

Chapter 1 :: The Economic Environment

Section 1.4~ Participate in an Economy

Jump Start

As business owners, Brianna and Brittney work hard in their business. Because they know that the business cycle will have an impact on their business, they spend time planning ahead. They want to succeed. To do that, they must determine the best price to charge for their cookies and the right number of cookies to bake. They have to gather information to use in making these decisions. What kinds of information do they need? What advice would you give them?

Economic Role

All people share the economic roles of citizen, worker, and consumer. In performing these roles, you make decisions that affect both you and the entire economy. The interaction of supply and demand is an integral part of the economy. Your consumer role, as well as your citizen and worker role, affects our economy's supply and demand.

Your Citizen Role

Your citizen role is an important one. When you are old enough to vote, your political involvement will be important in your community. Keeping informed about the issues and the candidates running for office and then voting responsibly in elections is an important part of performing this role. Businesses and consumers are affected by those who hold political office and make decisions about what can and cannot be done in a community. By casting your vote, you help decide what actions to take as a community.

Helping to provide meals for the homeless, cleaning portions of a street or highway, or helping to raise money to build a new playground are examples of volunteer efforts by concerned citizens. These are examples of ways that you can perform your citizen role before you are of voting age. The way you perform your citizen role affects businesses and your community.

Your Worker Role

In your worker role in the economy, you are part of the process that supplies goods and services. Whether you process data on a computer, wait on customers, or design websites, you can supply an important good or service.

The wages you earn in your worker role allow you to buy things that you need and want, which in turn helps establish demand. In this way you find yourself on both sides of the buying and selling process. In your worker role, you have an opportunity to provide quality products and services. In your consumer role, you express your desire to buy products and services that are safe and reliable.

Your Consumer Role

As a consumer, you make decisions to buy or not to buy products and services. The United States is a market economy in which buyers and sellers in the marketplace are able to freely make decisions that affect the economy. These decisions, based on voluntary

exchange in the marketplace, drive what will be produced. The buying decisions of all consumers—individuals, businesses, and governments—provide answers as to how our scarce resources will be used.

Individual buying decisions have a big influence on our economy. Individual consumers buy more than two-thirds of the goods and services produced.

Supply and Demand

When you make a decision to buy or not to buy certain goods and services, you are helping businesses make their decisions. Buying a good or service is sometimes called “casting your dollar vote.” Your dollar vote tells a business, “I like this product or service, and I am willing to pay for it.” When a business receives dollar votes, it receives information on the demand for its products.

Supply and Demand Relationships **Demand** is the relationship between the amount of a good or service that consumers are willing and able to buy and the price of the good or service. When a business knows the demand for its product, it can plan its production using whatever economic resources are needed. Demand is an important element in an economy.

Demand determines what supply businesses will provide. **Supply** is the amount of a good or service that businesses are willing and able to provide based on the price of the good or service. Suppliers will produce a good or service if it can be sold at a price that covers operating costs and yields a reasonable profit. Brianna and Brittney will sell cookies to stores for \$8 a dozen if they can make a profit doing so. The number of those cookies that they bake depends on how many of those cookies the stores order. The stores place their orders based on how many of those cookies customers will buy at a price that allows the stores to make a reasonable profit. The stores’ customers (consumers) establish the level of demand, and Brianna and Brittney are producers who provide the supply.

Supply and Demand Effect on Price As you can see, price is an important factor in doing business. A business must decide the best price to charge for its goods and services. Determining that price requires some good business decision making.

As the demand for a good or service increases, the price tends to go up. As demand begins to fall, the price generally goes down. Figuring out the right price at the right level of demand is something that a business must determine.

A change in fashions or popular brands can cause some designer clothes to go out of style, resulting in lower demand. This causes their prices to drop. The new brands will be in high demand and will have higher prices. Consumers are willing to pay higher prices when they see value in their purchase and are not able



What do businesses do when there is low demand for a product?

to find a suitable alternative.

Supply also affects prices. When a product is in short supply, prices tend to increase if the demand stays the same. When the world demand for gasoline increases and the supply of crude oil is not increased or oil refineries do not produce more gasoline, prices at the pump go up rather quickly. When a drought or natural disaster affects the supply of coffee or vegetables, prices of those items may increase.

Other factors in the marketplace may be involved in setting prices as well. Prices may be high because the materials from which they are made are naturally scarce. Diamonds are a good example because they are found in only a few countries and in relatively small quantities. Because of their beauty and endurance, the demand for them is high. The price of a quality diamond has always been high.

Your Economic Well-Being

How you perform your three economic roles also has an effect on the satisfaction you get from your life as an individual or family. Your well-being in the economy is referred to as your standard of living and your quality of life.

Standard of Living

The term *standard of living* refers to the way you live as measured by the kind and quantity of goods and services you can afford. You use your earnings to buy the things you need to maintain and improve your standard of living. The amount of money you have plus the decisions you make are major elements in determining your standard of living.

While you are a student, most of your needs and wants are met by your parents or guardian. Before long, however, you will be meeting your own needs and wants with the money you earn. Your success as a worker and good decisions in your consumer role will work together to determine your standard of living and your quality of life.

Quality of Life

Your *quality of life* is the satisfaction and enjoyment that you get from your life. Quality of life is not measured so much by the quantity of what you own and use but by the satisfaction that you get from your possessions and activities. For example, you can't put a price tag on the feelings you have while watching a beautiful sunset or the enjoyment you receive from hiking a trail or walking on a beach. Such things add an important dimension of satisfaction and enjoyment to life.

It is possible to have fewer goods and services than others and still have a high quality of life. In some lesser-developed economies, people have very few goods and services compared to what American citizens have. Yet visitors to such countries often are impressed with the satisfaction citizens of these countries show for their lives. The attitudes you have toward your possessions and your understanding of the difference between needs and wants affect your level of satisfaction with your quality of life.

Think Critically

1. Why is the consumer role so important in a market economy?
2. What is the difference between a dollar vote and a political vote? Which one, in your opinion, is more important?
3. Why is it important for businesses and consumers to understand how supply and demand affect an economy?
4. Why is it important to distinguish between standard of living and quality of life? Why are some people never satisfied with what they have?