



UNIT 5. ECONOMIC ACTIVITIES

1. ECONOMIC ACTIVITY: DEFINITION
2. ECONOMIC SYSTEMS
3. SECTORS OF THE ECONOMY: PRIMARY,
SECONDARY AND TERTIARY

1. ECONOMIC ACTIVITY: DEFINITION

- Process through which all human material needs are satisfied through the production of goods and services.
- Economic activities can be classified in **THREE GROUPS**:
 - **PRODUCTION**: CREATION OF GOODS AND SERVICES.
Ex: food produced by a farmer, car made by a manufacturer or legal services provided by a lawyer.
 - **DISTRIBUTION**: TRANSPORTATION OF GOODS FROM THE PRODUCER TO THE CONSUMER.
Ex: transportation of food to shops or manufactured cars from factories to dealers (comerciante: **AUTHORISED DEALER OF BMW**).
 - **CONSUMPTION**: USE THE GOODS AND SERVICES PRODUCED.
Ex: household consumes food or someone hires a lawyer.

FACTORS OF PRODUCTION

Definition: Are the resources involved in producing goods and services. These are:

➤ Natural resources: are raw materials, which are provided by nature. They are used in the manufacture of products and as energy sources. We can distinguish between:

- Renewable resources: can be consumed without being exhausted (water, wind or solar power).
- Non-renewable resources: can be exhausted by overconsumption (oil or iron ore).

➤ Capital: is made up of the different elements involved in the production process.

- *Human capital*: the labour that workers contribute.
- *Physical capital*: raw materials, facilities, tools and machinery, etc.
- *Financial capital*: the money needed to acquire physical capital and pay human capital.

➤ Labour: the role of labour in producing goods or provide services or **wage**. Depending on the less capacity to purchase goods.

The **purchasing power** of a wage depends on the cost of living or on how much can be purchased with it. If the wage goes up, but the prices of goods and services increase by a greater amount, purchasing power is lost.

to produce
→ a **salary**
pays more or

ECONOMIC AGENTS

In all economic activities take part different **economic agents**:

- Households: meet their needs by using the goods and services offered by businesses and the government. They also:
 - Supply labour by working and receive wages and salaries.
 - Use goods and services
 - Supply financing through spending
 - Supply financing through taxes
- The government: produces and uses goods and services, such as healthcare products, to supply public hospitals. It also produces goods and services that benefit the general public, such as schools or hospitals. To pay for its activities, the government collects **taxes** from households and businesses.
 - Uses goods and services.
 - Collects taxes.
 - Supplies financing through wages, pensions.
 - Employs labour
- Businesses: employ labour to produce **goods** and services. Businesses are financed by the spending of the other two agents.
 - Produce goods and services.
 - Employ labour.
 - Provide payment for work.
 - Supply financing through taxes.

EXERCISES (1 AND 3, PAGE 11)

EXERCISE 1, PAGE 11

- Think about the essential goods that you need “**on a daily basis**” (a **diario**). Are they really all essential? Could you live without some of them?
- Write, in your notebook, a **short report** on your conclusions (100 words).
- **REPORT/INFORME**
 - Structure:
 - Report should have a **TITLE** explaining its porpoise.
 - Introduction (you have to write the objective of the report).
 1. The aim of this report is to...
 2. This report is based on...
 - Paragraphs talking about your opinion about the topic (For instance, essential needs in your life and things you don't need in your daily life).
 - Conclusion (with your opinion. You can give your opinion answered the questions):
 1. To conclude / In conclusion

2. ECONOMIC SYSTEMS

A. CONCEPT AND FUNCTIONS

All economic activity requires organization and coordination in decisions that allow for use, as rational as possible, resources or factors of production (natural resources, capital and labour).

The set of structures which allows taking decisions is called: **ECONOMIC SYSTEM.**

- **WHAT TO PRODUCE?**
- **HOW TO PRODUCE?**
- **FOR WHOM TO PRODUCE?**

B. TYPES OF ECONOMIC SYSTEMS

1. Tradition-based economic systems.
2. Capitalism and the free market system.
3. The central planning system: the authority.
4. The mixed economy system.

1. TRADITION-BASED ECONOMIC SYSTEMS.

- In the past, people developed economic systems based on beliefs, customs and laws. Nowadays, there are groups of people whose economic activities are still governed by tradition, at least in part.
 - This type of economic system only allow for very limited economic growth. In many cases, production is restricted to self-consumption and subsistence. Thus, households purchase very few goods and consume what they produce. Besides, they generate very little surplus.
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- **WHAT TO PRODUCE?**
Depends on the resources in each region.
 - **HOW TO PRODUCE?**
Production is based on rules supported by very old customs.
 - **FOR WHOM TO PRODUCE?**
To benefit the community.

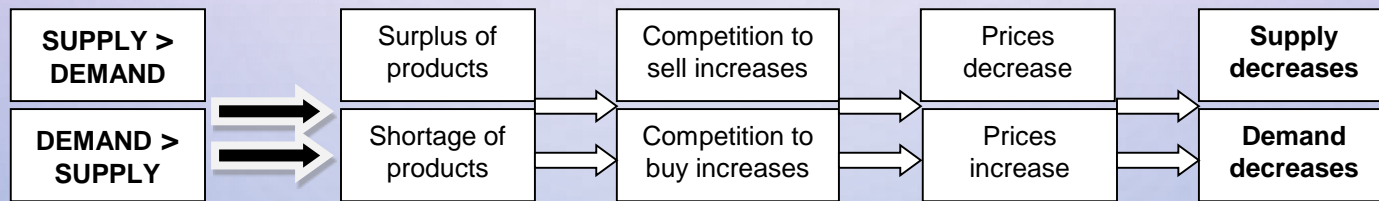
2. CAPITALISM AND THE FREE MARKET SYSTEM

- The **decision-making power** is the **market** in which consumers and producers are and in which prices (price: the value assigned to a good or service) of all exchanges are established.
- These **prices** play a key role: guide the decisions of both consumers and businesses and determine the goods produced, the technology used and production sharing.
- The public sector is not directly involved in economic life. However, the government establishes laws and institutions that allow the free functioning of markets, including the existence of private ownership of the factors of production.
 - **WHAT TO PRODUCE?**
Decided by the free market system of supply and demand
 - **HOW TO PRODUCE?**
At the lowest cost.
 - **FOR WHOM TO PRODUCE?**
Determined by the market.

Law of supply and demand

<https://youtu.be/WRmnoj4T6h5w>

- **Supply:** the products available on the market for a specific price and during a certain period.
- **Demand:** the goods or services that consumers are prepared to buy for a particular price and under certain conditions



Advantages: The **individual freedom**: both consumers and companies freely choose what to consume or what to produce, depending on their preferences and their budgets.

Disadvantages: The **unequal distribution of wealth**. The supply side is driven by the desire to obtain the greatest profit.

- “Un **ejemplo**: pensemos en el **mercado inmobiliario** y su comportamiento en las dos últimas décadas, y observemos cómo se ha decidido qué y cuánto producir, cómo y para quién.
- **Qué producir**: numerosas familias querían comprar un piso o un adosado, alentadas por la facilidad del crédito y las ventajas fiscales, y acudían a solicitarlos a las agencias inmobiliarias. Éstas trasladaban las solicitudes a los constructores o a los particulares que deseaban vender un piso. Esta **información sobre los deseos de compra** actuaba como **señal para las empresas constructoras**, que aprovechaban la posibilidad de aumentar sus beneficios construyendo nuevas urbanizaciones, que podían vender a precios cada vez mayores, dado el creciente número de peticiones de compra.
- La **decisión acerca del tipo de vivienda y la cantidad** construida cada año es el resultado de la **interacción** de las solicitudes de los **consumidores** y la respuesta de las **empresas** a través del **mercado**. En el momento en que los consumidores reducen sus peticiones de vivienda, como ha ocurrido tras la crisis financiera, la respuesta de las constructoras es reducir su producción, acomodándola a los deseos de compra.
- **Cómo producir**: en el sistema de mercado esta cuestión la resuelven las **empresas** guiadas por su **objetivo de obtención de máximo beneficio**, por lo que tienen en cuenta los precios de los bienes y los factores. Así las empresas constructoras han elegido mayoritariamente utilizar mano de obra de personas inmigrantes, dispuestas a vender su fuerza de trabajo en peores condiciones, ya que sus posibilidades de elección son menores que las de los nacionales.
- **Para quién producir**: los **precios** resultantes de la interacción en el mercado de compradores y vendedores **determinan para quién es el producto**. Todo aquel que pueda pagar una vivienda la tendrá, pero no así los que no disponen de dinero suficiente para su compra. En España hemos visto lo desorbitado de los precios de este bien básico, que ha impedido que una parte importante de la población haya podido comprar un piso.”

3. THE CENTRAL PLANNING SYSTEM: THE AUTHORITY.

- In this economic system key decisions are made by the central economic **authority**, generally represented by the **state**. The state sets the prices of production factors and goods and services, run the functioning of the economy and control the economic power.
- The aim of this system is to achieve greater social equality, preventing the injustices that are caused by the unequal distribution of wealth.

Today, only North Korea still follows this economy system, because other countries, such as China, Vietnam, Laos or Cuba have implemented reforms to redefine the market.

Advantages

- **More equal distribution of income** than in the capitalism system, ensuring employment, housing, free education and health for the whole society.

Disadvantages

- The lack of individual freedom in making economic decisions.

4. THE MIXED ECONOMY SYSTEM.

- The **aim** of this system is to **avoid both the negative effects of the unequal distribution of wealth** in a free market **and the lack of efficiency** that characterises authority-based systems.
- The free market deals with basic economic problems, but the state acts as an authority to help guarantee equal opportunities. To this end, its collect taxes in order to finance what is known as the **welfare state**, investing in public goods and services, social security benefits and other kinds of support.
- Most countries have a mixed economy system; for instance, Nordic countries (Norway, Sweden, Finland and Denmark), an example of developed economies due to their high average wealth rates.

EXCERSISE

- EXERCISE: COPY IN YOUR NOTEBOOK THE TABLE AVAILABLE IN YOUR BOOK, PAGE 14.
- YOU HAVE TO STUDY THE TABLE, TRYING TO UNDERSTAND THE DIFFERENCES BETWEEN THE DIFFERENT TYPES OF ECONOMIC SYSTEMS.

ORAL EXAM:

ORAL EXAM

23/01/2017

- While your classmates are doing the oral exam, you have to do the following activities, in a COMPLETE SILENCE:
- **Page 18:** Exercise 5
- **Page 19:** Exercise 6, 9, 10 and 13.
- **Page 18:** Exercise 4 (b, d, f) →
 - CONCERNED: PREOCUPADO
 - EXHAUSTED: AGOTADO
 - AT SOME POINT: EN ALGÚN MOMENTO
 - DROP: BAJAR, CAER.
 - SKYROCKET: DISPARARSE.
 - SO FAR: HASTA AHORA.
 - DUE TO: DEBIDO A, POR EL...
 - SAVINGS: AHORROS.
 - RATHER THAN: MÁS QUE.
 - REMAIN: PERMANECER, QUEDAR.

UNKNOWN WORDS:

3. SECTORS OF THE ECONOMY.

Video: <https://www.youtube.com/watch?v=WQt3hEUTnXo>

The economy is divided into three sectors:

- **Primary sector.**
 - This sector involves activities related to obtaining natural resources for manufacturing or food (agriculture, livestock farming, forestry and fishing).
- **Secondary sector.**
 - This sector involves manufacturing raw materials and producing capital goods; includes all activities that convert raw materials into finished or semi-finished products. It is usually associated with industry (mining...).
- **Tertiary or service sector.**
 - This sector includes all the activities that produce intangible goods and services. It does not create or manufacture materials

3.1. PRIMARY SECTOR

- This sector involves activities related to obtaining natural resources for manufacturing or food:
 - A. AGRICULTURE
 - B. LIVESTOCK FARMING.
 - C. FORESTRY.
 - D. FISHING.

A. AGRICULTURE.

Involves farming the land to produce raw materials, such as cereals, cotton and fruit.

There are many different types of farming techniques. The most important are (page 25):

- ***Dry and irrigation farming:*** In **dry farming**, crops are watered by precipitation; in **irrigation farming** water is brought from aquifers, rivers and reservoirs using a **costly** system of canals. This is possible to obtain higher yields than dry farming.



Dry farming: Wheat.



Irrigation farming: Corn.

- ***Intensive and extensive farming:*** in **extensive farming**, land is left fallow (it is left uncultivated for a year to allow it to regenerate). In **intensive farming**, the land produces very high yields: it is made to produce several crops a year by using irrigation, greenhouses and fertilisers.
- ***Polyculture and monoculture:*** In polyculture, agricultural areas are divided into a number of plots. Different species are cultivated on these plots. This is the typical system in low-productivity traditional agriculture. By contrast, monoculture is highly specialised with a single product being planted over a large area. This method is

B. Livestock farming.

Involves raising animals for food or for raw materials, such as leather and wool.

There are different types of livestock farming (page 27):

A. Extensive livestock farming: *the farmer leads the livestock to meadows and pastureland so the animals can graze freely.*

- *Nomadic farming: livestock move from place to place looking for water and pasture.*
- *Seasonal migratory farming: livestock move around in search of food based on season; for instance, in summer they remain in cool areas.*
- *Non-Transhumant farming: livestock do not have to travel long distances to*

B. Intensive livestock farming: *consists of stabling the animals on farms, where they are given feed and the living conditions are monitored by vets.*



C. Forestry.

Consists of exploiting the wood from trees in forests and plantations, along with other raw materials, such as resin, cork and rubber.

Modern forestry uses the same three basic procedures of traditional exploitation (clear-felling, thinning and pollarding), only mechanised and with planned management. This increases productivity and reduces the environmental impact (page 29).

- **Clear-felling** (tala): an area of the forest is eliminated. It is then replanted or left unused to allow it to regenerate.
- **Thinning** (clareamiento): a limited number of trees in a forest are cut down. This helps the remaining trees to grow better.
- **Pollarding** (poda): this involves periodically pruning only the branches of the trees. The tree survives and continues producing wood.
- Example: Pasture or meadow = DEHESA of Holm oak (encina): area in which trees have been eliminated, creating a surface of pasture. The pruning of the trees provides wood.

D. Fishing.


Involves catching or farming fish, molluscs and crustaceans. There are different types (page 34-35):

- **Commercial fishing:** the aim of this form of fishing is the large scale sale of the catch. There are different techniques for catching the fish:
 - COASTAL FISHING = PESCA BAJURA
 - DEEP-SEA FISHING = PESCA ALTURA
 - TRAWLING
 - ELECTRO FISHING WITH SUCTION
- **Traditional fishing:** this type of fishing uses traditional fishing tackle. Its main purpose is self-consumption or to supply local markets.
 - HARPOON
 - HOOK
 - FISH POT
 - SHELLFISHING
- **Aquaculture:** involves raising fish, crustaceans, molluscs and the algae on rafts, in pools...

3.2. SECONDARY SECTOR

- This sector involves manufacturing raw materials and producing capital goods; includes all activities that convert raw materials (wool, wood, milk, cotton...) into finished or semi-finished products. It is usually associated with **industry**.
- We can differentiate different types of economic activities include in this sector:
 - Mining
 - Industry
 - Construction
 - Energy production


- **Mining**. Consists of **removing rocks and minerals from the subsoil**. Although this activity involves obtaining raw materials, it is usually classified in the secondary sector. We mine three types of minerals:
 - *Metallic minerals*: iron, copper, bauxite (of which aluminium is extracted), gold, silver or mercury.
 - *Non-metallic minerals*: very important for the chemical and pharmaceutical industries, such as phosphates, clay, marble...
 - *Minerals used to produce energy*: coal, petroleum or radioactive minerals (uranium).
- **Industrial activities** which manufacture raw materials. We can distinguish different types of industry (p. 51-52):
 - **Heavy industry** (*Industria pesada*): its aim is to transform raw materials into semi-finished products that are then used in other industries. This types of industries require large capital investments. Heavy industries include: Heavy chemical industry, Metallurgy or Ferrous Metallurgy.
 - **Capital goods industry** (*Industria bienes capital*): this industry uses products from heavy industry as raw materials to make the materials and machinery required by other industries. These industries includes: Construction industry, etc.
 - **Light industry** (*Industria Ligera*): makes products for consumers, using raw materials or semi finished products. It includes: Textile industry, Automotive industry, food industry, etc.



- **Construction** of buildings (homes, factories...) and infrastructures (roads, ports...).

- **Energy production.** Consists of extracting energy from natural resources. It also involves activities related to the manufacture of energy, which has to be transformed from one form to another.

We can talk about two types of energy resources:

- *Non-renewable energies* (obtained from fossil fuel): coal, petroleum, natural gas or nuclear energy.
 - *Renewable energies* (obtained from inexhaustible, non-polluting resources): hydroelectric power, wind power, solar power, geothermal power or biomass.
- 

3.3. TERTIARY SECTOR

- This sector includes all the activities that produce intangible goods and services. It does not create or manufacture materials. ITS AIM IS TO PROVIDE SERVICES.
- THE IMPORTANCE OF THIS SECTOR = The *tertiarisation of the economy*.
- Differences between developed and developing countries: whereas in developed countries this sector has a very important role in the economy, in developing countries the number of people who work in the tertiary sector is less than 30%.
- Service sector is divided into a large number of **subsectors**, including the following:
 - TOURISM
 - TRANSPORT AND COMMUNICATIONS
 - COMMERCE

- **Tourism**. Relates to the temporary movement of people from one place to another to enjoy their free time. Tourism is therefore related to leisure.
- **Transport and communications**. Relate to the movement of people and goods (by road, rail, rivers or sea and air) and to communicating information (new technologies).
- **Commerce**. Involves distributing and selling the products from the primary and secondary sectors. We can distinguish between:
 - ***Domestic trade*** (*comercio interior*): it takes place within the borders of a country. These exchanges can be divided into two basic groups: **wholesale trade** (*comercio mayorista*), which moves large quantities of merchandise in order to sell it to other merchants or companies, and **retail trade** (*comercio minorista*), which involves buying from wholesalers and selling directly to consumers.
 - ***Foreign trade*** (*comercio exterior*): is the exchange of goods and services between a country and the rest of the world. There are two types of exchange: **exports**, which are the goods and services that are sold to foreign countries, and **imports**, which are the goods and services produced abroad and brought into a country.
 - Positive balance of trade \rightarrow exports > imports = surplus (superávit).
 - Negative balance of trade \rightarrow exports < imports = deficit (déficit).

- **Services**. Include anything from essential services (healthcare or education) to activities such as advertising and legal services.
 - *Healthcare*: includes all the services that are intended to prevent and treat human illnesses. This service can be provided by both private companies and government bodies, although the government usually plays a significant role in providing public healthcare services, as a very few people can afford private healthcare.
 - *Education*: includes all of the services that are used to provide people with education and training. It is very important for a society, because the right to an education means that will make it possible to obtain a job and adapt to or live in society. Here, also, we can distinguish between a public and private education.
- *“Education is the passport to the future, tomorrow belongs to those who prepare for it in today”* [Malcolm X (1925-1965), American political activist].
- *“Education is the most powerful weapon which you can use to change the world”* [Nelson Mandela (1918-2013), south African lawyer and politician].

• **GLOSSARY OF TERMS.**

- ✓ Economic activity.
- ✓ Factors of production.
- ✓ Law of supply and demand.
- ✓ Central planning economic system.
- ✓ Primary sector.
- ✓ Secondary sector.
- ✓ Tertiary sector.
- ✓ Forestry.
- ✓ Extensive livestock farming.
- ✓ Fishing.
- ✓ Commerce.

CONCEPTUAL MAP SECTORS OF THE ECONOMY

