

Economics 101

Economics affects everyday life
in ways that you might not expect

by Gabriella Gershenson and Kathy Wilmore

You may not read the financial pages of the newspaper, but you make economic choices every day. Each time you spend, save, or earn money, you are participating in the economy.

Economics is the study of how people use limited resources to produce, distribute, and **consume** (use) goods and services. **Goods** are products that can be seen and

Words to Know

- **demand:** the ability and desire to purchase goods and services.
- **goods:** products that can be seen and touched.
- **scarcity:** a lack or shortage of something wanted or needed.
- **supply:** available goods and services for sale.

touched. **Services** are work done for someone else. Let's say that you deliver newspapers door-to-door every morning before school. The newspapers are goods. In delivering them to consumers, you are providing a service.

The simple act of delivering newspapers leads to several economic questions. How much does it cost to produce the papers? What price will consumers pay for them? How much will you be paid for delivering them?

A Balancing Act

Many factors affect prices, but **supply** and **demand** top the list. When supply is greater than demand, prices tend to drop. When demand is higher than supply, prices tend to rise.

Let's say that you and your friends want to bake chocolate-chip cookies. You prepare a list of the ingredients that will be needed and head to the supermarket. When you reach for the vanilla extract, you gasp: \$5.99 for a tiny two-ounce bottle! The last time you bought the spice, it cost about \$3. What made the price double?

That little bottle you're holding contains a product made from vanilla beans. The African country of Madagascar produces more than half the world's supply of vanilla. A few years ago, a major storm destroyed many of Madagascar's vanilla farms. Then, political turmoil there disrupted shipping. Those problems reduced the supply of vanilla beans. Yet demand remained the same. The **scarcity** of beans caused the price of



products dependent on them to rise.

But conditions change. The high prices tempted more Madagascan farmers to grow vanilla. This year's crop may be the largest ever. The oversupply will probably lower vanilla prices.

But this year's big crop won't help you. You need vanilla extract *now*. You have three choices: pay the high price, buy imitation vanilla extract, which is cheaper—or forget about making cookies.

The supply-and-demand balancing act affects producers as well as consumers. The company that makes and sells the vanilla extract has to meet several demands. It needs vanilla beans and other ingredients. It also needs labor—people to run the machines, pack the bottles, and ship them. If the company

has to pay more for any of those things, it is likely to charge more for what ends up on store shelves.

Consumers may be willing to pay more for things they really want. If a price is set too high, though, many people may refuse to buy a product. If it is set too low, the company won't be able to afford to stay in business.

It's Your Call!

People and their choices are the most important part of an economic system. Every day, you play a role in the economy—producing, distributing, or consuming goods and services. How will you choose to spend your next dollar? Economists—and business owners—are *very* interested in the answer to that question. **JS**

Your Turn

WORD MATCH

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|-------------|--|
| 1. demand | A. a small, inadequate amount |
| 2. goods | B. the desire and ability to purchase goods and services |
| 3. scarcity | C. amount available |
| 4. services | D. items that can be purchased |
| 5. supply | E. work that can be done for someone else |

THINK ABOUT IT

Teens today have lots of spending power, and businesses want a share of it. How do advertisers try to appeal to kids? Do any take unfair advantage? Explain.