**What is Economics?**

* Economics is the study of the production and consumption of goods and services.
* The transfer of wealth to produce and obtain those goods.
* Economics explains how people interact within markets to get what they want or accomplish certain goals.

**How is Economic Growth Measured?**

* Economic growth in a country is measured by the country’s Gross Domestic Product (GDP) in one year
* GDP = the total amount of final goods and services produced in one year within a country

**Gross domestic product:**

* GDP is the total value of all the goods and services produced in that country in one year
* Tells how rich or poor a country is
* Shows if the country’s economy is getting better or worse
* Raising the GDP of a country can improve the country’s standard of living

**Standard of Living:**

* The quality of life of the people within a country
* The higher a country’s GDP, the better quality of life – standard living increases
* In order for a country to have an increasing GDP, it must invest in human capital through education & training, and it must produce goods that have value to be sold within the country or exported.

**4 Factors of Economic Growth:**

* There are four factors that determine a country’s Gross Domestic Product for the year
* Natural Resources
* Human Capital
* Capital Goods
* Entrepreneurship

**Human Capital:**

* Nations that invest in the health, education, and training of their people will have a more valuable workforce.
* Human capital includes education, training.
* Skills such as Computers, Reading, Writing.
* Talents in music/sports/acting.
* ability to follow directions, ability to serve as group leader & cooperate with group members
* A country’s literacy rate impacts human capital – the percent of the population over 15 that can read/write.

**How does Human Capital Influence Economic Growth?**

* Nations that invest in the health, education, & training of their people will have a more valuable workforce that produces more goods & services.
* People that have training are more likely to contribute to technological advances, which leads to finding better uses of natural resources & producing more goods.

**Investment in Capital Goods:**

* To increase GDP, countries must also invest in capital goods: – All of the factories, machines, technologies, buildings, and property needed by businesses to operate – Examples: tools, equipment, factories, technology, computers, machinery, etc.
* The more capital goods a country has = the more goods & services they are able to produce = the more money they can make!

**The Role of Entrepreneurship:**

* People who take the risk to start and operate a business are called entrepreneurs.
* These people risk their own money and time because they believe their business ideas will make a profit
* Entrepreneurs must organize their businesses well for them to be successful – They bring together natural, human, and capital resources to produce goods or services to be provided by their businesses

**How does Entrepreneurship Influence Economic Growth?**

* Entrepreneurship creates jobs and lessens unemployment
* Encourages people to take risks, and in doing so, they create better healthcare, education, & welfare programs
* The more entrepreneurs a country has, the higher the country’s GDP will be

**The Advantages of Education to a Nation:**

* Globalization and international trade requires countries and their economies to compete with each other.
* The education and training of a country's workers is a major factor in determining just how well the country's economy will do.
* The study of the economics of training and education involves an analysis of the economy as a whole, of employers and of workers.
* Two major concepts that influence the wage rate are training and education.
* In general, well-trained workers tend to be more productive and earn more money than workers with poorer training.

**Training:**

* A successful economy has a workforce capable of operating industries at a level where it holds a competitive advantage over the economies of other countries.
* To achieve this, nations may try incentivizing training through tax breaks and write offs, providing facilities to train workers, or a variety of other means designed to create a more skilled workforce.
* A number of industries in which skilled professionals are more readily trained.
* Differences in training levels have been cited as a significant factor that separates rich and poor countries.
* Although other factors are certainly in play, such as geography and available resources, having better-trained workers creates spillovers and externalities. For example, similar businesses may cluster in the same geographic region because of an availability of skilled workers (e.g. [Silicon Valley](http://www.investopedia.com/terms/s/siliconvalley.asp)).

**For Employers:**

* Employers want workers who are productive and require less management. Employers must consider a number of factors when deciding on whether to pay for employee training.
* the training program increase the productivity of the workers
* the increase in productivity warrant the cost of paying for all or part of the training program If the employer pays for training,
* the employee can leave the company for a competitor after the training program is complete
* the newly trained worker be able to command a higher wage
* the worker see an increase in his or her bargaining power
* While employers should be wary about newly trained workers leaving, many employers require workers to continue with the firm for a certain amount of time in exchange for the company paying for training.

**For Workers:**

* Workers increase their earning potential by developing and refining their capabilities.
* The more they know about a particular job's function or the more they understand a particular industry.
* The more valuable they will become to an employer. Employees want to learn advanced techniques or new skills in order to vie for a higher wage.
* Workers can expect their wages to increase at a smaller percentage than the productivity gains by employers.
* The worker must consider a number of factors when deciding whether to enter a training program:

What is the cost of the training program? Will the worker see a wage increase that would warrant the cost of the program?
* What is the labor market like for a better-trained professional? Is the market significantly saturated with trained labor already?
* Some employers pay for all or a portion of the expense of a program.

**For the economy:**

* Many countries have placed greater emphasis on developing an education system that can produce workers able to function in new industries, such as those in the fields of technology and science.
* This is partly because older industries in developed economies were becoming less competitive, and thus were less likely to continue dominating the industrial landscape.
* In addition, a movement to improve the basic education of the population emerged, with a growing belief that all people had the right to an education.
When economists speak of "education," the focus is not strictly on workers obtaining college degrees. Education is often broken into specific levels:
Primary – referred to as elementary school in the U.S.
	+ Secondary – includes middle schools, high schools and preparatory schools
	+ Post-secondary – universities, community colleges and vocational schools

**Education brings more productiveness:**

* A country's economy becomes more productive as the proportion of educated workers increases.
* Educated workers are able to more efficiently carry out tasks that require literacy and critical thinking.
* Better-educated workers tend to be more productive than less educated ones.
* Even if a country it can provide basic literacy programs and still see economic improvements.
* Countries with a greater portion of their population attending and graduating from schools see faster economic growth than countries with less-educated workers.
* As a result, many countries provide funding for primary and secondary education in order to improve economic performance.

**Education is an investment:**

* In this sense, education is an investment in [human capital](http://www.investopedia.com/terms/h/humancapital.asp), similar to investment in better equipment.
* According to UNESCO and the United Nations Human Development Programmer, the ratio of the number of children of official secondary school age enrolled in school, to the number of children of official secondary school age in the population (referred to as the enrollment ratio), is higher in developed nations than it is in developing ones.
* **Intellectual ability is an asset:**For businesses, an employee's intellectual ability can be treated as an asset.
* This asset can be used to create products and services which can then be sold.
* The more well-trained workers employed by a firm, the more that firm can theoretically produce.
* An economy in which employers treat education as an asset in this manner is often referred to as a knowledge-based economy.
* Like any decision, investing in education involves an [opportunity cost](http://www.investopedia.com/terms/o/opportunitycost.asp) for the worker. Hours spent in the classroom cannot also be spent working for a wage. Employers, however, pay more wages when the tasks required to complete a job require a higher level of education. Thus, while wage earning might be lowered in the short-term as an opportunity cost to becoming educated, wages will likely be higher in the future, once the training is complete.

**The bottom line is….**

* The knowledge and skills of workers available in the labor supply is a key factor in determining both business and economic growth.
* Economies with a significant supply of skilled labor, brought on through school education as well as training, are often able to capitalize on this through the development of more value-added industries, such as high-tech manufacturing.

**Investment in machinery:**

* Economic growth is often tied to investment in machinery, new technology, and education of the population this is because these items lead to a greater productivity of inputs

**Investment in Equipment:**

* The set of articles or physical resources serving to equip a person or thing: as
	+ (1): The implements used in an operation or activity

**Investment in Technology:**

* The practical application of knowledge which helps society become more economically efficient
* Investing heavily in new capital and technology is related to economic growth.

**Your Turn….**

* Give Examples of how investment in education can lead to a higher standard of living.

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1. Enduring Understandings:
Parties respond predictably to positive and negative incentives.
2. Because of interdependence, a decision made by one party has intended and unintended consequences on other parties.
3. Scarcity of all resources forces parties to make choices and that these choices incur a cost.

**Why this Matters in Economics:**

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