

# Unit 2 – Markets, Supply, Demand, and Price



**MONEY**  
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*It can't buy happiness, but it  
can buy a jet-ski...*

**Day 1**

# Objectives

- Understand the “goals” in economic transactions
- Identify the function of “Price”
- Identify the three functions of money

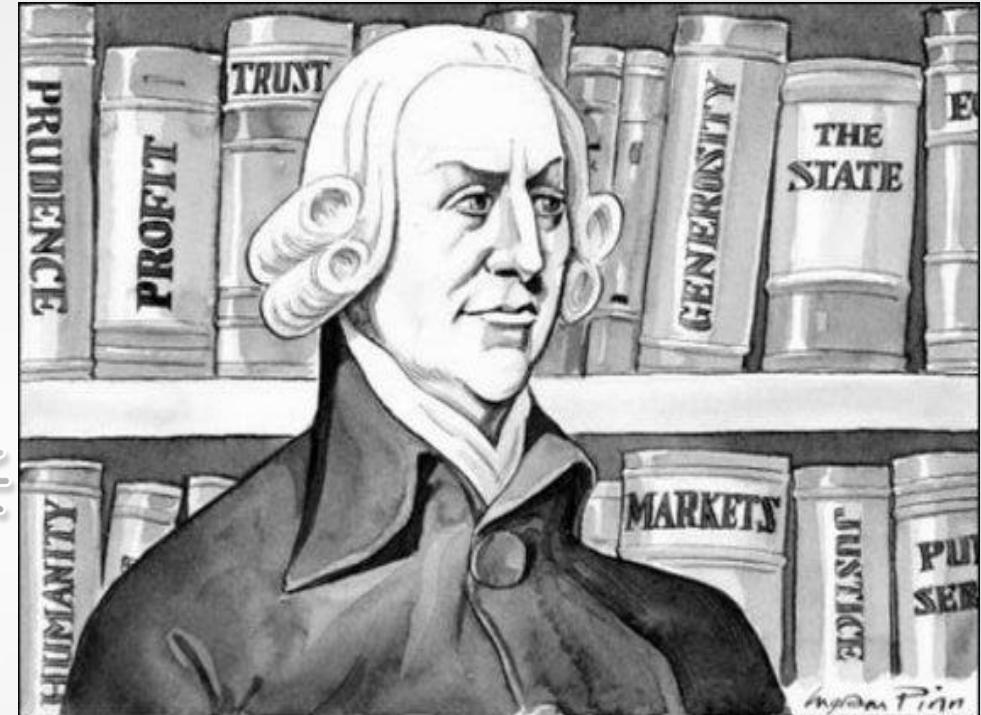
- *Terms:*
  - Self-Interest
  - Cost
  - Price
  - Money
  - Value

# *Remind me...*

- **What are the Big 3 Questions of Economics?**
- ***WHAT to Produce, HOW to Produce, and WHO to Produce for***
- ***Ok... but HOW do we decide the answers to those questions?***

# Adam Smith

- *“Human beings are self-interested... they will always maximize their own happiness and profit... it is the invisible hand that guides economics.”*



- **Self-Interest**

- **Maximizing our own interests – whether they be happiness or profit**

**So what is our own “interests”?**



# The \$5 Auction

# Goals

- Consumers — maximize happiness or satisfaction from goods and services.
- Businesses — maximize profits.
- Government — maximizes general welfare of society.

*CPT Curtis, Does this mean we are all selfish?*



# *We aren't ALL selfish...*

- But what is the fundamental problem of Economics?
  - **SCARCITY!**
  - *Therefore, we have to make what?*
  - **CHOICES!**
  - *So even if we love everyone, we ultimately have limited means, and of course we want to "maximize" whatever we use those resources on*

# And these choices lead to...

- **COST**

- What it took to produce that Good or Service
- *4 cups flour, 2 cups sugar, 1 stick butter = cookies!*

- **PRICE**

- What someone is willing to pay for that Good or Service
- *Also, what someone is willing to SELL that Good or Service for*
- *Cookies – 4 for \$1*

# Why does price matter?

- **Price will be the variable in supply and demand**
- ***It affects the quantity people buy, the quantity people sell, the quantity people produce...***
- ***In other words, the BIG THREE ECONOMIC QUESTIONS!***

# Price\$

- So how do we *show* price?
- In a Traditional Economic System, what was used?
- So what's wrong with bartering?
  - *If you don't have the exact thing they want, you are... let's just say out of luck*

# What is Money?

- *This is something we all know about, but Economists say money is defined based on its functions, not what it looks like, or is made of.*
- *After all, there have been some strange forms of "money" in History...*



# *Examples of odd currency...*

- **Salt**
- **Crosses**
- **Potato Mashers**
- **Squirrel Pelts**
- **Jewelry**
- **Shells**

- **Snakes**
- **Knives**
- **Cows**



# 3 Functions of Money

- 1 - Medium of Exchange
- 2 - Unit of accounting
- 3 - Store of value

# Medium of Exchange

- We agree to accept it in making transactions
- *Merchants agree to accept it in exchange for their goods*
- *Employees agree to accept it in exchange for labor*
  - *Imagine if you had to receive pay in forms of only other goods or services...*

# Unit of Accounting

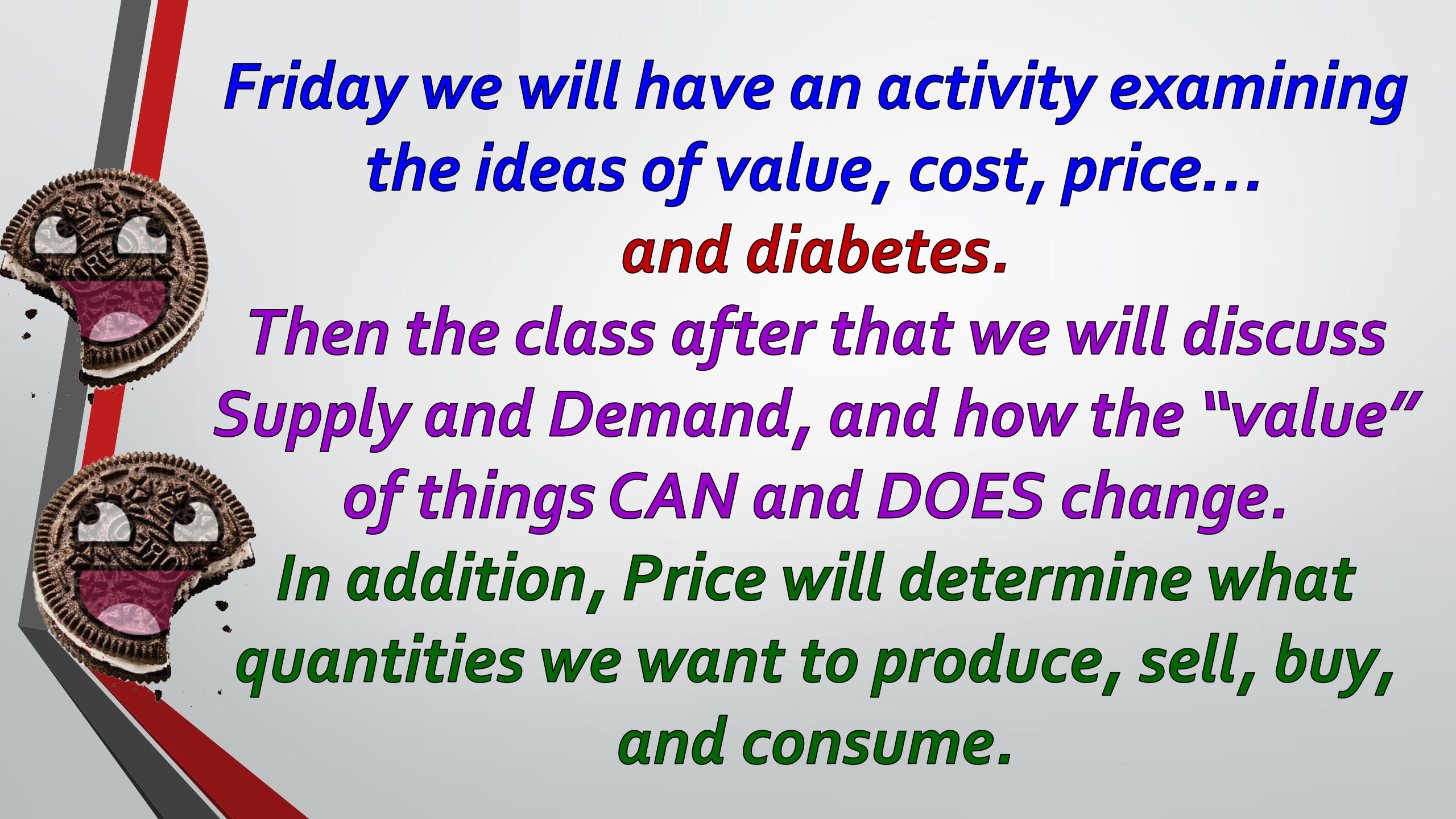
- Simple way of identifying and communicating value
- *i.e. A 2014 Ferrari "costs" more than a 1979 Ford Ranger*
- *Imagine if instead we had to say, "Well, that Ferrari is more than 8 pianos, but less than a velociraptor..."*

# Store of Value

- *Money allows us to work, but store our “reward” for use at a later time.*
- *We can “save” for a rainy day*
- *Also, once upon a time, it had literal value, being backed by gold or silver*
- *Imagine if people were paid and had to spend it all right away...*

# So we know what money is...

- But does its “value” stay the same?
- VALUE
  - Measure of benefit gained from a good or service
  - *Think about it, are there times that you'd be willing to pay a certain price for something that other times no amount would be enough?*



*Friday we will have an activity examining  
the ideas of value, cost, price...  
and diabetes.*

*Then the class after that we will discuss  
Supply and Demand, and how the "value"  
of things CAN and DOES change.*

*In addition, Price will determine what  
quantities we want to produce, sell, buy,  
and consume.*

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