Using Economic Models

Lesson 3
Chapter 1
Economic Growth

- **Economic growth**
  - Nation’s total *output of goods and services* increases over time.

- Investing in new **physical or human resources** involves risks and sacrifices to increase future production.
  - When more products can be produced with the same amount of resources, *productivity* goes up.

- **Human capital**
  - Major contribution to productivity

- Improving productivity and income – can make the world a safer place
  - **Division of labor**
  - **Specialization**
  - **Interdependence.**
Circular Flow of Economic Activity

- **Circular flow diagram** [St. Louis Fed Youtube Video](#)
  - Model that shows how markets connect people and businesses in the economy.
  - Factors of production are bought and sold in **factor markets**.
  - Goods and services are bought and sold in **product markets**.
  - All people and businesses are connected by **markets**.

![Circular Flow Diagram](Short Flow Model)
Thinking Like an Economist

- **Economics models** reduce complex situations to their most basic elements
  - More easily understood.

- All models are based on **assumptions**.

- **Cost-benefit analysis**
  - Compares benefits of an action or decision with its expected costs.

- Small steps toward a final goal – smart
  - Especially when unsure of the exact costs involved.
Studying Economics

- Gives people better understanding of how a **free enterprise economy** works.
- Helps people become better **decision makers** - personally and as voting citizens
- Many economic topics have a bearing on our **standard of living**.
- Provides a framework to analyze a complex world around us