3) Characteristics of South Dakota's Labor Force: (See SOUTH DAKOTA IN MAPS)
(a) as to Education & Training: Section X: Education.
(b) as to Health: Section XIV: Health Services.
(c) as to Labor Mobility: Section IV: Population.
c. Classifications of Labor:
(1) Skilled: requires extensive training plus experience
(2) Semi-Skilled: requires some training, knowledge and experience, yet not enough to be skilled
(3) Unskilled: performs tasks that require no skill
(4) Professional: requires a tremendous amount of knowledge and formal training...a college education
(5) Managerial or Proprietary: those who own their own business, or aid in the management of a business or government office

3. Capital Resources

a. Definition: any product of past industry used in the further production of other goods and services
b. Classifications:
(1) Capital Funds or Monetary Capital: money which is invested in the productive process for land, buildings, equipment... (the value of money is in what it can buy)

(2) Capital Goods: the land, building, equipment...
c. Primary source of Capital: SAVINGS.
d. Social or Public Capital: that owned by public or private non-profit institutions

4. Management or Organization.

a. Definition: that factor that plans, coordinates, controls and directs the entire productive cycle.
b. Role of the Entrepreneur or Business Manager: that person or persons who carry out the functions of Management.
c. Types of Business Organizations:
(1) Single Ownership or Proprietor: a one-man business enterprise
(2) Partnership: a legal association of two or more persons who assume jointly the risks and responsibilities of a business organization
(3) Corporation: a legal entity or artificial person with the power to hold property, make contracts, and be subject to full responsibility for its actions before the courts.
(4) Cooperative: a self-help business enterprise

D. ANALYSIS OF INCOME DISTRIBUTION TO THE FACTORS OF PRODUCTION: DISTRIBUTION FUNCTION:

1. Rent...to Land or Natural Resources

a. Definition: the return or income received for the use of land in the productive process.
b. Classifications:
(1) Economic Rent...for the use of land only - based on fertility or quality
(2) Commercial Rent...for the use of capital goods (buildings) as well as for the use of land.

2. Wage...to labor or Human Resources.

a. Definition: the return or income received for the employment of labor in the productive process.
b. Classifications: hourly wage, commission, salary, piece-work, fees, etc.
c. Concepts of Wages:
(1) Money Wage: the total amount of money contracted for the use of labor.
(2) Disposable Wage or "Take-Home Pay": the amount of money available to spend or save after all deductions (income taxes and social security)
(3) Real Wage: the purchasing power of Disposable Wages...what one can buy with one's take-home pay

3. Interest...to Capital Resources.

a. Definition: the reward or income received for providing Capital Funds: SAVINGS
b. Classifications as to loans granted
(1) Consumptive...consumer purchases
(2) Productive...business investments

4. Profit...to Management or Organization

a. Definition: the reward or income received for assuming the risks and responsibilities of a business enterprise

b. Classifications:

(1) Gross Profit: those total earnings of the business

(2) Net Profit: the amount of profit remaining after all costs have been paid

(3) Net Profit After Taxes: corporate earnings available for Dividends

UNIT VII: Modifications of the Market Mechnaism

CONTEXT: A competitive capitalist economy is thought to be conducive to a high degree of efficiency in the use of its resources. Competition, the primary mechanism of control in the market economy, will foster an identity of private and social interests.

The basic virtue of the price system is its continuing emphasis upon efficiency. It produces what consumers want through the use of the most efficient techniques..

Criticisms of the price system are several: controlling mechanism competition tends to weaken over time; inherent income inequalities prevent the price system from producing that collection of goods most wanted by society; the price system reallocates resources sluggishly and imperfectly to changes in the structure of demand; the competitive price system does not guarantee continued full employment.

The price system of American capitalism differs from the pure competitive price system in that it is characterized by monopolies, giant corporations and unions in certain product and resource markets, and by government intervention in the economy to correct the major defects of the pure competitive price system.

Today, all real-life economies are a mixed-market; government and the price system of the private sector share the function of answering the fundamental economic questions of What, How, How Much and For Whom goods and services will be produced.

In American Capitalism, currently, about four-fifths of the total output of the economy is provided by the market system, the remaining one-fifth being produced under the sponsorship of government.

The basic economic functions of government entail providing a legal and social framework appropriate to the effective operation of the price system; maintaining competition; redistributing income; reallocating resources to provide for social goods and services, and stabilizing the economy.

The government's economic role has increased historically because of war, and more-so because of the public's increased demand for social goods which has accompanied rising incomes.

CONCEPTS:

1. There is no one unique approach or way to organize economic activity.

2. The competitive market is not an effective way to meet all of our social needs...social goods and services, etc.

3. Modern Technology complicates the problem of effective competition, since large-scale productive economies make for larger firms operating over wider areas.

4. Consumer freedom to influence demand is restricted.

5. Monopolies affect the quality and quantity of products available.

6. Monopolies divert resource use and income distribution to less efficient modes of production.

7. Monopolies distort the proper allocation of resources by:
   -impeding mobility of resources
   -impeding the introduction of new products
   -restricting the entry of new firms

8. Prices reflect decisions of monopolists rather than that of the consumer.

9. Administered pricing wastes resources in the same way as monopoly.

10. Loss of income through unemployment and poverty affects consumer demand.

11. Unequal distribution of income affects the composition of consumer demand.

12. The government directly intervenes in market operations by limiting the consumer's decisions on what should be produced by setting production standards, minimum wage laws, taxes, etc.

13. The government indirectly intervenes through the influential power of the Federal Reserve System.

14. Inflation distorts the value of real income.

15. The Competitive Market Model is distorted by the following modifications:
   -Business Combinations
   -Monopolies
   -Pressure Groups such as Unions, Political Parties, and Agricultural Blocs
   -Unemployment
   -Unequal Distribution of Income
   -Role of the Government
   -Inflation
   -Population Changes
   -Technological Changes
   -Institutional Changes

CONTENT: I. MODIFICATION OF THE MARKET MECHANISM

A. Business Combinations: (Imperfect Competition)

1. Extent of Power and Influence in the Market

   a. impede or restrict the entrance of new industries
   b. restricts the development of new products
   c. provides for greater efficiency in production
   d. economic organization may be strongly influenced by the non-economic interests of businessmen and also by competing social goals
   e. productive-increasing innovations such as automation require job-shifting but not necessarily unemployment

f. customs, habits and tradition retard the adjustment process in the efficient use of our economic resources in the market
g. prices tend to be inflexible or "sticky"
h. price changes which do occur are "orderly" and therefore imply some form of collusion
i. emphasis is placed on non-price competition because ample financial resources are available to promote non-price competition, and advertising and product variations are less easy for rivals to match

2. Business Combinations; Point of view of Structure

a. Trust - a business combination in which a number of individual competing corporations turn over their controlling stock to a separate Board of Trustees who in turn control the policy of all of these corporations
b. Holding Company - a business combination that is created by gaining sufficient interest (stock) in other competing corporations to be able to control their operations
c. Interlocking Directorates - business practice in which individuals serve on the Board of Directors of competing corporations. (an illegal business structure today according to the Clayton Act)
d. Merger - the combination of two or more existing corporations under one ownership

3. Business Combinations: Point of view of Function

a. Horizontal - the combination of two or more corporations that produce the same produce, e.g., General Motors
b. Vertical - the combination under one ownership of dissimilar plants engaged in various stages of production from raw materials to the finished product, e.g., Standard Oil
c. Conglomerate - the combination under one ownership of unlike plants producing unrelated products

4. Regulatory Policies of the Government regarding Business Combinations

a. Sherman Anti-Trust Act, 1890 - any business combination or practice in restraint of trade or commerce among the states or foreign nations is illegal
b. Clayton Anti-Trust Act, 1914 - forbids price discrimination, interlocking directorates, and the holding of stock of one corporation by another, if these practices lessen competition
c. Federal Trade Commission Act, 1914 - established the Federal Trades Commission to prevent "unfair methods of competition", boycots, and price-fixing agreements in interstate commerce
d. Robinson-Patman Act, 1936 (Chain-Store Act) - to protect independent retailers and wholesalers from "unfair discriminations" by large sellers who enjoy "tremendous purchasing power". (no quantity discounts to big buyers)

e. Wheeler-Lea Act, 1938 - to prevent unfair trade practices in the advertising of foods, drugs and cosmetics
f. Cellar Anti-Merge Act, 1950 - restricted the merger of two or more existing corporations, if such a combination would result in control of over 50% of the marketing of that good in a given area, thus lessen competition

*(Note: There has been no single policy in the history of the U.S. towards Business Combinations)

B. Monopolies

1. Extent of Power and influence in the Market:

   a. fails to account for the proper allocation of economic resources
   b. eliminates the impersonal price system of control for a more personal control of the market by the monopolist
   c. emphasizes efficiency rather than social policy

2. Classification of Monopolies

   a. Legal Monopoly - is a private enterprise which has been granted complete control of the marketing of a given good or service by a state through means of a franchise, patent, copyright or trademark, (Competition in these areas would not be in the public interest.) e.g., public utilities, Cartels.
   b. Natural Monopoly - is a private enterprise which has complete control of the marketing of a given good or service resulting from natural conditions, as when a rare mineral is controlled by a single enterprise, (results from an accident of nature) e.g., DeBeers Diamond Co. of S. Africa; International Nickel Co. of Canada.
   c. Government Monopoly - a business enterprise owned and operated by a government (federal, state, or local) e.g., U.S. Post Office; Federal Reserve System; State Liquor Stores; Tennessee Valley Authority; Sewer and Water Systems
   d. Capitalistic Monopoly - a private business enterprise which has because of economic circumstances or conditions, the complete control of the marketing of a given good or service - it is not profitable for two like businesses to operate in a given locale.

3. Public Policy regarding Monopolies

   a. Interstate Commerce Commission Act, 1887 - established the I.C.C. to regulate various aspects of interstate transportation except by air - control legal monopolies
   b. Sherman Anti-Trust Act - any business combination or <u>practice</u> in restraint of trade or commerce among the states or foreign nations was illegal - monopoly, pooling, etc. - control capitalistic and natural monopolies

*(Note: There has been no single policy in the history of U.S. towards business monopolies.)

C. Pressure Groups

1. Definition and Identification

   a. social organizations which use their means and persuasive powers to bring about certain decisions without seeking for itself the actual power and responsibility for their making
   b. they are a medium through which people with common interests may endeavor to affect the course of social action or policy
   c. Lobbying - a major tool or instrument employed by pressure groups

2. Labor Unions as a Pressure Group

   a. Extent of Power and Influence in the Market
      (1) Labor unions gain for their members tangible economic benefits which do not necessarily conflict with other social goals.
      (2) Labor unions afford a measure of job security for its members against arbitrary action by employers.
      (3) Labor unions often exercise monopolistic power.
      (4) Union "make-work" rules limit increases in productivity and therefore impede economic growth.
      (5) Freedom of entry by workers into unionized occupations may be restricted directly or indirectly by the Unions.
      (6) The establishment of monopoly prices by unions limit the freedom of workers to choose occupations and the freedom of consumers to choose products.
      (7) Labor Unions may reduce the mobility of labor.
      (8) Strikes and lockouts cause work losses in wages for the worker and productivity for the business.

   b. Public Policy towards organized labor
      (1) Prior to 1935 (Pro-Management Policy) - the executive, legislative and judiciary branches of government along with the general public opinion favored management
      (2) 1935 - 1947 (Pro-Labor Policy) - favored labor unions
      (3) 1947 - Present (Balance of control over labor and management) - have attempted to establish and have displayed a justifiable balance between management and labor

3. Agricultural Blocs as a Pressure Group

   a. Extent of Power and Influence in the Market
      (1) The farm problem is basically an income problem.
      (2) Agricultural poverty is due to the immobility of economic resources in a growing economy.
      (3) The technological revolution has not been spread evenly throughout agriculture.
      (4) The uncertainty of incomes is due to the business cycle, and the sensitivity of farm prices to changes in total demand.
      (5) Soil depletion and poor conservation practices have also characterized agriculture.

b. Farm Programs and Policies promoted by the government
   (1) Department of Agriculture
   (2) Homestead Act
   (3) Morrill Act
   (4) The Concept of Parity
   (5) Price-Support Programs
   (6) Crop-Restriction Programs
   (7) Disposal of Surplus Crops

c. Individual Efforts in Agriculture
   (1) Farmers Alliances
   (2) Granges - Patrons of Husbandry
   (3) National Farm Organization (NFO)
   (4) American Farm Bureau Federation
   (5) National Farmers Union

4. Political Parties as a Pressure Group

   a. Definition: a voluntary association through which the populace (voters), with certain common interests are enabled to attract sufficient support to either gain possession of or have an influence on public policy

   b. Extent of power and influence in the market
      (1) In seeking votes, numerous compromises and diluting of issues are made in platforms.
      (2) Opposition most conducive to responsible government is an organized party opposition.
      (3) Religious, nationalistic, racial, economic and linguistic differences tend to separate the electorate into many different groups.
      (4) Reasonable and legitimate regulations in one state may be entirely unreasonable and illegitimate in another state, e.g., right-to-work laws.

   c. Public Policy regarding Political Parties
      (1) a two-party system

D. Unequal Distribution of Income

1. Extent of power and influence in the market

   a. Income is regulated by the roles played by the various economic resources in the economy.
   b. The unequal distribution of income distorts consumer demand.
   c. The distribution of income is modified somewhat by personal income taxes.
   d. Barriers to entrance of economic resources to the market system prevent the operation of the principle of equal advantage.
   e. The distribution of income is the result of the value placed upon the economic resources employed in the productive process.
   f. Not all incomes in the economy result from the sale of productive services.

2. Public Policy regarding the Unequal Distribution of Income

   a. Income taxes: both personal and corporate
   b. Transfer payments: G.I. Bill; Subsidies
   c. Policies to reduce income insecurity: Social Security; Unemployment Compensation
   d. Policies to increase mobility and competition for economic resources: Employment Act of 1946

E. Unemployment

1. Extent of Power and Influence in the Market

   a. The size of a household's income depends upon the amount and the relative scarcity of the resources that it owns.
   b. Unemployment limits consumer demand.
   c. General unemployment is due to inadequate total demand in the market.
   d. Frictional and seasonal unemployment are due to changes in the structure of demand.
   e. Shifting from one occupation to another takes time, thus loss of income occurs.

2. Public Policy towards Unemployment

   a. Policies to increase mobility and competition for economic resources: Employment Act of 1946
   b. Policies to reduce income insecurity: (a) Unemployment Compensation; (b) Guaranteed Annual Wage; (c) Supplementary Unemployment Benefits
   c. Policies to reduce job insecurity: Union Seniority System

F. Inflation and Deflation

1. Extent of power and influence in the market

   a. Inadequate planned investments result in unemployment and loss of income: deflating economy.
   b. Deflation aids the fixed income group, but hurts the variable income group.
   c. Inflation hurts the fixed income group, but aids the variable income group.
   d. The relationship of the supply of money to the supply of goods influences the <u>real value</u> of money in the economy.
   e. The government's fiscal and monetary policies tend to lessen the inevitability of depressions and inflations.

2. Public Policy regarding Inflation and Deflation

   a. Individual and business restraints on consumer demand and investments during inflation, and the expansion of consumer demand and investments during periods of deflation
   b. Government changing the tax structure
   c. Government changing its expenditure patterns
   d. Role of the Federal Reserve System in regulating the availability of credit in the economy

G. Effective Competition in the Economy

1. "Workable Competition"

   a. Definition: A workable competition occurs when there is an emphasis on advanced planning by Households, Business, and the Government. If there is advanced planning, you replace any decision-making by opportunists.

   b. Requirements for effective competition
      (1) substantial number of buyers and sellers in the market
      (2) effective information or knowledge of the product and its availability
      (3) reasonable flexible prices
      (4) non-price competition (quality) as well as price competition
      (5) free entry and exit of producers
      (6) elimination of inefficiency in the use of economic resources

UNIT VIII: Measuring and Determining the Performance of the Economic System: Growth & Stability:

CONTEXT: Decisions to save and invest, that is capital accumulation, influences the flow of money expenditures (consumer spending), thus determining the levels of employment and income by means of changes in the nation's total output.

Economic progress can be referred to as any change that results in the increased output of any variable thing per-man-hour-time expended.

The performance of an economic system can be measured and determined through an elaborate analysis of Economic Growth and Economic Stability, and of the role playing position of the government in its attempts at maintaining these two particular Social Goals.

The attainment of the economic goals requires the devotion of resources towards accumulation, as well as towards the satisfaction of current needs. As current wants are satisfied, new ones are created: thus rejuvinating the basic economic problem of SCARCITY. Through feedback, the cycle continues to function.

CONCEPTS:

1. Economic Growth is the desire for an increasing standard of living for an increasing population.
2. Economic Growth is contingent or dependent on the accumulation of physical capital, and the development of skilled, educated, progressive individuals.
3. Economic Growth requires the devoting of resources towards accumulation, rather than just the satisfaction of current needs.
4. Capital formation through savings is a major way of increasing the nation's output of goods and services.
5. Effective competition in markets is a necessary condition, if a basically private enterprise system is to allocate resources effectively in accordance with consumer demand.
6. Economic Growth can be measured in terms of Gross National Product in constant dollars, which is referred to as Real Gross National Product.
7. Real Gross National Product must increase at a more rapid rate than population to represent growth.
8. Economic Growth can also be measured in terms of Gross National Income.
9. Gross National Income figures include payments that did not arise from productive effort, these are indirect business taxes and depreciation.
10. Economic Growth is contingent on adequate concepts of personal property and institutions that will establish reasonable security of personal property.

11. Government policy may facilitate or impede mobility of resources.

12. Occupational groups may organize to impede growth:
  - agricultural blocs in marketing operations
  - labor unions in the introduction of new methods; thus protecting inefficiency and distorting the market drive to efficiency
  - business monopolies limit efforts towards the most efficient level and combination of resources in the productive process.

13. Economic growth has been dissipated through affluence, wars, and increasing population.

14. Income and employment fluctuations may be the price an economy pays for economic growth.

15. Savings release resources, thus the growth of per capita income increases the ability to save.

16. Re-allocation of economic resources is easier in a growing economy.

17. Economic Stability is the desire for a high level of employment without inflation.

18. Government spending influences the level of total income.

19. Commercial banks may offset or accentuate changes in the expenditure decisions of Consumers and Businesses.

20. The Federal Reserve can impose credit restraints to curb inflation.

21. The Federal Reserve can add to the money supply and thus make credit available during a recession.

22. The Federal Government can lower taxes and thus increase consumptive expenditures when a recession develops.

23. Discretionary Fiscal Policies may be needed to supplement the automatic built-in stabilizers of taxation and welfare...the problem of time is involved with all discretionary policies of Congress.

24. The resources of an economy are scarce and do not satisfy the wants of its' members; therefore, man must learn to make sensible economic choices, based upon knowledge, scientific comparisons, and analytical judgments.

25. This "economizing" problem involves decisions as to WHAT, HOW MUCH, and FOR WHOM goods and services are to be produced.

26. The satisfaction of unlimited individual wants by means of limited economic resources is mediated through the interaction of supply and demand in the Market or Economic System, and modified by Public Policy which is derived from the interaction of people's value preferences or Social Goals.

CONTENT: A. ECONOMIC GROWTH

1. Definition: that economic goal which stresses a desire for an increasing sta. dard of living for an increasing population.

2. The Measurement of Economic Growth: Two Approaches

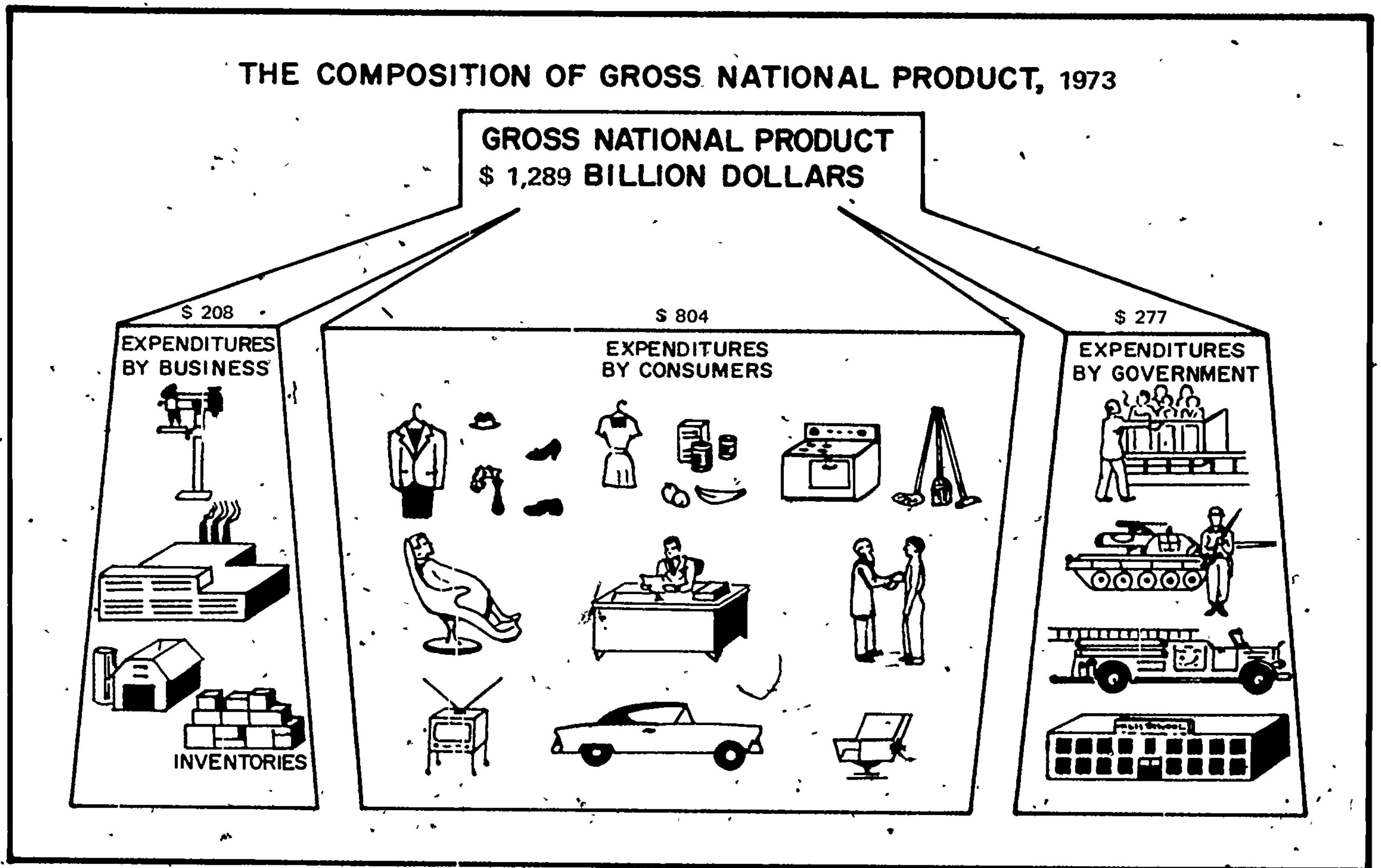
   a. Flow of Products: Gross National Product (G.N.P.) measured in terms of <u>WHO</u> is buying the goods and services - the total dollars spent
      (1) Definition of G.N.P.: the sum total of the dollar or market value of all of the final goods and services currently produced by an economy in a given period of time.
      (2) Components of G.N.P.
         (a) Consumers...their behavior is called Personal Consumption Expenditures. It usually is around 2/3 of G.N.P.
         (b) Business...its behavior is called Gross Private Domestic Investment.
         (c) Government...it is concerned with the purchasing of goods and services in the market.
         (d) Net Foreign Trade...the difference between Exports and Imports to assure that only American productivity is measured.
      (3) G.N.P. Analysis: (See Figures 22-26, Tables I & II, Pages 59-65)

   b. Flow of Money or Income: Gross National Income (G.N.I.) measured in terms of <u>WHO</u> is receiving payment for goods and services purchased - <u>the</u> total dollars received.
      (1) Definition of G.N.I.: the sum of all incomes earned in an economy plus the two non-income categories of Indirect Business Taxes and Depreciation.
      (2) Components of G.N.I.
         (a) Wages and Salaries...the total income earned by Labor or Human Resources in the productive process.
         (b) Rent...the total income earned by Land or Natural Resources.
         (c) Interest...the total income earned by Capital Resources.
         (d) Proprietor's Income...the total income earned by non-corporate businesses such as sole proprietorships and partnerships.
         (e) Dividends, Retained Earnings, and Corporate Income Tax... the divisions of profit or income earned by corporate structures.

3. Factors which necessitate Economic Growth

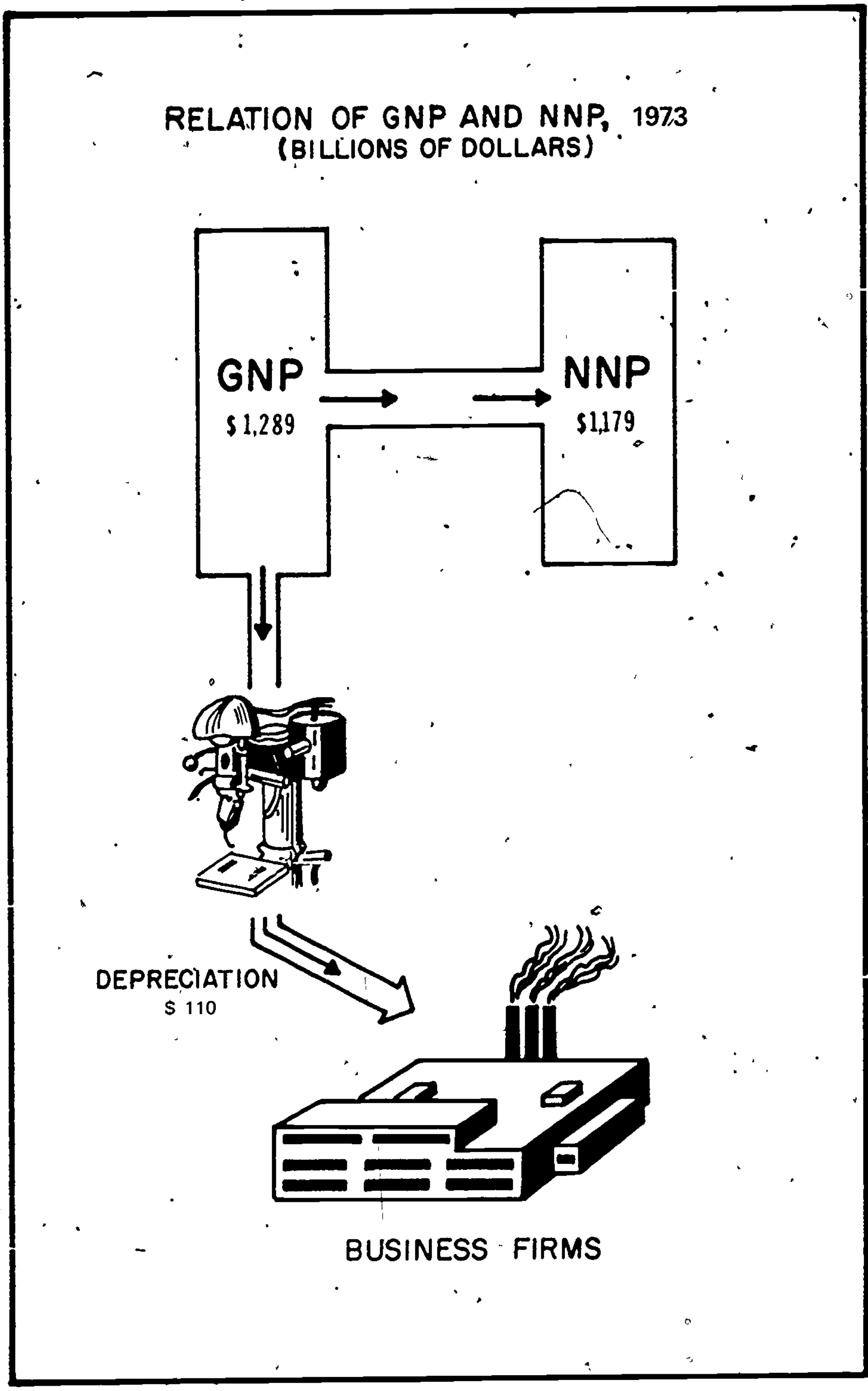
   a. An abundance of natural resources
   b. A continuously increasing population
   c. Investment in human capital: education and training of the Labor Force
   d. A price system that tends to conserve scarce resources
   e. Growth in productivity or output per capita which is caused by:
      (1) increased level of skills and education
      (2) advanced technology in the productive process to offset scarcities of specific resources

FIGURE 22



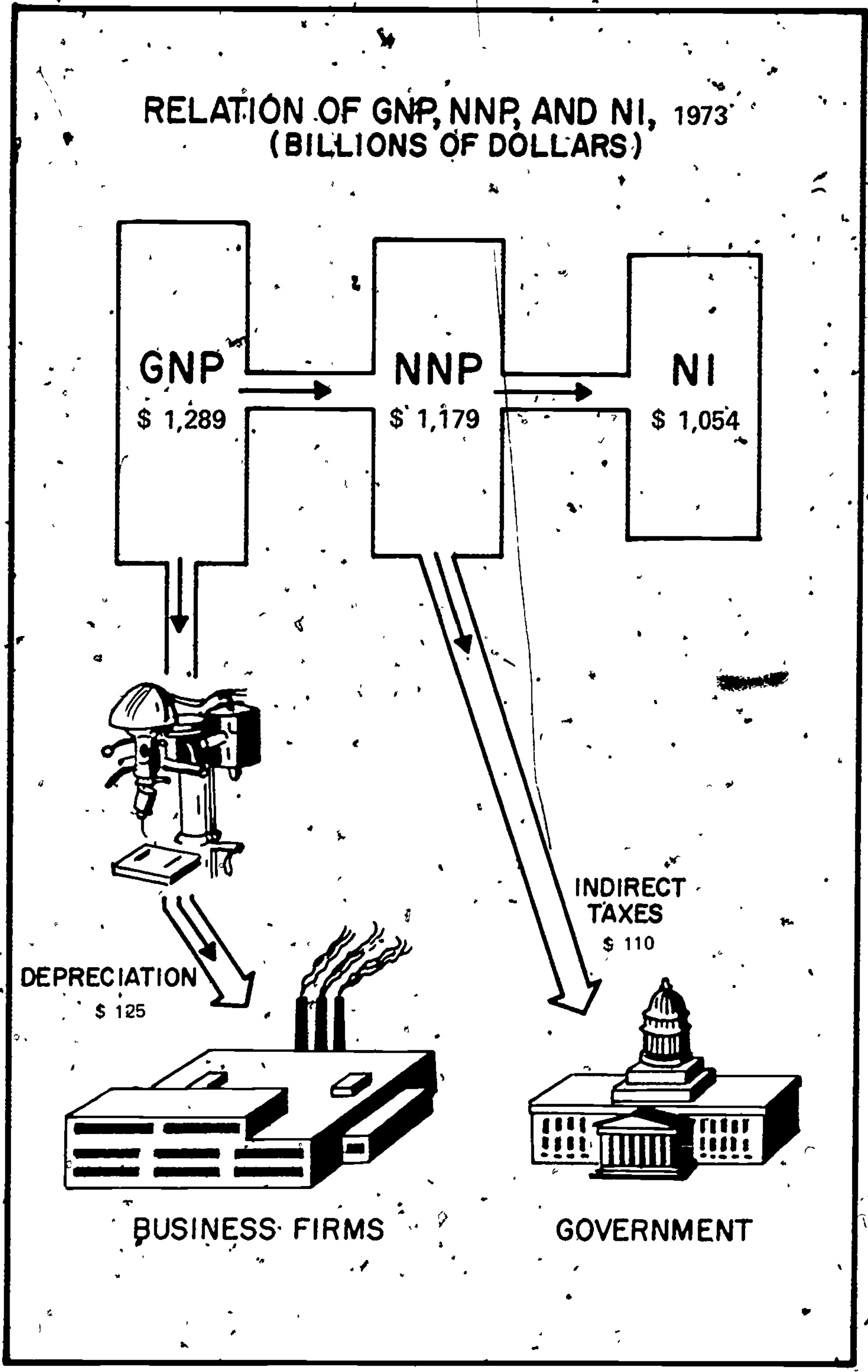
Source: Measuring The Performance Of The Economy, by Lewis E. Wagner. Bureau of Business and Economic Research, The University of Iowa, Iowa City, 1971.

FIGURE 23



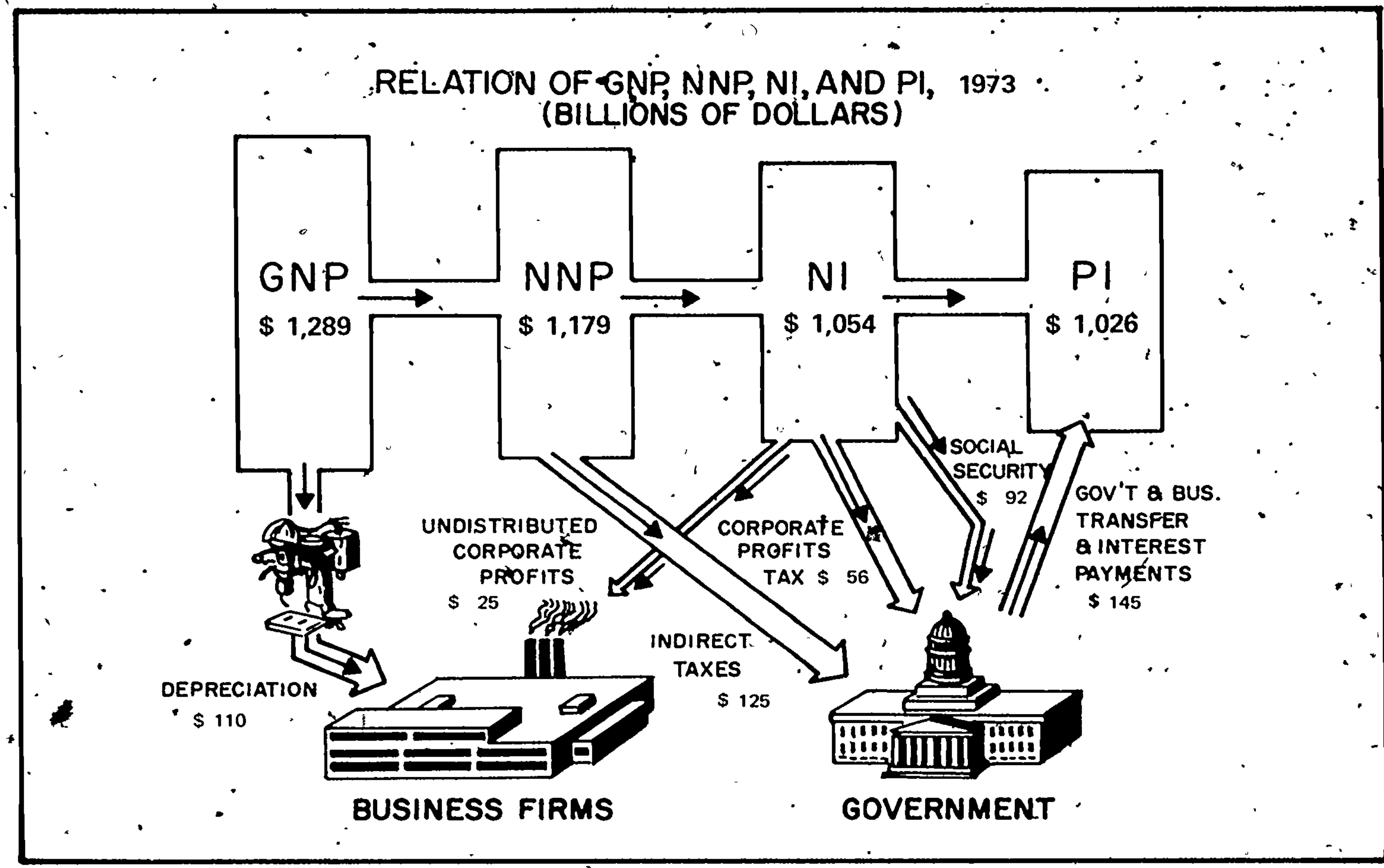
Source: Measuring The Performance Of The Economy, by Lewis E. Wagner. Bureau of Business and Economic Research, The University of Iowa, Iowa City, 1971.

FIGURE 24



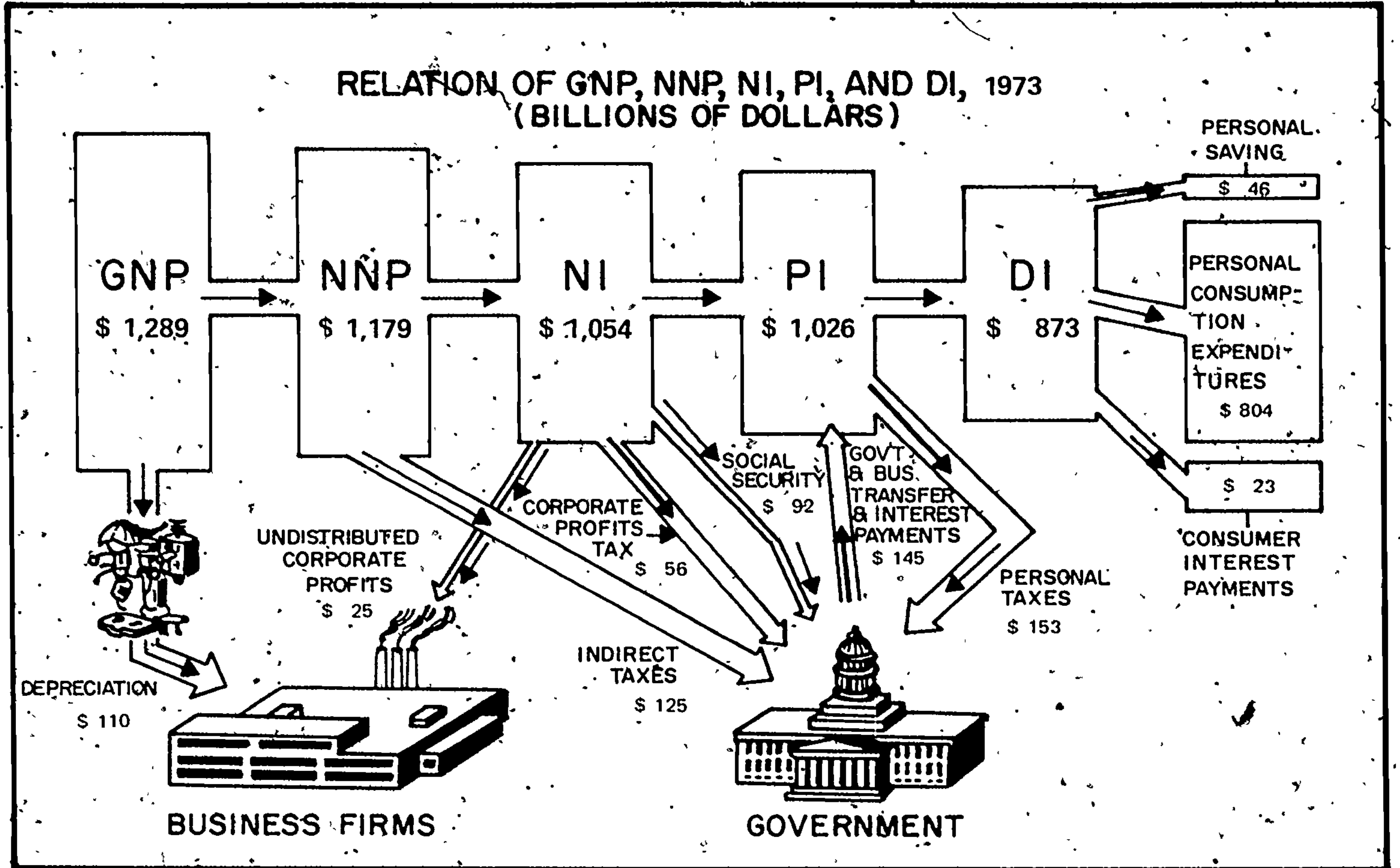
Source: Measuring The Performance Of The Economy, by Lewis E. Wagner. Bureau of Business and Economic Research, The University of Iowa, Iowa City, 1971.

FIGURE 25



Source: Measuring The Performance Of The Economy, by Lewis E. Wagner. Bureau of Business and Economic Research, The University of Iowa, Iowa City, 1971.

FIGURE 26



Source: Measuring The Performance Of The Economy, by Lewis E. Wagner. Bureau of Business and Economic Research, The University of Iowa, Iowa City, 1971.

TABLE I[1]

Relation Among National Income Concepts
Data for 1973 in Billions of Dollars

GROSS NATIONAL PRODUCT			$ 1289
Minus: Depreciation (Capital Consumption Allowance)			110
Equals: NET NATIONAL PRODUCT			1179
Minus: Indirect Business Taxes			125
Equals: NATIONAL INCOME			1054
Minus: Undistributed Corporate Profits	$ 25		
Corporate Income Taxes	56		
Social Security Contributions	92		-173
Plus: Transfer Payments			+145
Equals: PERSONAL INCOME			1026
Minus: Personal Income Taxes			153
Equals: DISPOSABLE PERSONAL INCOME			873
Minus: Personal Consumption Expenditures	$804		
Consumer Interest Payments	23		-827
Equals: PERSONAL SAVINGS			46

[1]Economic Report of the President, February, 1974. Appendix C.

TABLE II

TWO WAYS OF LOOKING AT GNP
(GNP for 1973 in Billions of Dollars)

FLOW OF MONEY PAYMENTS: (who received the income)

Wages & Salaries	$ 785
Proprietor's Income	85
Rental Income	25
Corporate Income Taxes	56
Undistributed Corporate Profits	25
Dividends	28
Interest	50
Depreciation:Capital Consumption Allowance	110
Indirect Business Taxes	125
Gross National Income	$ 1289

FLOW OF COMMODITY VALUES: (who spent the money)

Personal Consumption Expenditures	$ 804
Business Expenditures	202
Government Expenditures	277
Net Foreign Investment: (Net Exports)	6
Gross National Product	$ 1289

[1] Economic Report of the President, February, 1974, Appendix C.

(3) technological innovations in terms of new plants and equipment
(4) expanding markets
(5) superior levels of health
(6) a mobile and industrious labor force
(7) thrift-minded citizenry
(8) enterprising management to accept the risks of change
(9) an environment which rewards efficiency
(10) government policies stimulating growth
(11) a growing aggregate or total demand

f. In a growing fully-employed economy, savings tend to rise in relation to National Income; therefore, an increased investment policy is necessary to sustain full employment.

g. The social-cultural political environment of a nation must be conducive to economic growth.
(1) It must provide for the re-allocation of resources, such as re-training; and the ease of mobility of resources to more productive geographical areas
(2) It must provide for equality of opportunity.
(3) It must reduce existing impediments of monopoly power in the Product and Factor Markets.

4. Impediments to Future Economic Growth:

a. The constant drain on existing natural resources.
b. The threat of a "cold war" and the possibility of an all-out war in the future
c. Instability could cause serious disallocations
d. Impact of Inflation or Deflation on the Economy
e. Influence of customs, traditions, prejudices in the economic system
f. "vested interests" preventing new developments
g. Impact of monopolistic powers on economic behavior
h. Unfavorable governmental legislative programs
i. Individual decision-makings conflicting with social goals
j. Barriers to free international trade: Tariffs, Import Quotes, Embargos

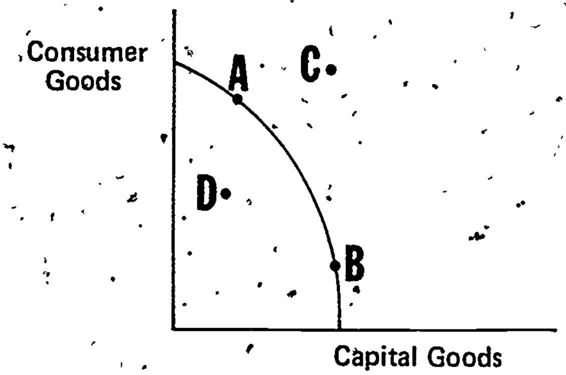
5. Analysis of Growth: Production Possibilities Curves

a. Definition: A curve which depicts all possible combinations of total output for an economy, assuming that there is:
- a choice between producing either one or both of two kinds of goods: consumer goods, which represent present consumption and capital goods, which represent future productivity
- full and efficient employment of all economic resources
- a fixed supply of resources and a given state of technology

b. Factors which Influence Shifts in the Production Possibility Curve
(1) Improved technology: new machines with greater potential productivity, new inventions
(2) Investment in human capital: a better trained, more educated labor force
(3) Increased quantity of Economic Resources available for productivity

(a) Population increases
(b) Discoveries

c. Graphic Analysis: Production Possibilities Curve
Figure 27, Production Possibility Curve



- Production Possibility Curve represents total output of various combinations of consumer goods and capital goods.
- Point A and Point B represent full employment and full utilization of economic resources to reach maximum productivity.
- Maximum output is represented by any point on the curve (any combination of the two goods)
- To produce more of one good, less of the other will be produced - a movement from Point A to Point B would indicate this.
- Point C is beyond maximum potential output and therefore could only be reached if changes occur in the quality and quantity of economic resources of a society.
- If an Economy was operating at Point B, its future growth pattern will reach Point C faster than the Economy at Point A. Capital goods represent an industrial economy with greater potential to grow.
- If the Economy is operating at Point D, the economy is not fully utilizing its economic resources - unemployment may prevail at such a level of productivity.

B. ECONOMIC STABILITY

1. Definition: that economic goal which stresses a desire for a high level of employment without inflation

2. Basic Components of Economic Stability

a. Concept of Full Employment: represents some specified percentage of the labor force working, but never 100%.
(1) Frictional unemployment will exist. This represents those individuals who are temporarily without work but who will, given time and sufficient demand for labor, be able to find employment.
(2) Structural unemployment will exist in a dynamic economy because certain individuals have no skill which anyone is willing to purchase. Most of the structural unemployment can be eliminated through investments in human capital: retraining and mobility.

b. Concept of Price Stability: refers to conditions in the economy in which the average price of all goods and services is not changing.
   (1) Inflation: a condition in which the average price level is rising. It stems primarily from excess total demand or rising costs of production which are passed on to the consumer in the form of higher prices.
   (2) Deflation: A condition in which the average price level is falling. It stems primarily from a lack of total demand to clear the market of goods and services that have been produced.

C. GOVERNMENT POLICIES TO ACHIEVE ECONOMIC GROWTH AND STABILITY:

1. Monetary Policies

a. Analysis of Money
   (1) Definition...anything that is accepted in exchange for something else.

   (2) Functions of Money:
      (a) medium of exchange
      (b) measure of value
      (c) storehouse of value
      (d) standard for postponed payments

   (3) Classifications of money
      (a) Full-Bodied Money...Commodity or Standard Money - ornamentals, staples, implements, metals
      (b) Representative Full-Bodied Money...paper notes which are not backed up by gold and/or silver to their full value.
      (c) Credit Money
         ((1)) Issued by the Government...Continentals, Greenbacks, Other U.S. notes
         ((2)) Issued by Banks
            ((a)) Federal Reserve Notes
            ((b)) Commercial Bank Notes
            ((c)) Demand Deposits

   (4) Basic Standard Monetary Systems
      (a) Gold Standard
      (b) Silver Standard
      (c) Bi-metallic Standard
      (d) Gold Bullion Standard
      (e) Gold Exchange Standard
      (f) Managed Paper Standard

   (5) See Appendix A - History of Money (Page 74)

b. Objectives of Monetary Policy
   (1) Institutionalize arrangements so as to increase or decrease the supply of money as needed to control economic activity.

(2) It provides the tools and policies to directly influence the cost and availability of money and credit.
(3) It provides for short-run stability.

c. Agencies responsible for Monetary arrangement to promote Stability and Growth.

(1) Financial Institutions
(a) Definition... is the channel through which savings flow from saver to investor.

(b) Commercial Bank...the Primary Financial Institution.
((1)) Definition: a banking institution that satisfies the everyday banking needs of a community.
((2)) Types: National and State
((3)) Functions of Commercial Banks
((a)) receive demand deposits - checking accounts
((b)) makes loans
((c)) receive time deposits: savings accounts
((d)) provide general assistance to consumers and business in financial matters
((e)) provides safety deposit boxes for valuables
((f)) provides for the purchase and sale of foreign currencies
((g)) provides for the sale and redemption of government securities
((4)) Role in credit expansion: Loan-making operations

(c) Central Bank..."Banker's Bank": Federal Reserve System
((1)) Specific Functions to Member Institutions
((a)) Hold deposits and Reserves of Member Banks
((b)) Provide facilities for the rapid collection of checks
((c)) Supply the economy's need for paper currency
((d)) Acts as the fiscal agent for U.S. Government
((e)) Supervise operations of member banks - constant check through auditing
((f)) Regulate the money supply in terms of the best interests of the economy as a whole
((2)) Structure of the Federal Reserve System: a quasi-public system: that is, it is privately owned, publicly controlled.
((a)) 12 Federal Reserve Districts - Bank in each district - 24 branch banks to facilitate the system
((b)) Board of Governors: Executive Body - 7 members; 14 year terms; no more than one from any one District; Headquarters: Washington, D.C.
((c)) Federal Advisory Council - 12 members; one from each District; Advise the Board of Governors on monetary affairs in their District.
((d)) Federal Open Market Committee - 12 members; 7 members of Board of Governors; President of New York Federal Reserve Bank; 4 other Presidents of District Banks, rotating basis - buy and sell securities on the Open Market.

((e)) Member institutions - 6,000 plus (6,108) Commercial Banks; All National Banks required to be members - State Banks: their choice to join or not. (Most do not belong: 1,328 out of 8,964 belong).

((3)) Control of Money Supply	Inflation (↓money supply)	Deflation (↑money supply)
((a)) Reserve Requirement	↑ RR	↓ RR
((b)) Open Market Operations	Sell Securities	Buy Securities
((c)) Rediscount Rates	↑ r	↓ r
((d)) Interest Rates	↑ r	↓ r

((e)) Selective Credit Controls:
- margin requirements
- credit regulations on Durable and Real Estate
- Moral suasion

((4)) Problems in regulating the volume of Member Bank credit policies to promote Stability and Growth.
((a)) Timing...in the restraint or ease applied to the money supply.
((b)) Shifts in Policy...Fiscal vs. Monetary
((c)) Conflicting Objectives...President vs. Treasury or FED.

((5)) Other Financial Institutions...<u>Banking</u>.
((a)) Savings Bank
((b)) Investment Bank
((c)) Trust Company

((6)) Other Financial Institutions...<u>Non-Banking</u>.
((a)) Saving & Loan Associations
((b)) Credit Unions
((c)) Insurance Companies

((7)) Historic Analysis of the Development of Banking Institutions. (See Appendix B, Page 76)

2. Fiscal Policies: (Congress and the President)

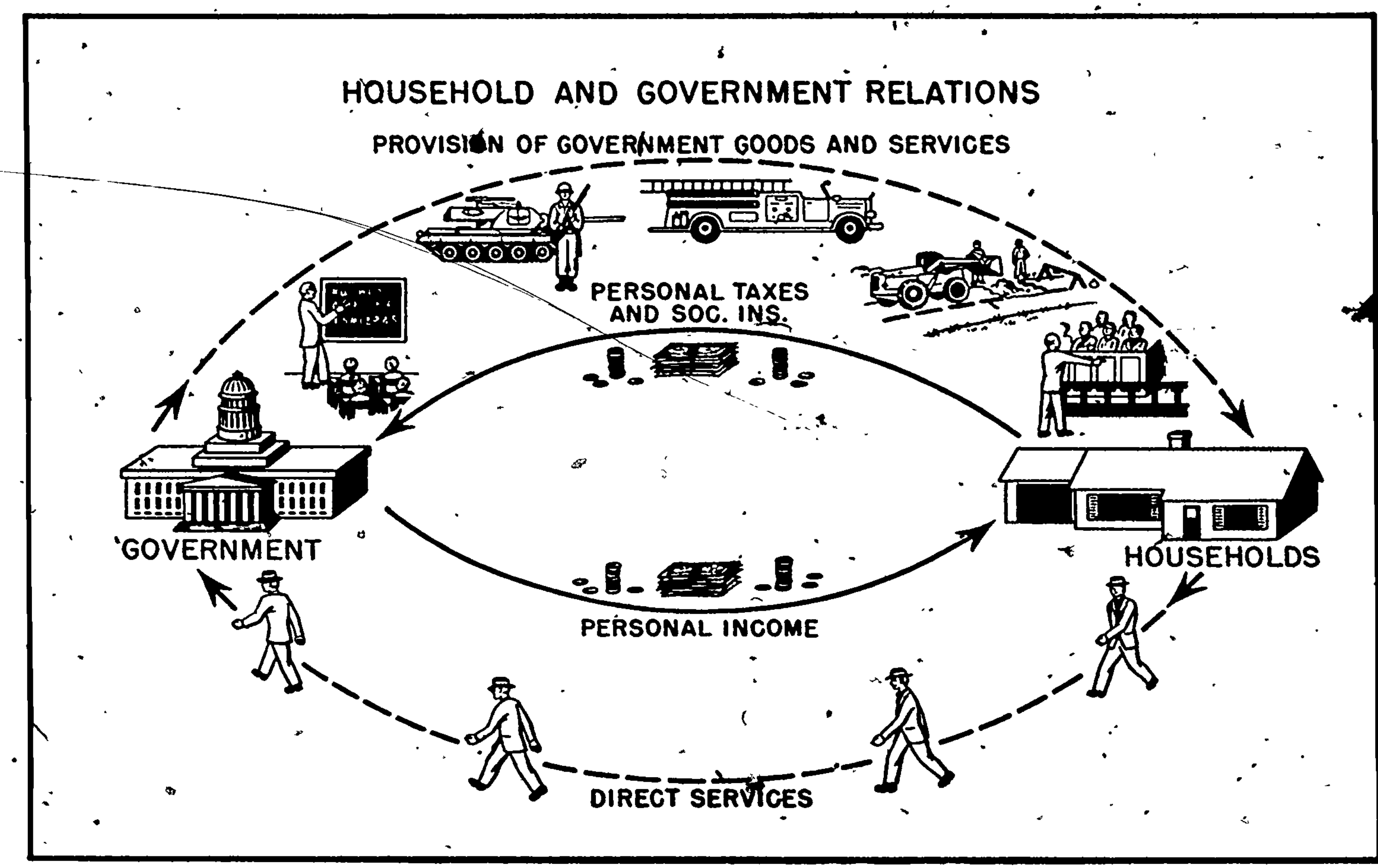
a. Role of the Government in the Economy
(1) Free Enterprise vs. Socialism
--too little vs. too much government control or influence in Market decisions
(2) Historic "role playing" position.
--Hands off to one of Obligatoriness - change occured in 1890
(3) Specific Functions:
(a) raise taxes, thus reducing consumptive expenditures during inflation
(b) lower taxes during recessions
(c) preservation of public order
(d) provide for public education
(e) aid to the needy and the Handicapped

(f) collection and distribution of mail
(g) construction and maintenance of highways
(h) coinage and printing of money

b. Policy Application:
   (1) Built-in Stabilizers..work automatically
      (a) progressive income tax
      (b) social security payments
      (c) relief
   (2) Discretionary Fiscal Policies..needed at times in order to offset the inadequacy of the automatic built-in stabilizers plus counter-cyclical monetary policy.
      (a) Public Works Projects on the expenditure side
      (b) Reduction in government tax rates on the revenue side
      (c) Shortcomings of Discretionary Policy
         ((1)) poor timing
         ((2)) never fully utilized..too long run.

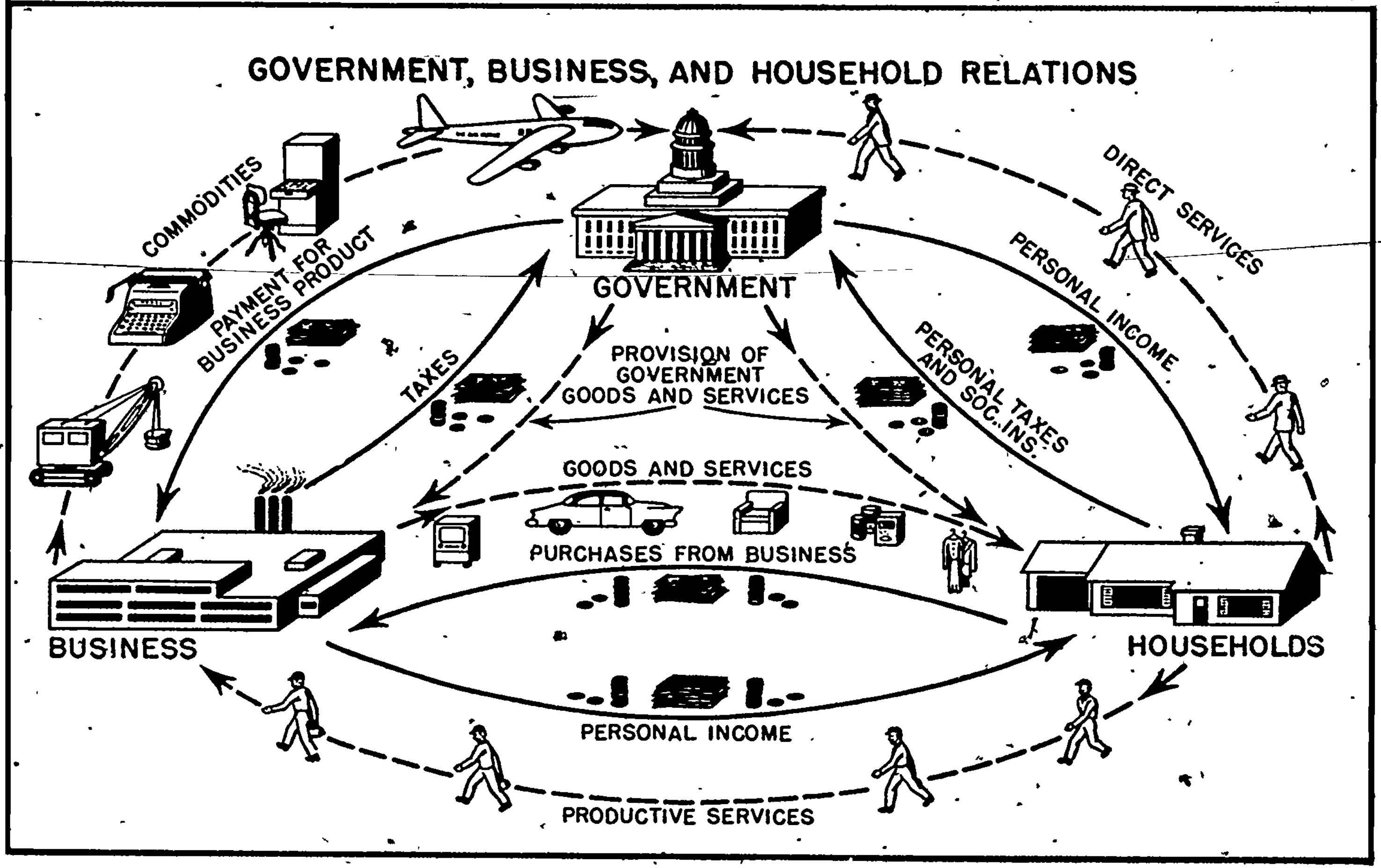
The market or economic system is modified by Public Policy derived from the intersection of people's value preferences or social goals. To fully understand and appreciate the complete nature of the economy in which we live, further analysis is needed. The other social goals or value preferences involved in the formation of Public Policy such as: Efficiency, Freedom, Justice, and Security must be identified and explained.

FIGURE 28



Source: Measuring The Performance Of The Economy, by Lewis E. Wagner. Bureau of Business and Economic Research, The University of Iowa, Iowa City, 1971.

FIGURE 29



Source: Measuring The Performance Of The Economy, by Lewis E. Wagner. Bureau of Business and Economic Research, The University of Iowa, Iowa City, 1971.

Appendix A

HISTORY OF MONEY

Colonial Period: Foreign currencies: English, French, Spanish, Dutch, Portugese.

1690-Massachusetts Bay Colony.

1773-Continental Congress . . . "continentals".

1786-U.S. Notes (Treasury).

1786-Mint Act.

1792-Mint Act or Coinnage Act.

1793-Foreign Metallic money; Legal tender.

1861-Civil War Era: "greenbacks".

1862-U.S. Bureau of Printing and Engraving.

1863-National Bank Act.

1873-"Trade Dollars".

1913-Federal Reserve Notes.

HISTORY OF MONETARY SYSTEMS IN U.S.

1792-Mint Act or Coinnage Act: Bi-metallic standard.

Mint Ratio and Gresham's Law.

1863-Modified credit system.

1900-Official gold standard.

1934-Gold bullion standard.

1946-Gold exchange standard.

Appendix B

HISTORY OF BANKING

Colonial period: Rothchilds in France and Frugers in Germany.

1694-Bank of England.

1781-Bank of Pennsylvania . . . Robert and Governor Morris.

1784-Bank of North America.

1791-First Bank of the U.S.

1800-(29) State and Private Banks in U.S.

1811-Model Banking Systems: Louisiana and Massachusetts.

1816-Second Bank of U.S. Nicholas Biddle.

1819-Suffolk Bank of Boston.

1827-New York Safety Fund.

1832-Jackson's "pet bank system".

1837-Free Banking Act in New York . . . "wildcat banking".

1840-Independent Treasury System. Martin Van Buren.

1840-Louisiana

1863-National Banking Act.

1907-National Monetary Commission. Nelson Aldrich.

1913-Federal Reserve Act.

1932-Federal Home Loan Bank Act.

1933-Banking Act of 1933. F.D.I.C.

1935-Banking Act of 1935.