

Economics 101

Introduction

In World History there are overarching themes that the course will follow and focus on in each unit. These themes include: Government, Religion, Culture, etc. This reading will focus on unpacking the theme of Economics. What is Economics? How does an economy work? Why does it matter?

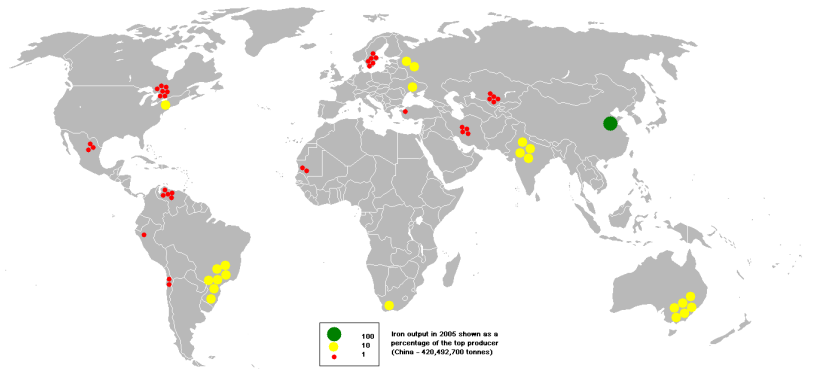


What is an Economy?

People have unlimited wants. John D.

Rockefeller was the richest man to ever live (we will study his life in Unit 8).

When asked at the height of his wealth and prestige how much more money would be “enough” for him to feel satisfied. Rockefeller paused, then answered: “One more dollar.” Unfortunately, the world has very limited resources. A person with unlimited wants cannot meet all their desires in a world with finite resources. This is especially true with 7.5 Billion people on the planet (and growing). The situation becomes more complicated because the resources people want are not evenly distributed, or spread, across the earth. Some places have an abundance of clean water, others do not have any clean water. Some locations have lots of metals and valuable minerals, while others have none. Economics is the study how humans struggle through this tension of meeting their many wants with earth’s very limited, unevenly distributed resources. Economics looks at topics such as how are goods produced, how are goods consumed, and the accumulation/transfer of wealth across a society (or multiple societies).

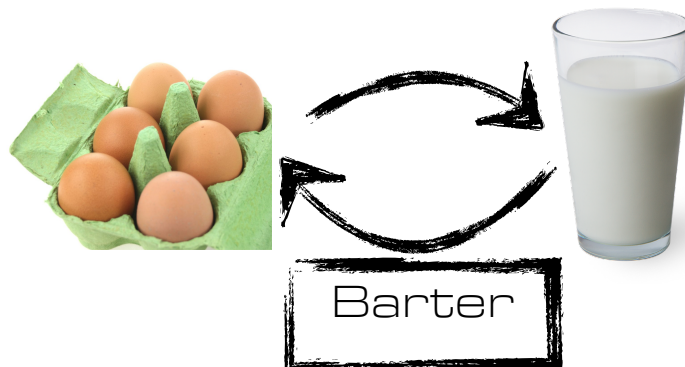


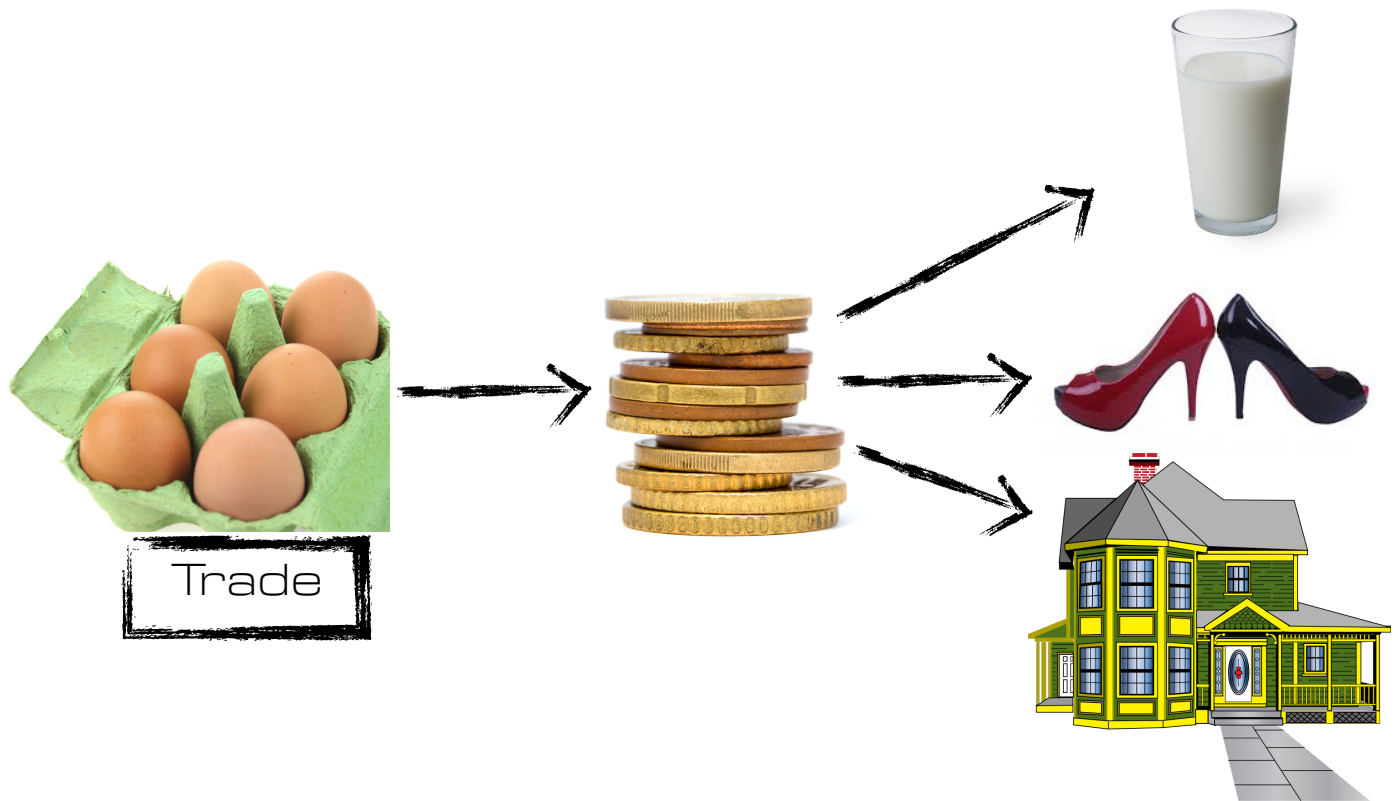
Understanding Scarcity

How do humans acquire what they want or need? There is a good chance that a person will want some object or service that they cannot provide for themselves. The person can fulfill their desire/need through either by bartering or through a system of trade:

Location of Iron Mines

- Barter is the process of exchanging goods/services for other goods/services. For example - Aaliyah is a chicken farmer. Bob is a cow rancher. Aaliyah wants milk, but does not have any. Bob wants scrambled eggs for breakfast, but does not have any. Aaliyah and Bob could barter and exchange a dozen eggs for a half gallon of milk (or whatever amount they each agreed to provide.)





- Trade is the process of exchanging money or currency in exchange for a good or item. Trade is a sign of an advanced, developed society because trade requires a highly functional government. The government creates and controls its own currency - a system of money that the government controls. The government promises to the people that each bill or coin has a certain value. Having a strong, stable currency allows merchants and businesses to place a value on their product, exchanging their product for a certain amount of money. Returning to our example: Instead of Aaliyah having to exchange her eggs for Bob's Milk, Aaliyah can sell her eggs at the market and collect money/currency. Then she can take the money over to Bob's milk store and exchange money for milk. Aaliyah can take her money to any store that accepts her currency to purchase whatever she needs. Aaliyah can collect, store, and save the money to build up her overall wealth.

Deeper Into Trade

The 21st Century is experiencing an age of global interconnectedness. A person's picture and voice can be spoken into a device the size of a hand, bounce off of multiple satellites, and arrive on the other side of the world... in .2 seconds. People in Kansas complains if the store is out of their favorite food that comes from Indonesia, or that their coffee (that travelled 30,000+ miles to arrive in their grocery store) is a blend of East African and South American beans instead of coming from just one source. Something as simple as a tennis ball has materials extracted from five continents, shipped to China to be assembled and then re-shipped around the world; traveling over 50,000 miles. All the parts and pieces that make up your internet-connected device has already traveled over 480,000 miles - the same distance as traveling to the moon... and back.



If humanity started out as hunters and gatherers... How did we get to this?

This is the story of trade. Trade is a universal theme that will be studied across every unit. We first introduced trade in the economics lesson, as the buying and selling of goods and services in exchange for currency. Trade is a concept that can be applied across many scales: from a local scale looking at trade within one city, the regional scale that looks at trade between cities in a close proximity, inter-regional scale that looks at trade between cities in multiple regions, and finally intercontinental/global which analyzes trade behaviors that go around the world. This lesson will focus on the regional-to-global trade, seeking to understand what causes trade to happen between different cities or societies and what are the impacts of those actions.

The Resource Problem

As the earth formed and evolved over billions of years, unique features appeared around the world. One location had mountains and valleys, a second had plains, while a third had deserted tundra (permanently frozen landscape). As a result each climate region of the world developed a unique set of resources that could only be found in those specific locations. For example: a resource like the metal tin, which is needed to make the critically important metal known as bronze, is only found in a selected handful of locations around the world. Bronze was a crucial to success and advancement in the ancient world, being used for tools and weapons. Those who had tin had the advanced metals, those who did not... did not. The same is true to other metals, animals, cloth, and foods: some locations had it, other locations did not.



Map of Tin Mines

The question settled human societies had to answer was: how do I acquire the resources that I need? When humans were hunter-gatherers, they were constantly on the move. If there was a needed resource, the human band could move to the resource. Also, the needs of hunter-gatherer bands were less extensive, as they led simpler lives (not easier lives, but simpler - with less tasks to perform and less material goods to take care of). Once humans settled, the society was stuck with the plant, animal, water and mineral resources in the surrounding area.

As the human population began, human settlements began to expand and multiply. At first, settlements expanded outward, as each generation resulted in more people who needed more homes and more resources. Eventually, the group became so large it was exceeding the land's carrying capacity - the number of people the land can keep alive with food and clean water. Typically, the group would select people to become the settlers of a second settlement. The people would wander the lands nearby to find an area suitable to support human life, repeating the process.

Soon, there were a collection of settlements, each with access to a unique set of resources. Merchants from different settlements would bring the surplus - extra amount of a resource beyond what their people needed - to neighboring settlements, hoping to barter for resources their home settlement could not produce. Thus, began a system of regional trade where people would import (purchase) needed resources from neighboring societies, while exporting (selling) resources the other groups needed.

The Growth of Cities & Transportation

Eventually, successful settlements grew into towns and towns grew into city-states and kingdoms. With the advancement of society came the use of currency - typically made of a valuable metal like gold or silver organized by the central governments. This allowed people and merchants to travel from one civilization to the next, bringing their currency to import goods. As a result, societies were able to (a) specialize in making certain products and resources that were unique to their settlement (b) build wealth from the exporting of these goods to neighboring settlements and (c) enhance the quality of life of its citizens by importing goods from neighboring groups.



The locations that had the largest amount of resources with the ability to support the largest number of people developed into the largest city centers. The cities were the location of important services: centralized government, military bases, religious temples, monumental architecture, education centers, entertainment, housing, grocery stores and restaurants. Cities were also the location of the largest market places for buying and selling goods to locals and foreigners. As a result, they became the place for the skilled/specialized laborers to live and work to earn money to pay for their livelihood instead of having to own or work on farms. Starting with the agricultural revolution, cities became the economic heartbeat of the settled societies.



Roman Roads



Still looking good in the 21st Century

Successful cities had one other trait in common: access to transportation networks. Overtime, cities became connected by roads. At first, these roads were nothing special - little more than a path that had been some cleared trees or worn dirt from people walking through the area. As cities increased in wealth from trading, they invested into clearing more permanent roads. Some societies, like the Romans, invested large sums of money to create paved roads to allow for faster travel. Faster travel increased the amount of trade, which increased wealth for all the cities involved. The domestication of horses paired with the invention of the horse-drawn wagon drastically improved travel times, improving the quality and quantity of trade between regions.

Small merchant towns developed along the transportation networks. Merchants who traveled with their merchandise needed a place to sleep, eat, and be protected from robbers; and he was willing to pay for these services. On a good day, a merchant could travel around 13-15 miles on foot with all the merchandise. Along popular trade routes, small towns began to appear every 30-50 miles. These were local settlements who could offer food, shelter, and protection to the travelers. As trade increased, the size of these towns grew, developing their own market places, and stable communities. The largest merchant towns appeared where two roads intersected. This is because the intersection experiences twice as much traffic as any other part of the road. The other prominent transportation was water travel. Important trade cities developed along the coastlines and major rivers. Some of the most important cities in history were developed where a major river intersected the sea/ocean. Settlements along the coast could develop seaports, where ships could load and unload merchandise. This made land along the coast highly prized - especially locations with a natural harbor.



Analyze the location of cities & villages in Ancient China. What do you think influenced their decision to settle and establish there?

Map of Silk Road



As a result, regions developed a network of interdependent cities. The success of one city was dependent on the success of other cities. If one city became more prosperous, the other cities in the network also prospered. If one city experienced economic hardships (also known as a recession or depression) it had an effect on the other cities in the network as well. When there were times of peace, trade increased, improving the prosperity of all the cities and towns along the transportation paths.

The Effects of Trade

Trade is an activity, which means it cannot be classified as either good or evil. However, there are distinct positive and negative side effects of participating in regional and global trade.

Positive Effects

- **Trade Creates Demand, Jobs & Wealth.** When cities and societies trade, it increases the demand for a country's products. With increased demand comes increased work opportunities. Increased work opportunities increases the amount of wealth people have to spend. This further increases demand...
- **Trade (can) Create Alliances & Peace.** Countries with trade agreements are less likely to fight each other. Positive business partnerships creates peace, as both countries are seeking mutual prosperity
- **Trade Spreads Ideas & Technology.** Trading merchants interact with people from many different regions/ societies. Through the process of interacting with each other, the merchants passed on elements of their culture and pick up elements of their neighbor's culture (Language, Religion, etc). New technology and educational knowledge can pass through trade networks.

Negative Effects

- **Trade Spreads Disease.** As people interact, they bring their unique regional germs to share with those they meet. Some of the deadliest outbreaks in human history can be tied directly an increase in trade.
- **Trade Creates Interdependence.** While some may argue the benefits of being interdependent, it is also a very vulnerable position. You are no longer master of your own fate. If the neighboring city collapses from debt and miss-management, that can have a direct impact on your society. How a neighbor handles their finances directly impacts you. This interdependence has caused countries to suffer from economic hardships their neighbors created.
- **Trade (can) Create Economic & Political Bullies.** The only thing constant is change. As the needs and demands of the people will change. As technology changes, older technologies will be obsolete and fall out of use. As the tide of trade changes and evolves, certain societies may find themselves having an

advantage over their neighboring cities/kingdoms. Societies can use their trade networks to and purchasing power to “convince” and “persuade” the neighboring country to comply and obey.

- *Trade (can) Abuse the Environment.* As trade creates higher demand, businesses will increase production to meet the demand. However, if there is a limited quantity of a natural resource, a sharp increase in demand can be devastating to the environment: killing too many animals, chopping down too many trees, mining too