

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



**MONEY**

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Day 1

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

# Objectives

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

## • *Terms:*

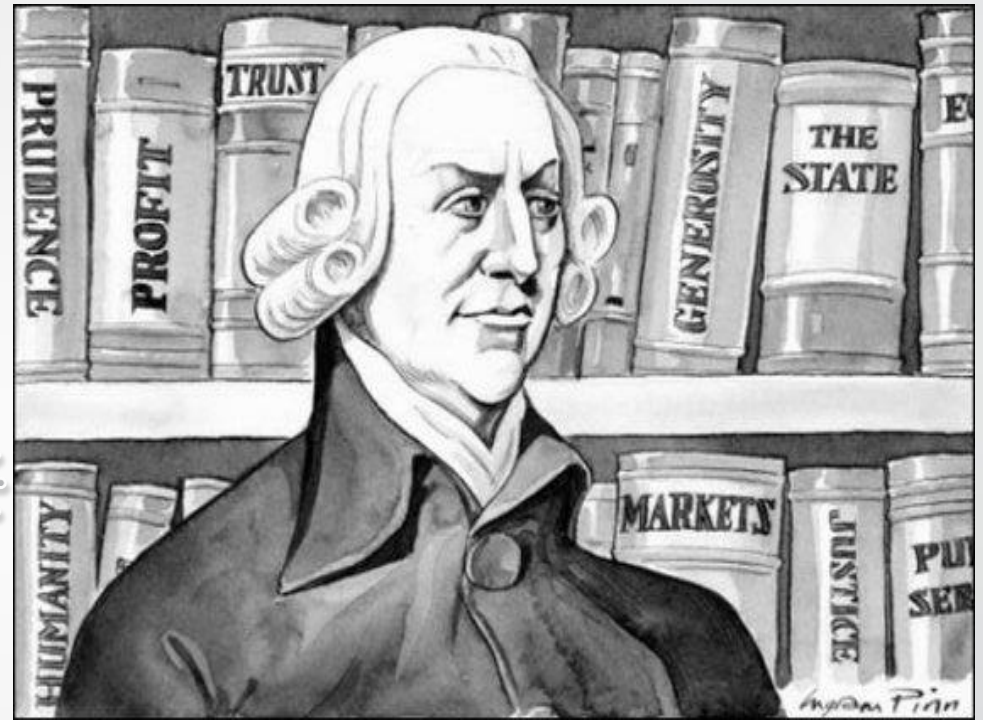
- Self-Interest
- Cost
- Price
- Money
- Value

# *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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