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Curso de inglés económico, de finanzas y tributos
Module 1. Introduction to economic topics

1. Basic economic problems

Have you ever felt you wanted a new cell phone, a car, a new pair of running shoes, or the latest MP3 play er? You are not alone.

Consumers have many economic wants. **Wants** are desires that can be satisfied by consuming a good or service.

When people buy products or services, they often make a distinction between the things they need and the things they want. **Needs** are things, such as food, clothing, and shelter, that are necessary for survival. People always want more, no matter how much they have already.

In fact, wants are unlimited, but the resources available to satisfy them are limited. The result of this difference is **scarcity**, the situation that exists when there are not enough resources to meet human wants.

Scarcity is not a temporary shortage of some desired thing. Rather, it is a fundamental and ongoing tension that confronts individuals, businesses, governments, and societies. Indeed, it is so basic to human experience that a social science has developed to understand and explain it. That social science is **economics**, the study of how people choose to use scarce resources to satisfy their wants.

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What does economics involve?

Economics involves:

1. **examining** how individuals, businesses, governments, and societies choose to use scarce resources to satisfy their wants;
2. **organizing, analyzing, and interpreting data** about those economic behaviors and
3. **developing theories and economic laws** that explain how the economy works and to predict what might happen in the future.

2. Economic vocabulary

When discussing economic topics, it is important to understand certain basic terms.

What's the difference among these terms?

Economics is the study of how individuals and societies satisfy their unlimited wants with limited resources.

An **economist** is a person who studies or has a special knowledge of economics.

Economy refers to the system of trade and industry by which the wealth of a country is made and used.

NOTE: *The adjectives economic and economical seem to be similar in meaning but they have no similarity. We use* ***economic*** *to mean 'related to trade, industry or money': ex. The economic forecast for next year is not good. We use* ***economical*** *to mean 'not using a lot of money'. Ex. Hybrid cars are very economical. (They do not cost a lot of money to run.)*

The two branches of the Economy

Economists talk about microeconomics and macroeconomics.

- **Microeconomics** deals with people and private business. It looks at the economic decisions individual consumers make every day. It examines how families manage their household budgets. It also deals with small or large companies and how they run their businesses.
- **Macroeconomics**, on the other hand, looks at the economy of a country and of the whole world. It involves topics such as inflation, unemployment, aggregate demand, and aggregate supply, international trade, among others. For example, Changes in coffee prices might interest a microeconomist. A macroeconomist might study general changes in prices.

3. Factors of production

Scarcity requires every society to address three basic economic questions:

1. *What will be produced?*

A society must decide the mix of goods and services it will produce. This decision will depend, in part, on the natural resources it possesses. For example, a country that does not possess oil is unlikely to choose to produce petroleum products. Resources, however, do not completely control what a country produces. Japan does not possess large amounts of the iron needed to make steel. Yet Japan is a leading producer of automobiles, whose construction requires a great deal of steel. This question involves not only what to produce, but also how much to produce. To answer this, societies must review what their wants are at any time. A country at war, for example, will choose to produce more weapons than it would during peacetime.

2. *How will it be produced?*

Once a society has decided what it will produce, then it decides how these goods and services will be produced. Answering this involves using scarce resources in the most efficient way to satisfy society's wants. Again, decisions on methods of production are influenced, in part, by the natural resources a society possesses.

3. *For whom will it be produced?*

This question involves how goods and services are distributed among people in society. This actually involves two questions. Exactly how much should people get and how should their share be delivered to them? Should everyone get an equal share of the goods and services? Or should a person's share be determined by how much he or she is willing to pay? Once the question of how much has been decided, societies must then decide exactly how they are going to get these goods and services to people. To do this, societies develop distribution systems, which include road and rail systems, seaports, airports, trucks, trains, ships, airplanes, computer networks—anything that helps move goods and services from producers to consumers in an efficient manner.

To understand how societies answer the first two basic questions—what to produce and how to produce it—economists have identified the **factors of production**, or the economic resources needed to produce goods and services. They divide the factors of production into four broad categories: land, labor, capital, and entrepreneurship. All of these factors have one thing in common—their supply is limited.

Land refers to all natural resources used to produce goods and services. **Labor** is all of the human effort used to produce goods and services. **Capital** is all of the resources made and used by people to produce goods and services. **Entrepreneurship** involves the vision, skills, and risk-taking needed to create and run businesses.

4. Economic systems

To address scarcity, societies must answer the three questions we have already seen. The answers to these questions shape the economic system a society has.

An **economic system** is the way a society uses its scarce resources to satisfy its people's unlimited wants. There are three basic types of economic systems: traditional economies, command economies, and market economies.

- **Traditional economy:** families, clans, or tribes make economic decisions based on customs and beliefs that have been handed down from generation to generation. The one goal of these societies is survival. Everyone has a set role in this task; men often are hunters and women tend the crops and raise children. The youngest help with everyday chores while learning the skills they will need for their adult roles. There is no chance of deviating from this pattern. The good of the group always takes precedence over individual desires.
- Command economy: government officials consider the resources and needs of the country and allocate those resources according to their judgment. The wants of individual consumers are rarely considered. The government also usually owns the means of production—all the resources and factories.
- **Market economy**: based on individual choice, not government directives. Consumers and producers drive the economy. Consumers are free to spend their money as they wish, to enter into business, or to sell their labor to whomever they want. Producers decide what goods or services they will offer. They make choices about how to use their limited resources to earn the most money possible.
- **Mixed economy**: it has elements of traditional, command, and market economies Even the most strongly market-based modern economies have some elements of central planning. Similarly, market influences have penetrated all of today's command economies to some extent. Traditional production methods are still followed in some areas of both market and command systems. And traditional economies everywhere are experiencing greater government involvement and growing pressure from market influences.

5. Economic Choices. Cost benefit analysis

Scarcity forces everyone to choose. But what shapes the economic choices that people make?

One factor involves **incentives**, or benefits offered to encourage people to act in certain ways. For example, grades in school, wages paid to workers, and praise or recognition earned in personal and public life are all incentives.

Choice is also influenced by **utility**, or the benefit or satisfaction gained from the use of a good or service.

When consumers economize, they consider both incentives and utility. In common usage, the word *economize* means to "cut costs" or "do something cheaply." In strict economic terms, however, **economize** means to "make decisions according to what you believe is the best combination of costs and benefits."

As you can see, individuals do not make their choices randomly. Rather, they carefully look at the benefits they would gain and the opportunity costs they would incur from their decisions. This practice of examining the costs and the expected benefits of a choice as an aid to decision making is called **cost-benefit analysis**. **It** is an approach that weighs the benefits of an action against its costs.

When making an economic decisions, economists would look at marginal costs and marginal benefits. **Marginal cost** is the cost of using one more unit of a good or service, while **marginal benefit** refers to the benefit or satisfaction received from using one more unit of a good or service.

The analysis of marginal costs and marginal benefits is central to the study of economics. It helps to explain the decisions consumers, producers, and governments make as they try to meet their unlimited wants with limited resources.

To illustrate it, think about a person who decides to practice basketball. This improves his sport performance at the opportunity cost of an hour working at an after school job to save money. What would be the marginal cost of one more hour of practice? It is the loss of one more hour working. The marginal benefit of that extra hour would be an improvement in basketball. A person may decide that the benefit of a slight improvement in a sport is not worth the cost of one less hour working.

6. Economic Indicators

Economic indicators are defined as figures showing how well a country's economy (economic system) is working.

The main economic indicators are inflation and unemployment, Trade, growth and gross domestic product.

- Growth - Gross Domestic product

Economic output is the value of goods and services produced in a country or area.

Gross domestic product or **GDP** is the value of all the goods and services produced in a particular country. The size of an economy is also sometimes measured in terms of gross national product or GNP. This also includes payments from abroad, for example, from investments.

Growth is when output in the economy increases. The growth rate is the speed at which a company's economy grows and gets bigger.

To be included in GDP, a good or service has to fulfill **three requirements**:

- it has to be final rather than intermediate. (For example, the fabric used to make a shirt is an intermediate good; the shirt itself is a final good)
- The good or service must be produced during the time period, regardless of when it is sold. (For example, cars made this year but sold next year would be counted in this year's GDP)
- The good or service must be produced within the nation's borders. (Products made in foreign countries by national companies are not included in the GDP of said country)

How to calculate the GDP

Although there are several different ways to calculate GDP, economists often use the **expenditures approach**. With this method, they group national spending on final goods and services according to the four sectors of the economy: spending by households, or consumption; spending by businesses, or investment; government spending; and total exports minus total imports, or net exports.

- **Consumption** includes all spending by households on durable goods, nondurable goods, and services.

- **Investment**, which measures what businesses spend, has two categories. One is fixed investment consisting in new construction and purchases of such capital goods as equipment, machinery, and tools. The other is inventory investment. This category, also called unconsumed output, is made up of the unsold goods that businesses keep on hand.
- **Government spending** includes all the expenditures of federal, state, and local governments on goods and services. Examples include spending for defense, highways, and public education. However, government spending on transfer payments, such as social security and unemployment benefits, is not included. These payments allow the recipients to buy goods and services, and these are counted as consumption.
- **Net exports**, the final component of GDP, represents foreign trade. This component takes into account the goods and services produced in the United States but sold in foreign countries—in other words, exports. However, U.S. consumers and businesses also buy, or import, goods made in foreign countries. Cars, car parts, and crude oil are the largest imports in dollar value. The GDP counts only net exports— the value of U.S. exports minus the value of U.S. imports.

Although GDP provides an important estimate of how well the economy is performing, it does not measure all output.

It does not measure **nonmarket activities**, such as home childcare or performing one's own home repairs.

GDP also does not measure output from the **underground economy**, market activities that go unreported because they are illegal or because those involved want to avoid taxation.

Further, GDP does not measure "quality of life" issues related to economic output. Countries with high GDPs have high living standards. But GDP does not show how the goods and services are distributed. For example, The United States has the largest GDP of any country, but more than 10 percent of its people still live in poverty.

GDP also does not express what products are being built and services offered.

7. Economic Cycles

Changes in economy often follow a broad pattern. This is known as an economic or business **cycle**, a series of periods of expanding and contracting economic activity, measured by increases or decreases in real GDP.

The cycle has four distinct stages: expansion, peak, contraction, and trough

- **Expansion phase**: Real GDP grows from a low point, or trough.

  The expansion is a period of **economic growth**, an increase in a nation's real gross domestic product (GDP). During an expansion, jobs are relatively easy to find, so unemployment goes down. More and more resources are needed to keep up with spending demand. As resources become more scarce, their prices rise. The length of each phase may vary both within a cycle and from cycle to cycle.

- **Peak phase**: The point at which real GDP is the highest represents the peak of the business cycle. As prices rise and resources tighten, businesses become less profitable. From that point on, real GDP declines as businesses curtail production.
- **Contraction phase**: it begins after the peak. As producers cut back, resources become less scarce and prices tend to stabilize or fall. Unemployment rises because employers produce less.
  Sometimes the contraction phase becomes a **recession**, a contraction lasting two or more quarters (six months or more).
  On rare occasions, as in the 1930s, a contraction turns into a **depression**, an extended period of high unemployment and limited business activity.
  While prices usually remain about the same or go down during the contraction phase, sometimes they go up. These are periods of **stagflation**—stagnation in business activity and inflation of prices.
- **Trough phase**: The final phase of the business cycle is the, the point at which real GDP and employment stop declining.

A business cycle is complete when it has gone through all four phases, from trough to trough or from peak to peak.

8. Demand and Supply Forces

When analyzing an economic cycle, we need to consider demand and supply forces.

To make a profit, producers provide products at the highest possible price. Consumers try to buy the best products at the lowest possible price. The forces of supply and demand establish the price that best serves both producers and consumers.

The law of Demand

Demand is the desire to have some good or service and the ability to pay for it. You may want to take a round-the-world cruise or to rent a huge apartment that overlooks the ocean. However, you may not be able to afford any of these things. Therefore, economists would say that you have no actual demand for them. Even though you want them, you don't have the money needed to buy them. Conversely, you may want the latest CDs by several of your favorite bands. And, you can afford them. Since you have both the desire for them and the ability to pay for them, you do have demand for CDs. Price is one of the major factors that influence demand.

The **law of demand** states that when the price of a good or service falls, consumers buy more of it. As the price of a good or service increases, consumers usually buy less of it. In other words, quantity demanded and price have an inverse, or opposite, relationship.

A change in the marketplace, such as high unemployment, prompts consumers to buy different amounts of a good or service at every price. This is known as a **change in demand**, also called a shift in demand because it actually shifts the position of the demand curve.

There are six factors which can cause a change in demand: income, market size, consumer tastes, consumer expectations, substitute goods, and complementary goods.

- **Income**: If a consumer's income changes, either higher or lower, that person's ability to buy goods and services also changes. Changes in income affect market demand curves. When the incomes of most consumers in a market rise or fall, the total demand in that market also usually rises or falls. Increased income usually increases demand, but in some cases, it causes demand to fall. **Normal goods** are goods that consumers demand more of when their incomes rise. **Inferior goods** are goods that consumers demand less of when their incomes rise.

- **Market size**: If the number of consumers increases or decreases, the market size also changes. Such a change usually has a corresponding effect on demand. For example, population shifts in the search for a better climate, high-tech jobs, or a less congested area. One economic result of the migration is that the overall market size of one area has shrunk, while the market size of the other area has grown. This change in market size has altered the demand for many products, from essentials such as homes, clothing, and food to nonessentials such as movie tickets. Demand for most items will grow in booming regions and decrease in regions that are shrinking.
- **Consumer Tastes**. When a good or service enjoys high popularity, consumers demand more of it at every price. When a product loses popularity, consumers demand less of it. Advertising has a strong influence on consumer tastes. Sellers advertise to create demand for the product. For example, some people stop wearing perfectly good pants that still fit because advertising convinces them that the style is no longer popular and that a new style is better.
- **Consumer expectations**. Your expectations for the future can affect your buying habits today. If you think the price of a good or service will change, that expectation can determine whether you buy it now or wait until later. For example, automobiles usually go on sale at the end of summer because dealers want to get rid of this year's models before the new models arrive.
- **Substitutes**, which are goods and services that can be used in place of other goods and services to satisfy consumer wants. Because the products are interchangeable, if the price of a substitute drops, people will choose to buy it instead of the original item. Demand for the substitute will increase while demand for the original item decreases. People may also turn to substitutes if the price for the original item becomes too high. For example, when gasoline prices are high, some people decide to commute to school by bus or train. When gasoline prices are low, a higher number of people choose to drive instead of to take public transportation.
- **Complements**. When the use of one product increases the use of another product, the two products are called **complements**. An increase in the demand for one will cause an increase in the demand for the other. Likewise, a decrease in demand for one will cause a decrease in demand for the other. In contrast to substitutes, complements are goods or services that work in tandem with each other. An increase in demand for one will cause an increase in demand for the

other. One example is CDs and CD players. Consumers who bought CD players also demanded CDs to play on them. And, as CDs became more popular, demand for CD players grew until they began to appear in places they had never been before, such as in the family minivan.

The law of Supply

It refers to the willingness and ability of producers to offer goods and services for sale. The **law of supply** states that producers are willing to sell more of a good or service at a higher price than they are at a lower price. Producers want to earn a profit, so when the price of a good or service rises they are willing to supply more of it. When the price falls, they want to supply less of it. In other words, price and quantity supplied have a direct relationship.

A change in supply occurs when something prompts producers to offer different amounts for sale at every price. When production costs increase, supply decreases; when production costs decrease, supply increases.

Six factors cause a change in supply: input costs, labor productivity, technology, government actions, producer expectations, and number of producers.

- **Input costs**: the price of the resources needed to produce a good or service. For example, Anna makes nutrition bars that contain peanuts. If the price of peanuts increases, Anna's costs increase. When the price of peanuts decreases, her costs decrease. She is willing and able to increase the quantity she can supply at every price.

- **Labor productivity:** the amount of goods and services that a person can produce in a given time. Increasing productivity decreases the costs of production and therefore increases supply. Better-trained and more-skilled workers can usually produce more goods in less time, and therefore at lower costs, than less-educated or less-skilled workers. For example, a business that provides word-processing services can produce more documents if its employees type quickly and have a lot of experience working with word processing software.

- **Technology**: One way that businesses improve their productivity and increase supply is through the use of technology. **Technology** involves the application of scientific methods and discoveries to the production process, resulting in new products or new manufacturing techniques. Influenced by the profit motive, manufacturers have, throughout history, used technology to make goods more efficiently. Increased automation, including the use of industrial robots, has led to increased supplies of automobiles, computers, and many other products. Technological innovations, such as the personal computer, enable workers to be more productive. This, in turn, helps businesses to increase the supply of their services, such as processing insurance claims or selling airline tickets.
- **Government actions**: they affect the costs of production, both positively and negatively. For example, excise taxes are often placed on items such as alcohol and tobacco— things whose consumption the government is interested in discouraging. The taxes increase producers' costs and, therefore, decrease the supply of these items. Taxes tend to decrease supply; subsidies have the opposite effect. The subsidy's purpose is to encourage or protect that activity. Government **regulation**, the act of controlling business behavior through a set of rules or laws, can also affect supply. Banning a certain pesticide might decrease the supply of the crops that depend on the pesticide.
- **Producer expectations**: if producers expect the price of their product to rise or fall in the future, it may affect how much of that product they are willing and able to supply in the present. Different kinds of producers may react to future price changes differently. For example, if a farmer expects the price of corn to be higher in the future, he or she may store some of the current crop, thereby decreasing supply. A manufacturer who believes the price of his or her product will rise may run the factory for an extra shift or invest in more equipment to increase supply.
- **Number of producers**: when one company develops a successful new idea, other producers soon enter the market and increase the supply of the good or service. An increase in the number of producers means increased competition, which may eventually drive less-efficient producers out of the market, decreasing supply.

9. Why do business cycles occur?

Shifts in demand and supply forces indicate changes in the business cycle. But what causes these shifts?

Four factors are especially important: (1) decisions made by businesses, (2) changes in interest rates, (3) the expectations of consumers, and (4) external shocks to the economy. These factors involve the "ripple effect," the cause-and-effect interactions that ripple through the economy.

(1) When businesses decide to decrease or increase production, their decisions can have far-reaching effects. If enough businesses make similar decisions, it can lead to a change in the business cycle.

Consider the ripple effect of a decision by businesses in the recording industry. In response to a **slump in demand**, the producers decide to reduce production of compact discs. First, they reduce the number of hours worked at their compact disc manufacturing facilities. Some workers get laid off, others work shorter hours. In a related move, the recording businesses cut back on their investment in new CD manufacturing equipment. That decision will lead to a decrease in the demand for machinery, which puts producers of the machinery in the same situation that the recording businesses were in. The machinery businesses will also cut back on production and lay off workers. The recording industry businesses also decide to reduce the number of new recordings they commission, thereby reducing the income of musicians, recording engineers, record promoters, and other associated workers. All of the workers that are now unemployed or working less must cut back on their purchases. The single decision by the recording industry businesses had numerous consequences. By itself, it might not be enough to change the business cycle for the entire country. But if enough businesses make similar decisions, a contraction in the business cycle might result.

Alternatively, business decisions can also increase supply and fuel an expansion. For example, suppose computer chip manufacturers adopt a **new technology** that greatly reduces production costs. Those manufacturers become more productive—the supply of their products increases and the cost of their products goes down. Businesses that make products that use computer chips can make their products more cheaply. Other businesses may now be able to make new products with the more readily available computer chips. All of these businesses hire more workers to handle the increased production. The supply increases, and the economy experiences an expansion.

(2) Another event that has a ripple effect in the economy and causes shifts in demand and supply is a change in interest rates.

Rising interest rates, for example, make it more costly for consumers to borrow money to make purchases—from televisions to cars to houses. This decreased purchasing power lowers the level of demand and promotes a contraction in the economy. When interest rates fall, the opposite happens. Demand rises, promoting an expansion. Consider what may happen to businesses when interest rates rise. With the higher cost of borrowing money, businesses may cut back on their investment in capital goods. As you saw earlier, such a cutback would lead to less business activity for the producers of capital goods. As the supply decreases, a contraction in the economy is likely. But falling interest rates would lead to an increase in supply and an economic expansion. Higher or lower interest rates also affect the housing market. When interest rates are low, people are inclined to purchase housing rather than rent, so housing sales and all related economic activities increase, contributing to an economic expansion. When interest rates rise, the high cost of loans limits mortgage eligibility, so more people rent. Housing sales slow down, contributing to an economic contraction.

(3) The way consumers are feeling about prices, business activity, and job prospects influences their economic choices, and their choices can bring about changes in demand.

For example, when consumers are confident about the future and believe that they are economically secure, they tend to consume more, driving up aggregate demand and encouraging an economic expansion.

(4) A nation's economy can also be strongly influenced by issues and events beyond its control or outside of its borders. Examples include such natural disasters as Hurricanes, tornadoes, earthquakes, among others.

10. Analyzing and interpreting economic data

Data, or factual information, is the most basic tool of the economist. Economic data is most often in the form of statistics.

Economists **analyze** data to learn about economic conditions and trends. They **interpret** data to draw conclusions or make predictions based on their analysis.

- **GRAPHS** show statistical information in a visual manner. Economists use graphs to show comparative amounts, ratios, trends, and changes over time.

Interpreting graphs will increase your understanding of economic trends and data.

- LINE GRAPHS can show changes over time, or trends. Usually, the horizontal axis shows a unit of time, such as years, and the vertical axis shows quantities.
- PIE GRAPHS are useful for showing relative proportions. The circle represents the whole, such as the entire population, and the slices represent the different groups that make up the whole.
- BAR GRAPHS compare numbers or sets of numbers. The length of each bar indicates a quantity. With bar graphs, it is easy to see at a glance how different categories compare.

- **TABLES** present information in a visual form. Tables are created by simplifying, summarizing, and organizing information into a format that is easy to understand. Tables are the most commonly used charts in Economics books.

In order to interpret tables, first, read the title to identify the main idea of the table.

After that, read the headings to determine how the table is organized (by category, time period, etc).

Now, you can study the data in the table to understand what the table was designed to show.

You may want to summarize the information shown in each part of the table.

Be sure to read any footnotes provided with the table. Footnotes clarify information.

11. Describing graphs

When describing graphs, economists use certain words and expressions to explain economic trends. Below you will find a list of verbs, nouns, adjectives and adverbs, plus expressions to describe trends.

Up verbs	Up nouns	
Go up	An increase	
Increase	An upturn	
Take off	A rise	
Rise	A surge	
Shoot up	A growth	
Grow	An upsurge	
Soar	An improvement	
Improve	An upward trend	
Jump		
rocket		
Down verbs	**Down nouns**	
Go/come down	A fall	
Decline	A downturn	
Fall	A decrease	
Decrease	A downward trend	
Fall off	A decline	
Slip	A drop	
Drop		
Plummet		
Slump		
Shrink		
At the top verbs	**At the bottom – verbs**	**No change verbs**
Reach a peak	Reach a low point	Remain stable
Peak	Bottom out	Remain constant
Top out	recover	Level off
		Stagnate
		Stay at the same level
		Stabilize

Degrees of change		Speed of change
Adjectives	Adverbs	Adjectives
Dramatic	Dramatically	Abrupt
Considerable	Considerably	Sudden
Sharp	Sharply	Rapid
Significant	Significantly	Quick
Substantial	Substantially	Steady
Moderate	Moderately	Gradual
slight	slightly	slow

- There follow a list of expressions used to describe trends including common prepositions

- A rise **from** $1 m **to** 2 m
- To fall/increase **by** 30%
- An increase **of** 7.5 % over last year

- Economists use various adjectives and verbs to describe demand and supply changes. For example:

Demand/supply trend

- *Consumer demand was **strong/buoyant***
- *The government had to **stimulate** demand*

Demand/Supply trend

- *Consumer demand was **weak/sluggish***
- *The government had to **cool** demand*

- When economists describe economic cycles, they use some expressions to describe different phases.

When there is a positive trend, they use verbs like **enjoy**, but when the trend is negative, they use verbs like **suffer**.

Enjoy/experience

- An upturn (a short term change)
- A recovery (a medium term change)
- A boom (a extreme change)

Experience/suffer

- A downturn (short term change)
- A recession (mid/long term change)
- A slump (an extreme change)

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