



Why do people trade?

Voluntary Exchange, Scarcity, and Value

Voluntary Exchange

- The basis of activity in a market economy
- A buyer and seller exercise their economic freedom by working out terms of exchange where both are happy (price and quantity)
- In order to get what you want you must give something up
- People will only trade if they stand to benefit from the exchange

Scarcity

Scarcity arises when something is both limited and desired

- Not all goods are scarce, but most are
- Organize the following words under the correct category: **Scarce or Not Scarce**

Scarce (limited and desired)

Not Scarce (not limited OR not desired)

Sewing machines

factory workers

computers

Euros

happiness

Apartments in Manhattan

Oxygen

Teachers

Worms

Doctors

HIV

Murderers

Clouds

Water

Mosquitos

Diamonds

Creativity

Love

Dirt

Value

- What makes something valuable?
 - Generally when it is scarce
- Something to think about...
 - Nobody needs diamonds, yet they are considered extremely valuable
 - Everybody needs water, yet it is considered extremely cheap
 - WHY?????



Why are diamonds so expensive?

This is known as the “diamond / water paradox”.

Economic value is derived from scarcity

The more scarce an item, the more valuable it is

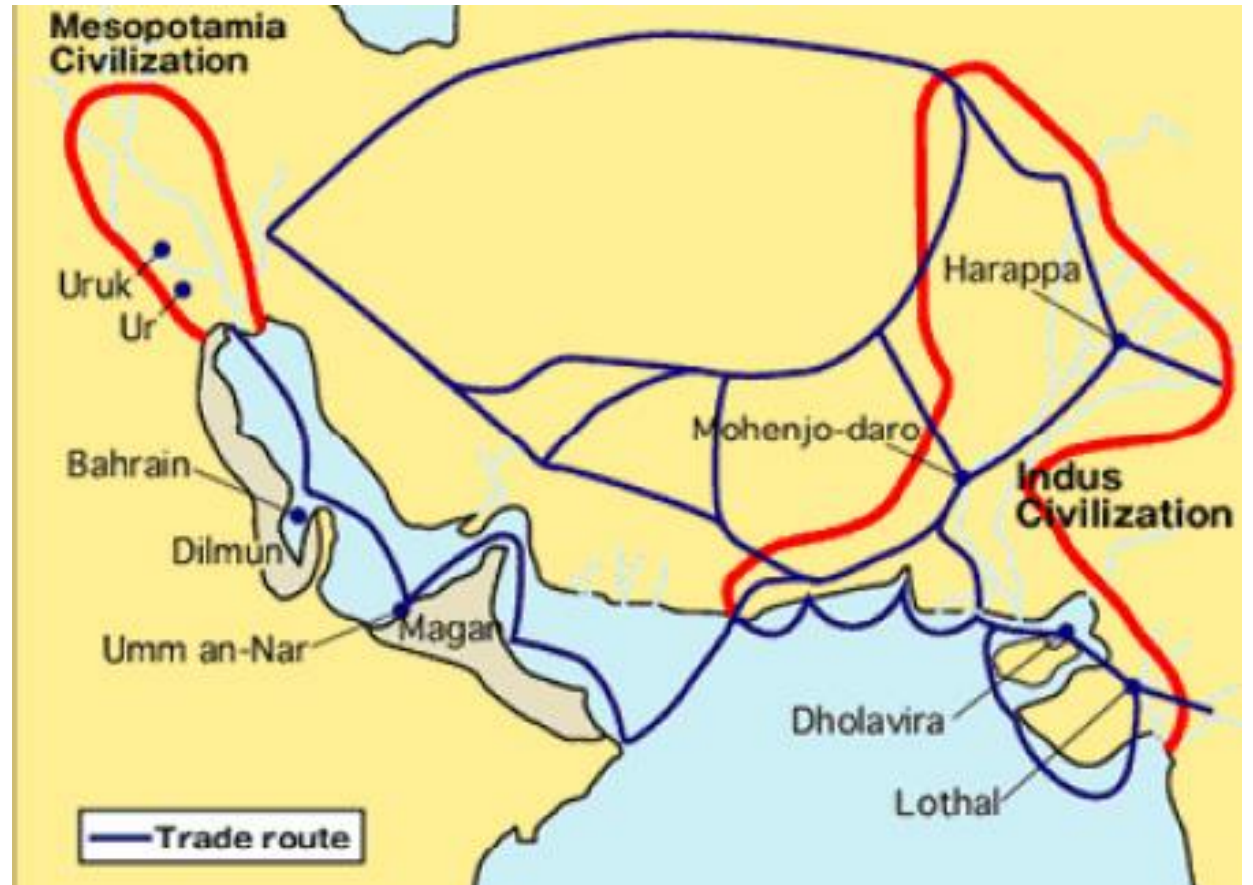
The less scarce, the less value it has in society!



Why is water so cheap?

TRADE BEFORE 1200 CE

- All trade starts locally
 - People exchange surplus goods in local communities
 - "I have an extra goat but no chickens, you have three extra chickens but no goats...let's trade!"





- As transportation technology improves it extends to **REGIONAL & TRANSREGIONAL TRADE**
 - Examples:
 - Egyptian and Nubian trade
 - Mesopotamia and the Indus Valley
 - Focus is on **luxury goods** and started about 3000 BCE



ANSWER THE FOLLOWING IN YOUR NOTEBOOK

- Define LUXURY GOOD
- Give Three (3) examples of luxury goods that existed in the ancient world
- Give three (3) modern examples of luxury goods.
- Why would trade revolve around luxury goods (pretty much) until the 1800's (this should be a few sentences!)



TRADE ALSO LEADS TO....

- Systems of record keeping
 - Ex = Writing
- Technology Transfer
- More complex societies

