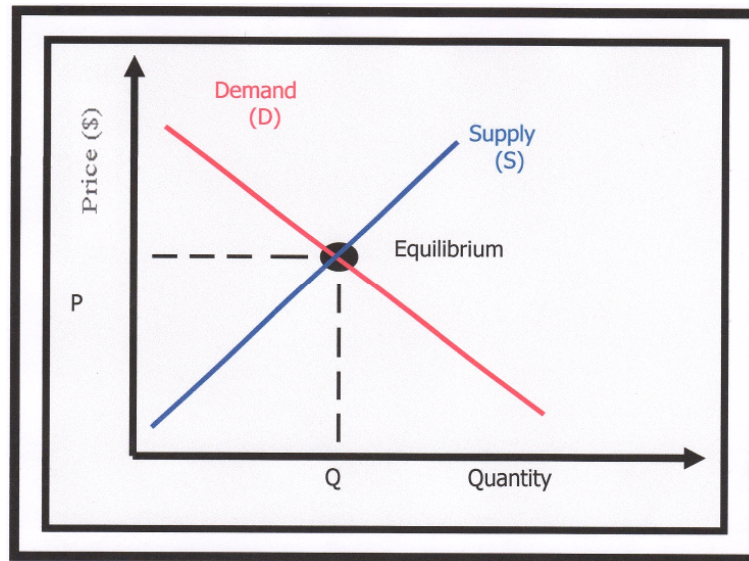# Economic Literacy

Economics is a social science that studies and analyzes how individuals and societies make optimal and efficient use of their limited resources. It encompasses decision-making about what to produce, the types and quantities of resources necessary for the production of goods and services, and how to distribute them among members of a society. Economic theory provides logical explanations of formulas and observations in order to make predictions about outcomes. Decisions based on formulas and observations are considered economic policy.

On a global scale, advancements in communications, transportation, and technology have paved the way for increased cross-border trading among nations. Yet, there is not one nation that has all of the resources it needs to grow and maintain a healthy economy. Nations and citizens can, and do, benefit from export and import activities. The United States represents about one-fifth of the world's 7 billion people, and with an economy valued at $17 trillion, it is the largest in the world. Eighty percent of the international economy (or 5.6 billion people) is located outside U.S. borders.

Economic literacy involves being able to identify and recognize concepts such as choices, supply, demand, and limited resources. These skills allow citizens to function effectively as consumers, savers, investors, and better understand how the world operates. Consumers, businesses, and governments are critical stakeholders playing important roles in the production of goods and services. Their roles and interests are addressed in this chapter so that the reader gains a broad view of the phrase "self interests"—a term that is used to explain why the United States is a "mixed" economy. Former president of the Federal Reserve Bank of Minneapolis, Gary H. Stern, articulated why an educated, economic citizenry is important: "Economic literacy is crucial because it is a measure of whether people understand the forces that significantly affect the quality of their lives."