

Economic Theory

Scarcity

- Human have unlimited needs and wants
- The earth has a limited amount of resources
 - Land, labor, capital
- This creates scarcity

- So how do you decide how to allocate all resources
- Three basic economic questions
 - What to produce?
 - How to produce it?
 - Who gets it? (How to distribute it)

Economic Systems

- There are three basic economic systems
 - The fourth - traditional economies, is rare
- Market Economy - also known as capitalism, free market, private enterprise
- Command Economy - also known as socialism, communism, centrally planned, public enterprise
- Mixed Economy - can range from welfare capitalism, to highly socialistic economies

Canada's Economy

Aspects of Socialism in Canada

- **Public ownership of property**
 - ideals of equality and economic strength is **promoted** (usually in areas of national importance, areas of high risk or to protect employment)
 - E.g. Crown Corporations
 - Joint ownership is often favored
- **Government controls and subsidies**
- **Redistribution of wealth**
 - social programs and progressive taxation, direct and indirect taxation (GST, airline fuel taxes)

Three Economic Questions

- *What goods/services to produce:* consumer demand and government determination of goods citizens need
- *How to produce the goods/services:* competition with some government help if necessary
- *Who should the goods/services be distributed to:* government ensures economic equality by providing basic goods and services for everyone, goods/services also produced for those who can afford them

Problems with this system

- Very costly (use of tax dollars can lead to waste or abuse)
- Not as efficient/competitive (due to lack of competition)
- Changing social attitudes (elections lead to governments that support more right wing or left wing policies can lead to instability)

The U.S. Economy

A LOOK AT CAPITALISM

Market economy

- Based on the ideas of Adam Smith
 - Invisible Hand – if we all selfishly try to meet our needs, we will also meet the needs of others without realizing it.
 - Laissez-faire – the government should stay out of things and not keep taxes too high to provide social programs because people need to compete with each other and not depend on the government

Supply and Demand

- Competition in a market economy will create the most innovative products at the lowest price
- When the supply is high and demand is low, that means no-one really wants the product = lower the price to try to sell it, or make something different
- When the supply is low and the demand is high, that means you have found what people want and you can charge a higher price for it to make more PROFIT
 - This is why monopolies are a problem – if there is no competition, then why would we innovate or lower prices?

Answering the three basic economic questions

- **What goods/services to produce: consumer demand**
- **How to produce the goods/services: competition of suppliers (quality, price)**
- **Who should the goods/services be distributed to: goods/services produced for those who can afford them (price system)**

Capitalism – pros

Advantages
•Market gives producers an incentive to produce goods the public wants
•Market provides an incentive to acquire useful skills
•A wide variety of goods and services is available
•There are incentives to use resources efficiently
•Competition encourages good quality at lower prices
•Productivity is rewarded by higher profits
•Fosters self-reliance
•Possible to become very wealthy

Capitalism – cons

Disadvantages
•Consumers can be manipulated by advertising
•Prices and incomes might not reflect what is best for society
•Business cycle experiences many ups and downs (= considerable unemployment)
•Monopolies and oligopolies can emerge that charge unreasonable prices
•Extreme income inequality results
•Industry cost-cutting can lead to environmental problems
•Insecurity is present on a large scale
•Difficult to break out of cycle of poverty

Unions

Conditions for the Working Class

- (During the early part of the Industrial Revolution)
- ▶ child labor (women and children paid less)
 - ▶ 12-16 hour days
 - ▶ limited or no breaks for meals
 - ▶ corporal punishment
 - ▶ fear of losing job
 - ▶ living miles away from the factory
 - ▶ poor living conditions
 - ▶ short life span



Pros/Cons of unions

- Triangle Shirtwaist Fire

Pros	Cons
Collective bargaining means the workers have power over the employer to prevent abuse	Workers may not have the same interests as the owner that has invested capital into the business (taken risk)
Workers can gain benefits from employers beyond wage increases	The cost of benefits can make the company less competitive
Strikes and other actions can force management to negotiate	Strikes and other actions hold the public hostage

Social Programs

Various Social Programs

- Universal or subsidized health care
- Government pensions
- Income assistance
- Public education
- Affordable housing initiatives
- Child protective services
- Employment insurance
- Child care

Should these be provided by the government? To what extent?

Health Care

- Public Health Care
 - Pro: everyone is taken care of, regardless of income; encourages a healthier populace (workforce)
 - Con: not all treatments are covered, wait times, bureaucratic waste
- Private Health Care
 - Pro: competition encourages better treatment of patients
 - Con: profit motive encourages corporations to look at profits over patients, not all people can afford it, refusal for some treatments
- Two Tier Health Care
 - Pro: those who can afford it get out of public system (reduced gov costs and wait times)
 - Con: treatment not universal, brain drain