

About Economics in World History

BASIC ECONOMIC CONCEPTS

- **Needs and Wants:** Needs are items that are required to survive. In economics, this is a short list. Water, food, clothing, shelter, and medical care are basic needs. Anything else is a want, not a need. Items that make life easier or more pleasant—automobiles, cell phones—are classified as wants. Wants are things that people enjoy having but do not need to survive. For example, clothing is a need, but fashionable clothing is a want. Economists consider wants to be unlimited; in other words, people will never have all their wants met.
- **Consumers and Producers:** Consumers buy goods and services to meet their needs and wants. Producers make and sell those goods or provide those services. When people make purchases, they are consumers. Producers are also consumers when they purchase resources to make goods or provide services—for example, when a bakery buys flour to use to make bread.
- **Goods and Services:** Goods and services are the two categories of things that are produced and consumed. Goods are physical or tangible items that can be possessed, bought, and sold; services are tasks that people carry out for others. Goods and services are differentiated based on four qualities: (1) tangibility—goods are tangible, services are not; (2) perishability—goods continue to exist for a time after purchase, while services perish as soon as they are carried out; (3) separability—goods can be stored for later use, while services are used at the time of purchase; and (4) standardization—the quality of a particular good is fairly standard, while the quality of a service can vary each time it is delivered.
- **Resources:** Resources are supplies that are used to create goods and services. Unlike wants and needs, all resources are limited. There are several different kinds of resources:
 - Natural resources come from nature and include lumber, raw materials, fish, soil, minerals, and energy resources. Natural resources can be renewable or nonrenewable. Renewable resources, such as trees, can be replenished. Nonrenewable resources, such as oil and coal, cannot.
 - Capital resources are materials that are used to produce other goods. These include factory machinery, office buildings and equipment, vehicles and fuel, and tools. Money is often also considered a capital resource.
 - Human resources (sometimes called labor) include the people who produce goods and services and all their skills, abilities, and knowledge.
- **Supply and Demand:** The supply of a commodity is the total amount producers are willing and able to offer to consumers at one time. The demand is how much consumers would buy. Supply and demand help establish the price of goods and services. The laws of supply and demand state that if supply exceeds demand, prices fall, and if demand exceeds supply, prices rise. When prices

rise, supply rises because producers see a greater possibility for profit. However, as prices rise, consumers buy less. This dynamic guides buyers and sellers toward an equilibrium price—a price at which the quantity supplied and the quantity demanded are the same.

- **Scarcity:** Scarcity is the economic fact that there are limited resources available to satisfy unlimited wants and needs. Scarcity is often called the “basic problem of economics.” Because of scarcity, every economic decision involves a trade-off.
- **Opportunity Cost:** When we make an economic choice, we leave behind other options. Presumably, we choose the option that appears to provide the greatest benefits. The options we do not choose also offer benefits, which we miss out on. Opportunity cost is what we gave up when we chose.

The Three Economic Questions

All economic systems must answer three basic questions:

- What to produce—What needs and wants will be addressed? What goods and services will address them? On what basis will the system make those decisions? How much will be produced? For instance, will the system supply candy, bread, or sports cars, and in what amounts?
- How to produce it—Who will produce goods and services, where, and by what methods? Will the government tell people which jobs to take and what to make, or will businesses be privately owned and free to make their own decisions?
- For whom to produce it—How will products be distributed among consumers? For instance, will goods be given free to everyone, given only to selected people, or sold to the highest bidder?

Different economic systems answer these questions in different ways. For example, in a command economic system, a central authority—usually the government—controls most resources and decides how they will be used. In a market economic system, private businesses and individuals own resources and decide how to use them; to a large extent, the questions are answered through the operation of the laws of supply and demand. Mixed systems combine elements of both command and market systems to various degrees. Most economic systems in the world today are mixed systems.

Economic Choices

Because of scarcity, we cannot have everything we want or need. We must make trade-offs and choices about what we buy and what we do. A trade-off means sacrificing something to obtain something else: you can spend your bus fare on a coffee, but then you will have to walk to work. When we choose to buy one item rather than another, we are placing a greater value on the item we buy. What we give up is what economists call opportunity cost. If you choose to ride the bus rather than buy the coffee, the coffee is your opportunity cost.

Often, our economic choices are based on the amount of money we have in hand. A budget can help us make responsible economic choices. A budget is a plan for how to best use our money and time to meet our needs and wants. Cost is a key factor in budgeting, but so are needs and wants. For example, cereal might cost less than eggs, but you might enjoy eggs more. Will you have eggs, or will you have cereal and a bit of extra cash you can use for something else? Your choice will reflect how much you value eggs as opposed to cereal and how much money you have to spend on groceries.

Similarly, organic food products often cost more than nonorganic products, but a person who values the benefits to health and the environment that they associate with organic products will choose to pay that additional cost.

METHODS OF EXCHANGE

Barter

Barter is the oldest form of exchange, dating back thousands of years. It involves the trading of goods or services between two or more parties without the use of money or credit. Ancient Mesopotamians were bartering nearly eight thousand years ago. Barter was later adopted by Phoenicians, who in turn spread the practice throughout the Mediterranean and beyond. In the Middle Ages, European traders used barter to obtain silk, perfume, and spices from Asia and Oceania in exchange for furs and crafted goods. Indigenous peoples of the Americas bartered with each other, and later with European colonists.

One major advantage of barter is that it does not involve cash. People without money, or with different kinds of money, can still get what they want and need. Bartering can also create close relationships between the individuals and/or groups involved in the exchange. However, in order to get what you need through barter, you must first find someone who is willing and able to provide the goods or services you need and who needs or wants the goods or services you can offer. It can also be difficult to assign value to goods that are bartered. For example, how much butter or pet-sitting would you trade for a haircut? And unlike money, some goods are not easily divisible.

Money

Money is an object that has a value placed on it, which allows it to be exchanged for goods and services. Money was first invented about five thousand years ago in Mesopotamia. Before then, people satisfied their wants and needs through barter. Using objects with set values, such as coins, made it easier for different groups to compare the values of goods and trade for goods and services.

In addition to making it easier to compare values, money is simple and convenient to use. Money is widely accepted as a means of exchange. Transactions can be carried out quickly and efficiently with money. However, money also has some disadvantages. For example, it can be very difficult to use money outside of the country that issued it. Money can easily be lost or stolen. If the government prints too much money, it can lose its value, causing inflation; if the government prints too little money, businesses can find it hard to borrow and invest, resulting in a recession and unemployment. It can be difficult to use bills and coins to pay for items that are very expensive. It is also hard for people to obtain what they want and need without money.

Credit

Credit is a type of loan. It allows people to borrow money to make purchases. Lending and credit are thousands of years old. The first recorded loans can be traced back nearly four thousand years to ancient Mesopotamia. Farmers would borrow seed with the promise of repayment later. Over time,

different types of credit emerged, but all have the same basic premise: customers borrow money and promise to repay it later with interest.

Credit allows people to get what they need without having the money in hand to pay for it. This is especially useful for expensive items; few people have enough cash on hand to buy a car or a home outright, and saving for these items can take years. The obvious disadvantage of credit is that it can be overused. It is easy to pile up a large amount of debt that cannot be repaid. Another disadvantage of credit is that in most cases, the amount borrowed must be paid back with interest. When interest is added to the purchase price, buying on credit results in consumers paying more for an item than it originally cost. Note that for credit cards, if the full balance is paid each month, no interest accumulates. Because of its convenience, credit can also tempt people into buying things they do not really need.

THE MARKETPLACE

A market is a place where people buy, sell, and trade goods. The term *market* can refer to physical spaces such as grocery stores or restaurants, virtual markets where there is no physical contact, or specific portions of the economy, such as the housing market. It can also refer to the stock market, where people buy and sell securities.

In all cases, markets provide a way for buyers and sellers to interact and agree on the prices of goods and services and make exchanges, or transactions. In a market, the main influence on prices is supply and demand. Supply and demand change continually based on consumer preferences and the availability of resources. Therefore, markets are always in flux to some degree. Different products and services and buyers continually enter and leave the market.

Markets are also highly influenced by consumers' standard of living. Standard of living is a measure of the quality of life enjoyed by a given population. It is related to the quantity and quality of goods and services available to a given population. Other factors that help determine standard of living include income, health, life expectancy, housing, access to health care and education, and political and social freedom. Generally, if the standard of living for a given population is fairly low, the market will reflect that by offering more basic goods and services that satisfy needs and fewer nonessential goods and services that satisfy only wants.

Government Influence

The government can influence the market and the standard of living in many different ways. For example, government investment in infrastructure lowers production costs and makes more resources more easily available to producers, contributing to lower consumer prices and more variety in available goods. Government agencies such as the Federal Reserve, FDIC, and SEC protect financial markets from unfair practices and from actions that could hurt the economy. Government-issued and government-guaranteed business loans increase the number of sellers and therefore the quantity and variety of goods and services available to consumers. Government-sponsored education increases the value and productive capacity of the country's human resources. Laws restricting the sale of items that are unsafe or unhealthy improve standard of living, as do workplace safety and environmental regulations that limit producers' choices about where and how they will produce goods and services and how they will handle waste. Government-mandated minimum wages, Social Security, Medicare, worker's compensation, and unemployment insurance programs help ensure that workers have at least some

income to spend in the marketplace to meet their needs and wants. Government assistance programs such as Medicaid, SNAP (Supplemental Nutrition Assistance Program, formerly known as food stamps), and TANF (Temporary Assistance for Needy Families) help people meet their needs when they cannot work.

The Influence of Climate Change

Climate change is already impacting the marketplace and is projected to continue to influence the economy going forward. Temperature increases, rising sea levels, and more extreme weather have already damaged property and infrastructure (roads, highways, bridges, power systems, etc.), disrupting supply chains and natural systems around the world. Rising prices and shortages of consumer goods such as baby formula have already been felt in the marketplace. The demand for energy will likely increase as stress on utility systems makes them less reliable. In February 2021, for example, unexpectedly cold weather rendered the Texas electric grid unable to supply people in that state with sufficient power.

Temperature extremes will also likely begin to take a toll on people's health. It has been estimated that by 2090, more than two billion labor hours may be lost, resulting in \$160 billion of lost wages. This will reduce both the ability of consumers to make purchases and the ability of producers to keep up with demand. A drop in supply will inevitably lead to higher prices.

Climate change also affects natural resources. Increased temperatures and risk of drought will impact agricultural output in many places. Rising sea levels threaten coastal communities and the consumers and producers who live and work in them. But it is not just coastal communities that are in danger. Climate change threatens forests, rivers, and oceans and the resources that are found there. A loss of already limited resources will force consumers and producers to make hard choices about how best to answer the three basic economic questions.

But we are not helpless in the face of these challenges. Governments, businesses, and communities around the globe are taking action to slow or stop these changes and minimize their impact, including but not limited to clean energy initiatives, resource management, and infrastructure updates.

EXAMPLES OF ECONOMICS IN WORLD HISTORY

Economics have always played a part in world history, from the earliest societies to today. The examples provided are meant to illustrate different economic systems and change over time. They are not meant to be a comprehensive explanation of economics throughout history and across cultures.

Early Civilizations

Civilization and economics go hand in hand, each influencing the development of the other. Early civilizations generally emerged as people formed permanent settlements and domesticated plants and animals. The production of surplus crops contributed to division of labor, resulting in the emergence of craftspeople, merchants, religious figures, and government officials. The Royal Road connected early civilizations and economies from the Mediterranean Sea to West Asia. The center of the Royal Road was Mesopotamia, a civilization that emerged in the Fertile Crescent between the Tigris and Euphrates Rivers. While the Mesopotamians could produce most of what they needed, they traded with

neighboring societies for what they could not. Similarly, ancient Egypt and the kingdom of Kush thrived thanks to proximity to the Nile River and each other. Barter was the main form of exchange in these early civilizations. Early writing systems, including cuneiform in Mesopotamia, emerged as a way to keep records of debts and credits.

West African Kingdoms

The kingdoms of Ghana (seventh to thirteenth century CE) and Mali (thirteenth to sixteenth century CE) emerged as economic powerhouses in West Africa. Both civilizations used their proximity to the Niger River to their advantage, gaining many of the resources they needed while controlling regional trade. Both civilizations thrived due to their rich gold mines and the trans-Saharan trade. Camel caravans brought Muslim traders to West Africa, where they traded salt for gold. This trade introduced Islam to Ghana and Mali and made West Africa a center of Islamic learning, especially under the rule of Mansa Musa. Mansa Musa ruled Mali from 1312 to 1337 CE and was one of the richest people in the world. He funded the construction of mosques and created an education system that taught Arabic. During his hajj to Mecca, Mansa Musa deposited so much gold in Egypt that it depressed prices for over a decade.

Ancient Mediterranean Civilizations

The Minoans are the earliest known civilization to have emerged in the area of present-day Greece. Dating back to 2700 BCE, the Minoans produced much of what they needed and traded with other Mediterranean civilizations. The Mycenaeans replaced the Minoans around 1500 BCE and gave way to the ancient Greeks around 750 BCE.

The geography of Greece had a profound influence on its political and economic development. In lieu of a centralized government, city-states emerged on the mainland and on Greece's many islands. Proximity to the water and poor soil led the Greeks to turn to the sea. They became highly skilled sailors, traversing the Mediterranean in search of trade, and established colonies on their regular trading stops. Two of the most powerful Greek city-states were Athens and Sparta. Athens's early economy relied heavily on enslaved people until about 600 BCE, when the ruler Solon implemented economic reforms that eliminated debts, created a wealth-based tax system, and freed many enslaved people. Sparta's economy relied heavily on agricultural production and military training. Spartan men were required to serve in the military, and their powerful army subjugated neighboring regions for economic gain.

The Silk Road

The Silk Road, an extension of the earlier Royal Road, emerged as a system of trade routes between Rome and the Han dynasty in China during the first century CE. The Silk Road gets its name from one of China's most prized exports: silk. Roman traders pushed east as demand for the commodity grew, while China was eager to trade for the Romans' strong horses. It should be noted that the process of making silk was a closely guarded secret, which contributed to its high demand and its high price. Trade on the Silk Road was not limited to silk, horses, and other tangible commodities. Traders carried with them languages, ideas, and religions, resulting in the spread of Buddhism, Hinduism, Christianity, and Islam.

The importance and the safety of the Silk Road declined, due in part to the fall of the Roman Empire and the rise of the Byzantines in the West and warring kingdoms in the East. The Mongol emperor Genghis Khan instated policies to increase safety on the Silk Road during the 1200s CE, ushering in the peace and prosperity of the Pax Mongolica. Marco Polo's accounts of Kublai Khan, the Mongol Empire, and the Silk Road increased the spread of ideas along the Silk Road that contributed to the European Renaissance. It also resulted in the spread of disease, including the bubonic plague that decimated Europe in the late Middle Ages. The Ottoman Empire boycotted trade with Europe along land routes in the 1400s CE, ending the long history of the Silk Road and encouraging European countries to seek water routes to Asia, thereby instigating the Age of Exploration.

Feudal Japan

By 800 CE, a feudal system much like the one in medieval Europe had emerged in Japan. Wealthy nobles owned large parcels of land, which they gave to vassals, called samurai, in exchange for military service. The samurai oversaw the lands and the peasants who tended them. Japan's feudal economy was agrarian, and a samurai's lands were self-sustaining. There was little centralized government and no mechanisms to collect taxes from the powerful samurai.

As an island nation, Japan was not connected to the Silk Road, although it did trade with China and other regional civilizations. Internal trade among artists and craftspeople was dominated by guilds that ensured monopolies on their products and limited competition. Over time, wealthier landowners incurred significant debts as they tried to increase their material possessions. This contributed to a growing wealth gap and the consolidation of wealth among just a few powerful families by the fifteenth and sixteenth centuries.

Pre-Columbian America

The Maya emerged around 1800 BCE in Mesoamerica. Maya cities were carefully planned to make the most of farming practices, and the climate and proximity to rivers and lakes supported the production of maize, cotton, squash, beans, chilis, cacao, and vanilla. The latter two goods, along with obsidian and salt, served as valuable trade goods. The Maya civilization declined dramatically in the fifteenth century CE, possibly due to its aggressive deforestation. Land was cleared for crop production to support the growing population. Trees were also burned to make lime plaster to use in building projects. These actions changed the local geography and affected the climate, contributing to rising temperatures and decreased rainfall.

The Aztec civilization grew in southern Mexico after the formation of an alliance between the city-states of Tenochtitlán, Texcoco, and Tlacopan. While the Aztec economy relied on the same goods as the Maya, they created significant networks of artificial irrigation and floating islands, called *chinampas*, that allowed them to grow a surplus of crops that could be traded. The Aztec civilization declined after the arrival of Hernán Cortés and Spanish conquistadors in 1519 CE.

The Inca lived in the Andes of South America. While the Inca Empire lacked wide, fertile plains, it developed a system of terraced farming on the sides of mountains to produce food. The steep mountain elevations created microclimates on each terrace, allowing for the production of many different types of crops, including potatoes, quinoa, and maize. The chilly mountain climate meant

that the Inca could freeze surpluses for times of scarcity. The Inca economy was centralized and entirely traditional; money was not used within the empire, each person had an assigned job, and the government distributed food and resources. As with the Aztec Empire, the Inca declined after the arrival of the Spanish conquistadors, in this case led by Francisco Pizarro in 1530.

European Colonization

European conquest had a profound impact on pre-Columbian American civilizations. Several factors contributed to European colonization in the Americas, Africa, and Asia. The first was the desire for sea routes to Asia following the closure of the Silk Road by the Ottoman Empire. The second was mercantilism, an economic policy of attempting to reduce a kingdom's reliance on imports by using colonies as a source for raw materials and new markets for finished goods.

As Europeans established colonies in the Americas, trade routes evolved, resulting in the emergence of the triangular trade. Through the triangular trade, Europeans bought or captured and kidnapped people from West Africa and took them to the Americas, where they were forced to work on plantations. Cash crops grown on the plantations were shipped to Europe, where they were made into finished products that were sent back to the Americas.

The effects of European colonization and the slave trade are still felt today. The exploitation of raw materials and labor concentrated wealth in European hands at the expense of Africa and the Americas. The use of enslaved labor also created an economic system that robbed Africa of human capital, destroyed traditional economies and cultures, and contributed to increased conflict. This helped create immense wealth disparities between the Global North and Global South that are still visible today.

Industrialization

The First Industrial Revolution began in Great Britain in the late 1700s. During this time, production became increasingly mechanized, reducing the need for skilled laborers while increasing output and lowering costs to producers and consumers. The mechanization of the textile industry proved transformative not only in Britain but in Germany, the United States, and elsewhere.

Beginning in the mid-1800s, the Second Industrial Revolution expanded on earlier technologies and relied on new sources of power—shifting from water power to coal and steam—to not only mass-produce consumer goods but also more quickly and efficiently produce iron and steel. The Second Industrial Revolution coincided with the massive expansion of transportation. Railroads connected regional markets and markets across the country, lowering the cost and time required to ship goods and people from one place to another.

Industrialization had numerous effects on the global economy and exacerbated the wealth disparity between countries by making cheap, factory-made products available globally, with revenues flowing mostly to Europe and the United States.

Globalization

Globalization refers to free trade and the use of inexpensive labor markets in other countries. Globalization is not a new concept. Societies and cultures have experienced varying degrees of

interconnectedness throughout world history. For example, the Silk Road connected peoples from China to Europe starting in 130 BCE.

Globalization has evolved and changed over time and is largely affected by technology. The digital age has made it possible to communicate instantaneously with people around the world. Technology also facilitates the movement of people and goods and the exchange of services. One result of modern communications is the rise of multinational corporations, which conduct some portion of their business in two or more different countries. A common practice of multinational corporations is offshoring. While offshoring saves the company money, it affects local economies by keeping wages low and contributing to the economic imperialism that increases the dependence of developing nations on developed nations.

Countries in the global economy are interdependent, meaning that actions and events that affect one country may affect the entire world. One example is the Great Recession of the early 2000s. The collapse of the U.S. housing market in 2007 caused a domestic recession and a global recession that lasted several years.