

ACTIVITY 3 EARNING A LIVING

OVERVIEW:

The Roles of Households (Individuals and Families)

Individuals function as both consumers and producers. In the U.S. economy, households act as consumers when they buy goods and services that businesses produce. These exchanges take place in **product markets**. Buying food at a local grocery store is an exchange in a product market.

As resource owners, individuals function as producers by supplying productive resources to businesses, which use these resources to produce goods and services. These exchanges take place in **factor markets** (or productive resource markets). Examples of the transactions that occur in factor markets are businesses paying wages to workers, rent to landowners, or interest on loans for plant and equipment.

There are three categories of productive resources used to produce goods and services: human resources, natural resources, and capital.

Human resources are the number of people available for work and the skills and motivation of these individuals. Businesses pay wages and salaries to households for their labor services.

Entrepreneurship refers to a special type of human resource that assumes the risk of organizing other resources to produce goods and services. The payment to entrepreneurs is called profit.

Natural resources are gifts of nature. They include land, oceans and rivers, oil and mineral deposits, and climatic conditions.

Capital refers to the manufactured or constructed items used by businesses. They include buildings, machinery, and equipment used in the production process. (In everyday speech, people commonly refer to money as capital; but in economics, the term capital refers to the real productive resources—buildings, machines, and tools—used to produce other goods and services.)

The Roles of Business Firms

Like households, businesses function as both consumers and producers. Businesses supply goods and services in the product market. They are the buyers, or consumers, of the productive resources (human resources, natural resources, and capital) used to produce goods and services. Businesses try to sell their products for more than their costs of production, thereby earning a profit. If a business is not successful, it will incur a loss. In order to earn profits, businesses must supply products that households want to buy, and supply them at competitive prices. If a business doesn't produce what households want to buy, or if it doesn't keep costs of production down enough to compete with other producers, it will incur losses. A firm will eventually go out of business if it continues to incur losses.

INSTRUCTIONS FOR THE "ECONOLAND" SIMULATION:

In this simulation, you will play the role of either a household or a business. Read carefully about both roles, then your teacher will assign your role.

Households: Your first role is to sell to businesses the human resources, natural resources, and capital they need to produce a product. Then use the income you earn from selling those productive resources to buy, from businesses, the goods and services your household wants to consume. These goods and services are called ECONOs in this simulation. Your success as a household will be measured by the number of ECONOs you accumulate. You will be given 15 Productive Resource cards. You may not want to sell all your resources immediately because their prices may change as the game goes on. However, in general, the more resources you sell, the more money you will earn to acquire ECONOs. Be sure

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to sell all your resource cards before the activity ends, because only the ECONOs you have will count at the end of the simulation.

Business Firms: Your roles are to supply the goods and services households want and earn a profit in the process. In this activity, the only products households want to buy are ECONOs. To produce one ECONO, you must acquire 1 unit of human resources, 1 unit of natural resources, and 1 unit of capital. You must buy these resources from households at the best price you can negotiate. Once you have accumulated 1 unit of each resource, you may turn the set of three cards in at the ECONO FACTORY, which will produce 1 ECONO for you. You are then free to sell the ECONO to any household for the best price you can negotiate. To earn a profit, you must sell the ECONO for more than your costs of production, which in this game includes the wages and salaries paid for human resources, the rent paid for the use of natural resources, and the interest paid for the use of capital. You can then use the money you receive to buy more productive resources in order to produce and sell more ECONOs. You have \$1000 to start the game. Your business success will be measured by the dollars of profit you are able to earn during the activity. Try to sell all your products by the end of the activity. If you run out of money and have no ECONOs to sell, announce publicly that you are bankrupt and return to your seat.

A Word about Pricing: Only \$100 bills are used in this activity. It is possible to arrive at prices other than \$100, \$200, \$300, etc., by combining several items in a single transaction. For example, two Productive Resources cards could be sold for \$300, which is the equivalent of \$150 each. Five cards could be sold for \$300, which is the equivalent of \$60 each. However, you must agree on a price for which an exchange can take place using the denominations of money provided in the simulation. The suggested price range for Productive Resource cards is \$50 to \$300, but any price that buyers and sellers agree to and can complete using \$100 bills is acceptable.