

Ch 2: The Good Life

Introduction: What is the Good Life?

Personal Connection. In your notebook, describe what you think it means to live “The Good Life.” Do you believe that all people can have “The Good Life”? Why or why not?

Ask almost any person in the world what they want out of their life and their response would be the same: the Good Life. Now, they may not use those exact words, but the lifestyle they describe hovers around that general theme - people want their life to be “good.” Good health, good food, good amount of wealth, good relationships... They want an abundance of “good” in their life. What each person is ultimately describing is their ideal standard of living. Standard of living is a measurement of a person’s employment, wealth, educational and housing opportunity, health care, life expectancy, and political rights/freedoms.

Unfortunately, the 21st century has seen the greatest gap between rich and poor in recorded history. For example: 300,000 Americans use an average of 17.2 gallons of clean, piped in, potable water a day... on their shower. Meanwhile, 700 million fellow humans will never have a clean glass of water in their life. Every day, restaurants in western countries take 130 million pounds of food... and throw it away. Meanwhile, 1 billion humans will not eat a mouthful of food the entire day. These contrasts in standards of living are present in every area of life.

In the age of globalization, where information and wealth travel at the speed of light, what can be done about these massive gaps? Is this gap created by environmental determinism where the geography and situation pre-determine who will be successful and who will fail? Or is the gap conquerable by possibilism, which believes that through human ingenuity and technology anything is possible? If a solution is possible, who is responsible for it?

These questions are at the heart of the study of economic development. Economic Development embodies the virtues of possibilism - that through technology and integration, ALL lives of people EVERYWHERE can and should be improved.

Chapter 2 is an inquiry into the development of the Good Life: Who has it? How to measure it? How can others achieve it? And why, if everyone agrees that people should have a “good life,” are development theories so controversial?

Skill Builder:

Reflecting Forward.

To improve is to change, to perfect is to change often. To grow it is important to take time for self-reflection. Having completed Unit 1, answer the following questions: What did you do well? What do you need to improve upon? (Reading, Note taking, studying, class participation, time management...) What concerns do you have about your performance?

Reminder: Read the Headings, First sentences *PAUSE* THEN Read for detail. Try to recall/retell.

Application #1

PART 1: Imagine for a moment you have unlimited wealth and access to resources. In your notebook, take one minute and brainstorm everything you would do with your wealth and opportunity.

PART 2: Circle all of the things on your list that you could accomplish with the money physically on your body/in your pocket right now.



A. Understanding Economics

Economics and Scarcity

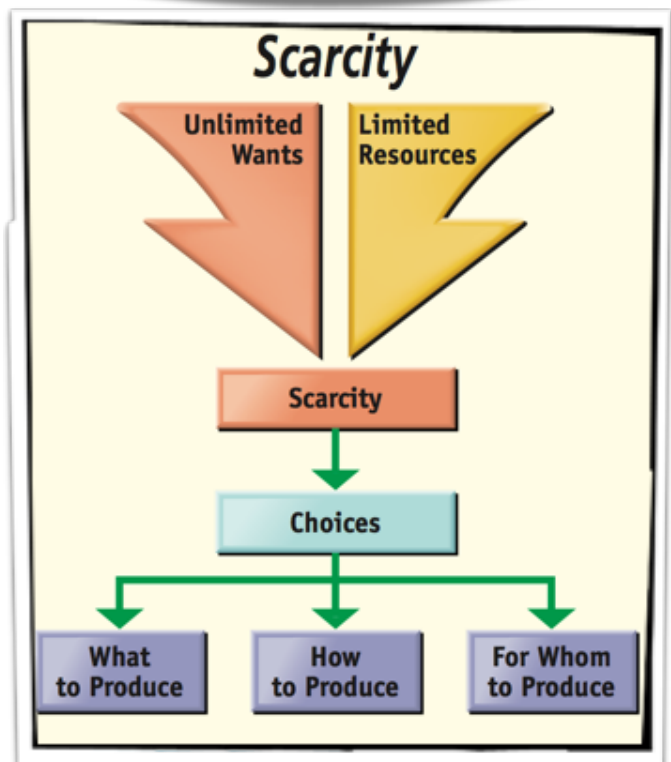
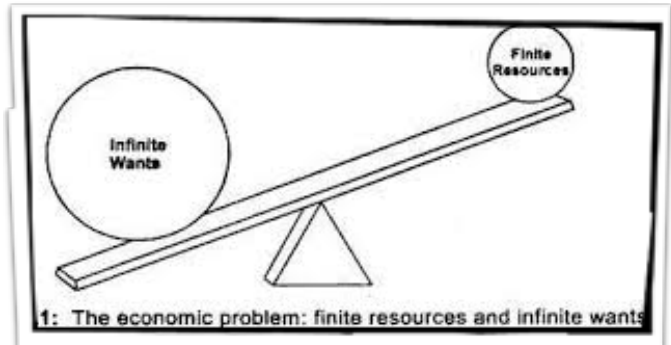
An understanding of development begins with understanding economics. At the core of economics is the idea of scarcity. As shown in the personal connection, individuals and collections of people have unlimited wants and desires. In economic terms, this is known as demand. Given the opportunity, individuals and groups' demands will lead them to purchase and consume unimaginable resources. Unfortunately, the supply of resources on the earth are limited, causing resources that are in high demand to become scarce.

Balancing the tensions created between 7.5 billion people's unlimited wants and the finite, limited resources on earth is the driving force behind economics. The choices made by individuals, businesses, and governments effect how these scarce resources are gathered, distributed, and consumed locally, regionally and globally.

The study of economics is divided into two key areas:

- **Microeconomics.** Microeconomics analyzes the causes and effects of the decisions made by individuals, households, businesses and governments.
Topics include-
 - How are the prices of goods and services effected by changes in the supply and demand?
 - What effects the speed, efficiency and costs of producing goods and services?
 - How much labor is available locally, regionally, and globally? How is the labor divided to meet the needs of the society?
 - What impacts do uncertainty and risk have on the choices people and groups make?
- **Macroeconomics.** Macroeconomics is the study of aggregate, or large group, economies. This field analyzes economic trends across a country/state, region, or globe.
 - Are economies growing or shrinking?
 - How do the decisions of individual governments and multinational organization impact the economic health of a region or the world?
 - What causes economic booms and recessions ? What are their impacts on a global scale?

STANDARD: Explain the Spatial Patterns of Development & Production.



WARNING

This unit has a LOT of maps. Information from these maps WILL appear on the test.
Make note of regional trends in your notes.

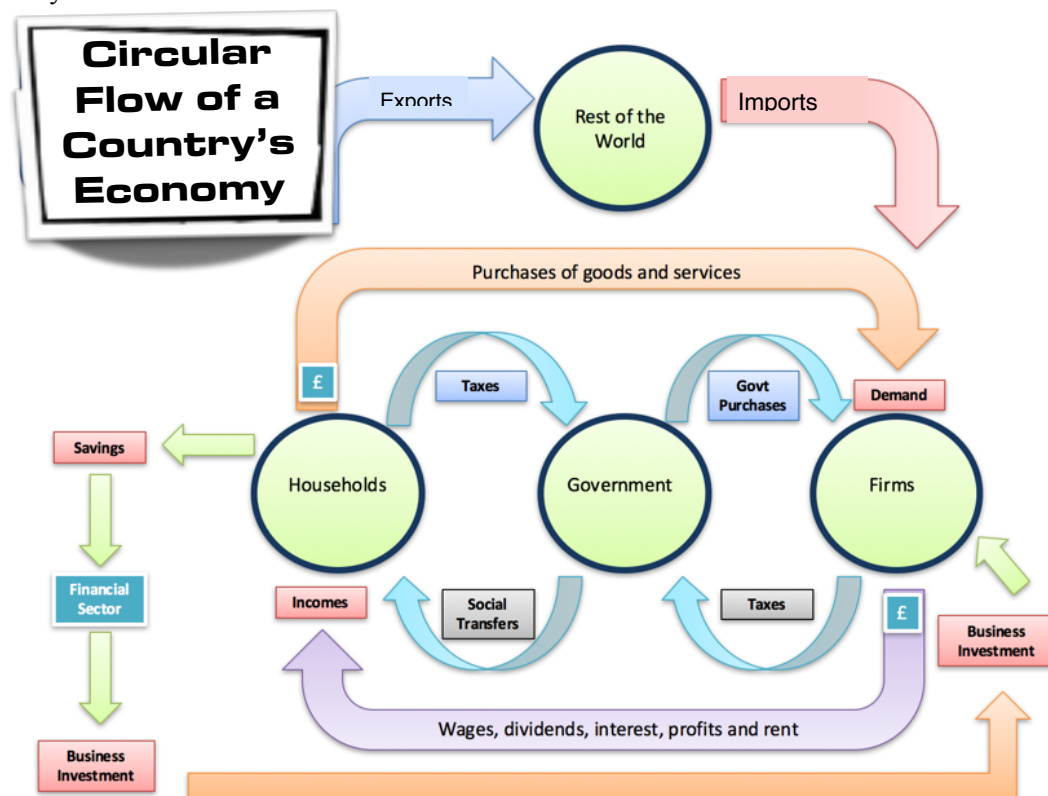
Circular Flow

An economy is made up of a series of relationships, that cause a circular flow of wealth and goods/services throughout the economy. While the reality of this network of relationships is quite complicated, this model will help understand the core structure and functions of an economy:

- **Households.** People have basic needs: food, water, shelter, clothing. To fulfill these needs in the modern economy, members of a household work for businesses/firms to earn an income. That income gets divided between a variety of needs. First, the government takes taxes from the income. These taxes are used for services like roads, schools, military, etc. that the people use to improve their daily lives (services where humans decide they can accomplish more working together than they could individually). Second, people buy goods and services based on their needs and wants. Any left over money is invested into financial institutions like banks and stock markets to earn interest - if they have access to financial networks.
- **Firms/Businesses.** Based on the demands of the people, businesses produce goods and provide services. These products are purchased by households and governments. A business's earnings are divided between the cost of producing their product/service, paying taxes to the government, and paying wages to the workers/management. Because it takes a LOT of money to start/run a business, these firms need access to outside financial capital/wealth. Businesses turn to financial services (banks, investors, stock market) to provide needed money for equipment, buildings and other upgrades. In exchange for this financial capital, businesses either pay interest to the bank or give a share of the profit to the investors.
- **Governments.** Part of a government's job is to provide services to the people. Governments utilize the collected taxes from business and households to provide these services. They use the collected tax dollars to purchase goods and services from the businesses, to care for the needs of the people under their control in order improve their quality of life. The government tends to focus on areas that should be run for the good of all the people, not driven by the demands of profit (ex: roads, education, health care, clean water, sewers, etc). Governments also set the rules and policies that guide and regulate the actions of businesses and financial sector, to ensure they behave and do not cheat the system.
- **Imports and Exports.** In a global economy, goods and services are sold in-between countries.
 - ▶ **Imports:** When goods and services are purchased from businesses located outside their country. Imports send money outside of their own country's economy, while making SOMEONE else's society wealthier.
 - ▶ **Exports.** When goods are sold TO another country. Exports bring IN wealth from the rest of the world and make a country's own economy richer.

APPLICATION #2

How does the chart to the left relate to your life? Where do you/your parents work? What gov't services do you use? What do you buy from businesses? What goods do you buy that come from outside of your country? Does your family invest into banks & stocks?



Division of Labor

At a local level, modern economies promote the division of labor (also known as the specialization of labor). The division of labor promotes the idea that workers are more productive when they specialize and master only one task. In theory, a specialized worker produces a higher quantity of goods or services, at a higher quality, in less time than a person who is trying to multi-task. As a result, businesses become more competitive by producing better products, faster and cheaper. The specialized worker is paid for their time and effort. The worker uses the money to pay for goods and services made by other specialists.



Does their labor add the same value to their product?



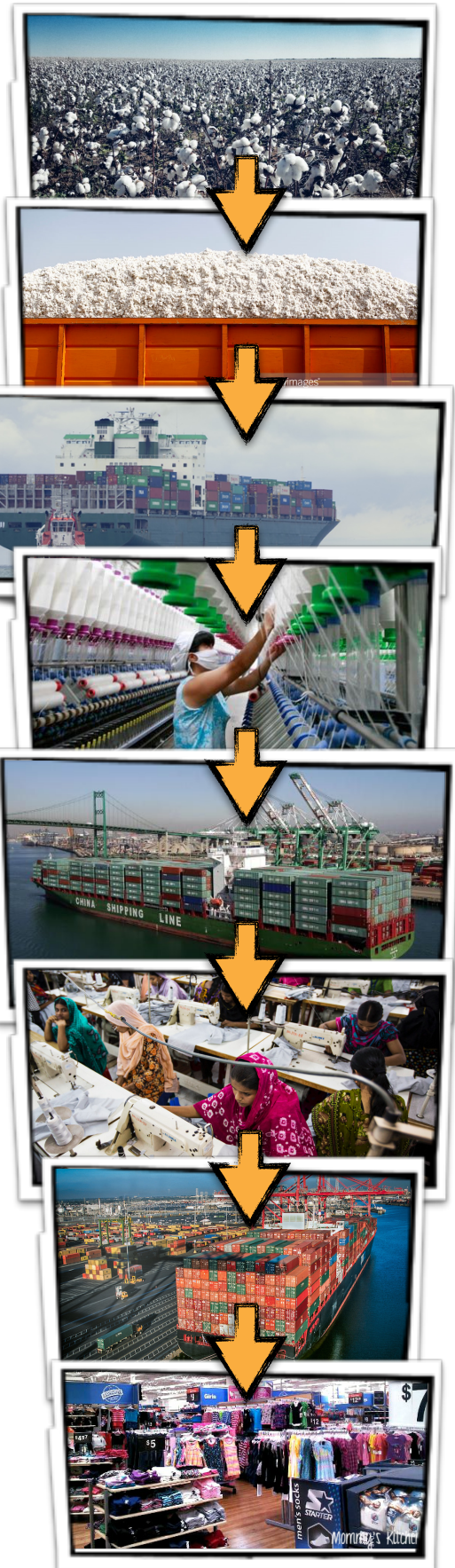
Businesses can hire the specialized workers that fit the specific need in their business, to help them become more productive and grow. Workers can become educated through schooling in different skills, allowing them to become employable by companies that use similar skills. This is why colleges offer degrees in singular fields. A person can get a degree in nursing, teaching, engineering, architecture, finance... receiving a degree to tell companies they have been trained to fulfill a specialized and specific role in the economic system.

The cost of a product is related to the worker who built it. The greater the quantity of skills and training a worker has, the more valuable their labor becomes because fewer people possess the same skill set. As a result, the specialized worker is a scarce resource and more value can be assigned to the work they produce, allowing it to be sold for a higher price. For example, a person who puts bread into a box on the assembly line needs minimal training. Thus, the factory line worker is paid a low wage and the product

can be sold for a lower cost. On the other side, an engineer designing an iPad needs a masters degree or PhD, along with specific on the job training. Every moment she spends designing and improving the iPad adds more value to the products she is building. The value of the labor causes the price of the iPad to be more expensive, because the labor needed to create the iPad requires more skill.

International Division of Labor

Expanding to the global scale, the global economy functions as an International Division of Labor. In the modern economy, goods are created in steps or phases - from the gathering and refining of raw materials, assembling the materials into a usable product, distributing the product to the stores, and finally selling the product to the customer. The whole process of creating a good or commodity is called a supply chain. Each step or link in the supply chain is located at a city that can create the highest quality for the cheapest cost. Once that "step" or link in the chain is finished, the product is sent to the next city for the next step in the process. Due to the improvements in space-time compression, transportation and communication have become amazingly cheap and fast. This allows each step of the supply chain to be spread around the world. These cities can be a few miles apart or thousands of miles apart.



Using the supply-chain of a t-shirt as an example:

The cotton is grown and harvested in Texas. The cotton is put into a shipping container then sent to China to be woven, cut and stitched into fabric. Then, the shirt is sent from China to Bangladesh to assemble the shirt. From Bangladesh, the shirt is sent anywhere in the world that wants to sell manufactured shirts. In this case, the shirt was sent to a Walmart in Austin, Texas, to be purchased by a farmer as he gets ready for the cotton planting season.

Every product in the modern economy goes through this process. A tennis ball has visited five continents before being bought in a store. The average coffee bean travels 30,000 miles from plant in the ground in Columbia or Ethiopia to Mr. Grether's coffee cup. The average phone has traveled over 500,000 miles from the mines creating the raw materials and assembly factories, before arriving at the store.

As a result, most modern companies are multinational companies - with locations and manufacturing centers located around the world. These centers are connected through a vast web of transportation, communication, and financial networks. Multinational companies are driven by profit, choosing the location of each step of the supply chain based upon who has the comparative advantage - the ability to offer lower costs of production. The comparative advantage could be cheaper land, lower wage labor, minimal taxes or less government regulation. It could also be access to a unique resource only offered at certain locations or special schools that produce highly skill talent. For example: China has fewer environmental regulations than Britain. India has 1 billion educated English speakers who work for 1/4 the wage of Americans. Indonesia has access to unique rubber trees. Raleigh, NC, has three elite universities and an airport within 30 miles. Companies "race to the bottom" to secure locations with the best advantages and to sell their products at the cheapest price. When a city/region becomes available with a "cheaper" advantage, multinational corporates will race to put their business in this location and gain the new advantage.

As a result of the International Division of Labor, economies around the world have become interdependent with networks and supply chains interlinking across the globe; success in one country causes success in another while hardships in one country cause problems in another.

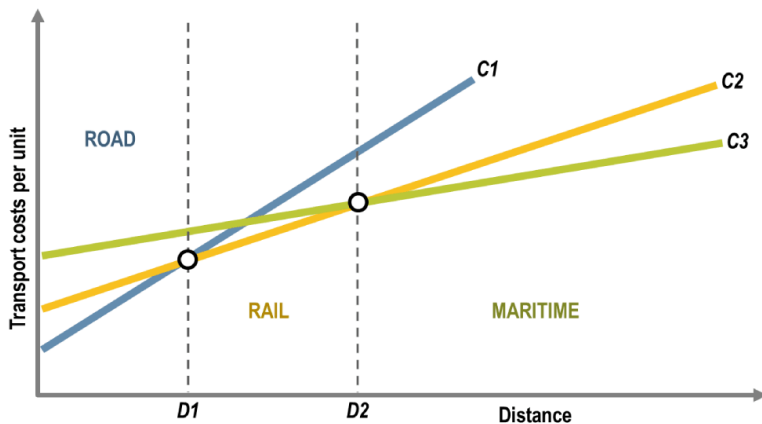


Transportation Networks

The International Division of Labor is driven by the development of robust transportation networks. Industrialized forms of transportation have provided businesses a number of options for transporting people and goods around the world. Every year, governments spend millions of dollars constructing and updating their transportation networks. In the world currently, there are over 17 thousand airports, 20.8 million miles of highways, over 600 thousand miles of rail line.... and the number grows larger every year. There is a direct relationship between increased access to the global transportation network and increased wealth for a society.

When businesses are deciding on which mode of transportation to use, there are three key factors they must consider:

- The first factor is the terminal cost - the costs associated with the loading and unloading of people and goods upon the mode of transit. For example, trucks have a low terminal cost. The company only requires a ramp or forklift to get goods on and off. People can climb into the cab with no other special equipment. In contrast, airplanes need an advanced terminal facility complex to perform its terminal duties. Airports require air traffic controllers to get the planes into and out of the airport; airplanes need special landing strips and equipment for loading people/goods on and off, etc. Because of these requirements, airports have docking fees, handling charges, and a series of other costs and fees that trucks do not have. Similarly, shipping ports require controllers and specialized cranes to load/unload the freight, all of which are extremely expensive.
- The second factor is the line(haul) cost. The Line Cost is the cost of moving people/goods over distance. The longer the distance, the greater the cost. However, each mode of transit incurs expenses at different rates. For short distances, trucks have lower costs compared to ships (maritime). However, the longer the trucks are on the road, the more expensive the trip becomes because of the increasing amount of fuel; whereas a ship's fuel costs barely increase over long journeys.
- The third factor is route flexibility - the amount of freedom the vehicles have to choose where they can travel. Ships and airplanes have high route flexibility. Once into the air, airplanes can travel to any airports within its flight range and at any point the the plane can change directions. Boats can go anywhere in the water (where the water is deep enough), with the ability to change direction and destination at any time. Trucks can travel anywhere they wish along the highways. However, trains are stuck on the rails with very limited possibilities of where they go and with few possibilities for change. Each mode of transport's route flexibility is also tied to the landscape. Ships can only go into deep water and appropriately built canals - like the Panama Canal and the Suez Canal. Meanwhile, trains and trucks can only transport on land. This makes transporting goods from China to Mexico impossible by either train or vehicle. Airplanes can fly over water and land, but require solid ground to land.



Low Cost vs.
High Cost



Low Flexibility vs.
High Flexibility



	Terminal Costs	Line Costs	Route Flexibility
Walking	Low	Low* <i>But slow & Distance decay</i>	High <i>Only on land</i>
Railroads/Trains	High* <i>Requires Railroad Terminals</i>	Low <i>Extremely fuel efficient</i>	Low <i>Stuck on the rails</i>
Trucks	Low	High <i>Fuel \$ increases per mile</i>	High <i>Only on Land</i>
Ships	High <i>Requires harbors/Seaports</i>	Low* <i>After initial expense</i>	High <i>Only on the sea/oceans</i>
Airplanes	High <i>Requires airports</i>	High <i>Fuel \$ increases per mile</i>	High <i>Can fly over seas, but needs land for runway</i>

APPLICATION #3

The number one rule of business is to make money. To make money you must make decisions that use the least cost solutions (aka: cheapest - but in this course, the phrase "Least Cost" will be used.) In each scenario, decide which modes of transport you would use and explain why using the three factors:

- (1) 10,000 t-shirts from China to Florida
- (2) 50,000 tons of corn from Iowa to Colorado.
- (3) CEO of a Google traveling from San Fransisco to New York City.
- (4) Warehouse delivering packages to the local high school, grocery store and mall in town.

Sectors of the Economy

To understand how a society is to develop and achieve the Good Life in this modern globalized economy, it is crucial to understand how economies are structured. The work that is done in the modern economy is divided into five sectors.

Primary Sector. Primary sector jobs are the first step in the supply chain, and include extracting raw resources from the earth. Jobs within this sector include farming, mining, oil/natural gas extraction, timber, and fishing. Farming plants the crops in the ground and harvests them. Mining removes coal, iron or other metal deposits from the earth. Fishermen remove fish from the ocean.... The majority of workers around the world are employed in the primary sector.

The quality, quantity and efficiency of primary sector jobs varies between societies based on the available technology. Using farming as an example: subsistence farmers use their hand tools and animals to till the soil, plant seeds, and harvest crops. Subsistence farmers in places like Bhutan need a lot of people to provide an immense amount of effort in planting and harvesting the wet rice by hand yet receive barely enough rice to feed its population. Comparatively, commercial farming in the USA and Europe uses advanced farm machinery to complete the same



tasks. The machines allow fewer people to use less effort... while completing more work at a high quality in less time. One family farm in the USA can feed 120 other people for a year in one growing season. Similar examples can be found in any other primary sector occupation. Miners who use hand tools work harder for less results than the miners who have access to engine-driven machinery. Lumberjacks who cut down trees by hand with an axe use more effort for less results than an engine-powered heavy machinery.

Primary sector jobs are highly dependent on the natural environment. First, natural features define the potential for primary sector activities. It is difficult to fish or chop timber in a desert. Second, changes in weather patterns can drastically effect primary sector jobs. For example, A long sustained drought or heavy flooding can cripple a farming community. Finally, over use of a resource can devastate the primary sector. Once deforestation has depleted all the trees, a mine runs out of metal ore, or an oil field is pumped dry, the jobs will collapse.



Secondary Sector. The secondary sector is the second step in the supply chain. Secondary job consist of work that process, refine, and assemble the raw materials (from the Primary Sector) into a finished product. Jobs within the secondary sector are considered to be “value added” because human effort has been applied to the raw materials to make them more valuable to society and include, but are not limited to: manufacturing finished goods, industry, construction, and assembly factories.. For example, logging mills add value to wood by shaving the logs into 2”x4” planks that can be used to build houses or boats. The 2x4’s have more value to society than an unprocessed tree. Other examples of secondary sector jobs that add value: a factory that takes iron ore and creates parts for a car; textile mill that turns cotton into threads and weaves it into t-shirts.



Tertiary Sector. The tertiary sector is the service sector. As the final step in the supply chain, service sector jobs require people to interact with and perform services for other people. Tertiary sector jobs either sell the final product to the customers or use products to provide a service for the customer. Jobs in the tertiary sector include: health care, communication, call centers, financial planning, selling/trading, transportation, cleaning, cooking and repair/maintenance. In health care a nurse provides the service of cleaning/bandaging wounds and administering medicine to heal a patient. A custodian provides the service of cleaning the floors of a school. A cook provides the service of preparing meats and vegetables into a meal for other people. Most tertiary jobs require a certain level of education or advanced job training to be performed correctly.



Quaternary Sector.

Branching off from the tertiary sector is the quaternary sector. The Quaternary sector works with the collection, processing, and manipulation of information/data and information. Jobs in this sector include: scientific research, marketing, libraries, art/music/culture, lawyers, and judges. These jobs require advanced degrees as well as other job training. Quaternary jobs also need access to communication technology and information networks.



Quinary Sector. The final branch is the quinary sector - work that entails leadership and organization of large companies. Quinary jobs provide the leadership and direction to the organizations and institutions of a society by casting the vision and planning for future productivity. Jobs in this sector include: government leaders, CEO's, principals, and business/organization executives.

Sectors and Analysis of an Economy

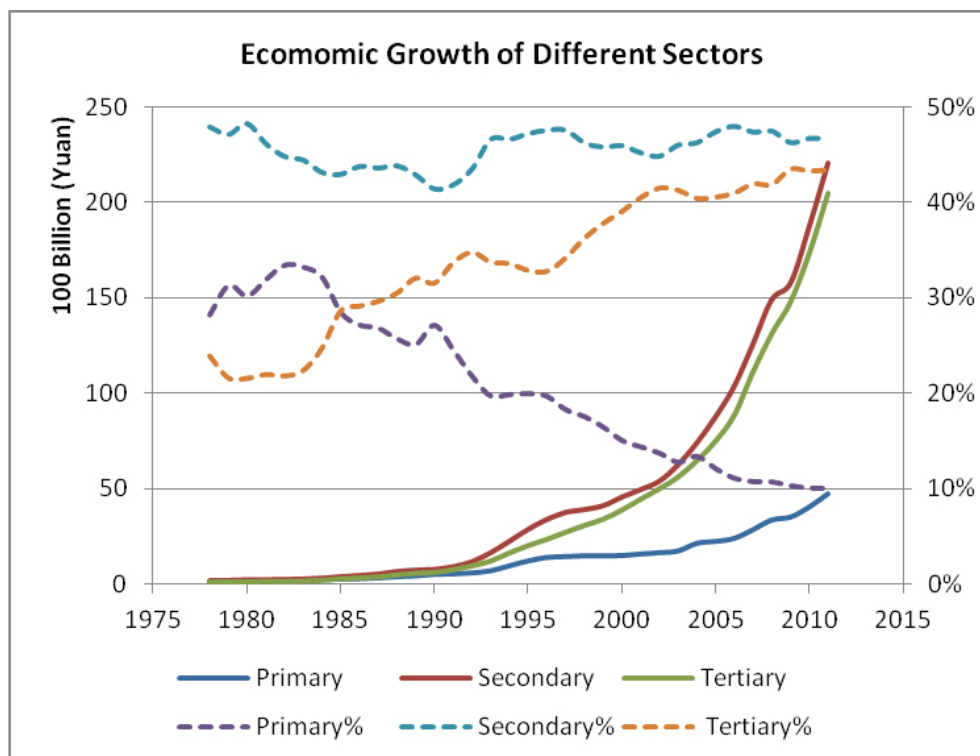
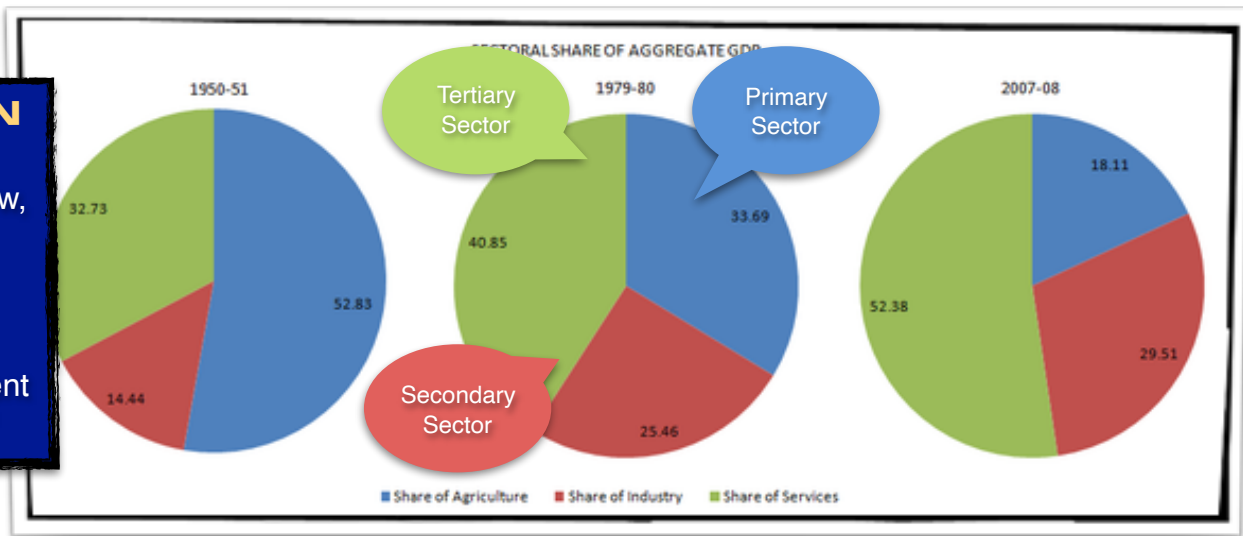
Economists can measure the growth and change of an economy over time by analyzing the changes in each sector of the economy. By measuring the number of jobs in each sector it can help identify the health and level of development of a country. For example:

- ▶ If an economy has a large number of primary sector jobs, that is a sign that the economy is weak. This means the people are working hard just to meet their basic needs with little-to-no access to technology or advanced goods. This results in the economy having a small number of people working in the secondary and tertiary sectors.
- ▶ If an economy has a small number of primary sector jobs this is an indicator the economy is strong and wealthy. Having a small number of workers in the primary sector means the society has access to advanced machines and global trade for their basic needs. More people are available for jobs that add value in the secondary and tertiary sector.

Data can be collected from one country to show how it has advanced or declined. The data can also be compared with the information from other countries to begin to measure who is succeeding and who is struggling.

APPLICATION #4

Using the chart below, how has India's economy changed since the 1950s? Is this a sign of progress/development or of decline? Why?

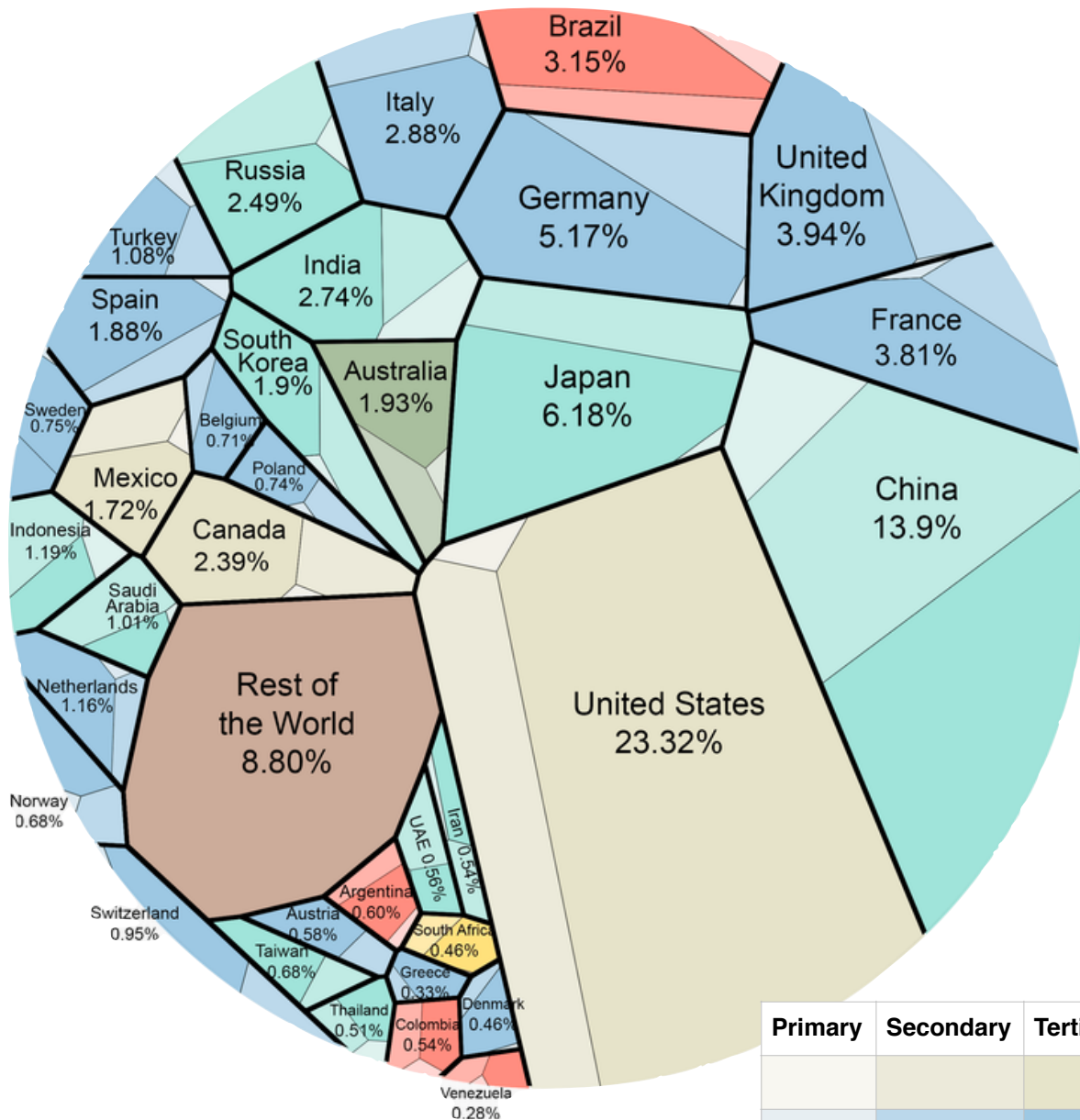


China's Change

APPLICATION #5

Using your knowledge of sectors, how has the Chinese economy changed since 1970s?

The World Economy



Primary	Secondary	Tertiary	Region
			North America
			Europe
			South America
			Asia
			Oceania
			Africa

APPLICATION #6

This graphic displays the richest economies in the world (larger = wealthier). Is wealth distributed evenly or unevenly around the world? Identify the top 8 economies in the world and the region of the world they are from. Is their economy mostly primary, secondary, or tertiary sector jobs?