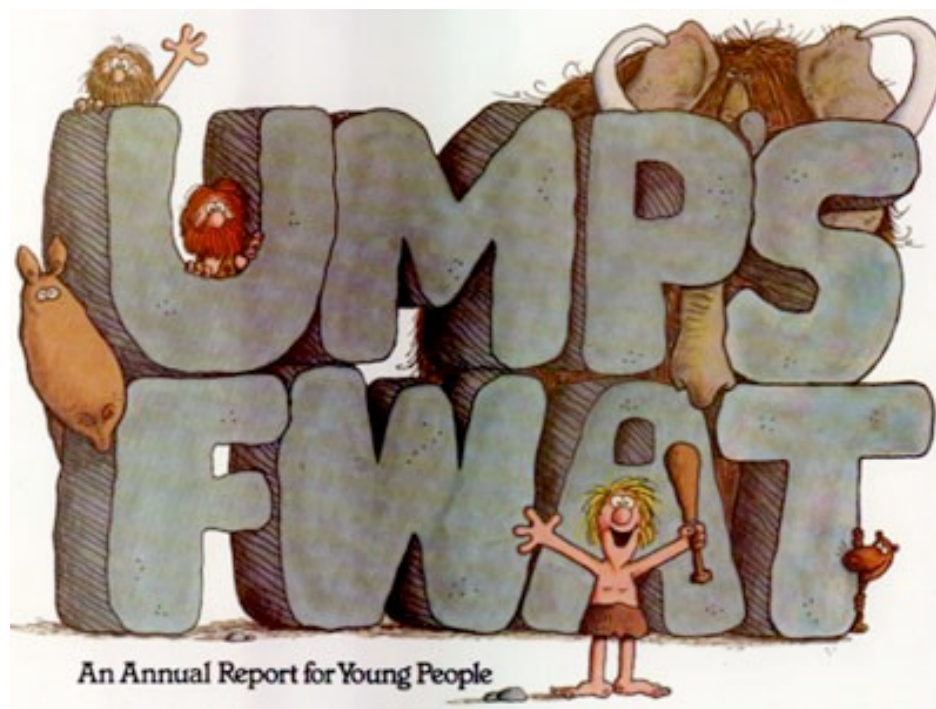




POWELL CENTER FOR
ECONOMIC LITERACY



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Collegiate School ★ North Mooreland Road ★ Richmond, Virginia 23229

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Dear Students and Teachers/Economic Thinkers:

The need for understanding basic economic principles increases daily as elections held in the United States are increasingly on economic issues. Voters must focus on issues related to taxes or government spending, as consumers participate in comparison shopping and as citizens wrestle to understand complex concerns such as health care, environment, social security, international trade, national defense/security, and national debt. Will wise choices and decisions be made that will position our nation as a strong and free country in the Twenty-First Century?

We must also ask ourselves if students understand the TANSTAAFL Theory (There Ain't No Such Thing As A Free Lunch). Young people are targeted by the credit card industry and consumer debt levels are staggering. Will young people take responsibility for financial planning, saving and investing – or will they expect their boss or the government to do so.

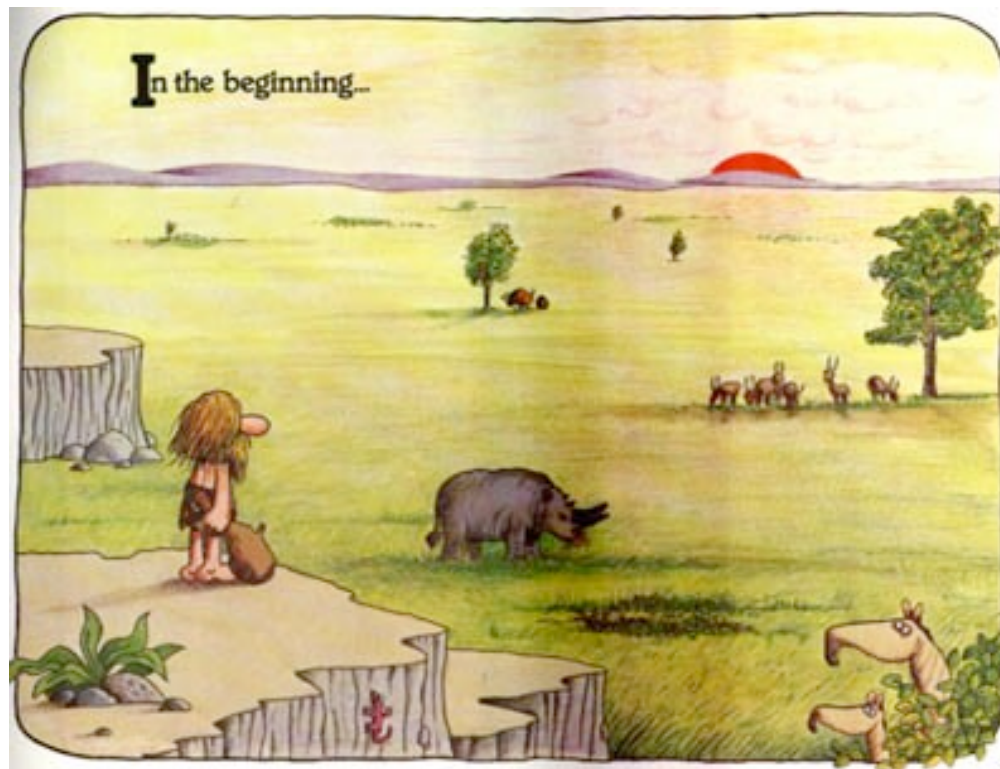
The Powell Center for Economic Literacy was established as the E. Angus Powell Endowment for American Enterprise in 1979 with a mission to create economic thinkers. In addition to a K-12 model program in economic education at Collegiate School, the Endowment sponsors seminars, workshops, university-level courses for high school students and teachers, and a national conference for AP Economics teachers.

This book, *Ump's Fwat*, is a tool for young economic thinkers to begin to understand basic economic principles. We hope you enjoy it.

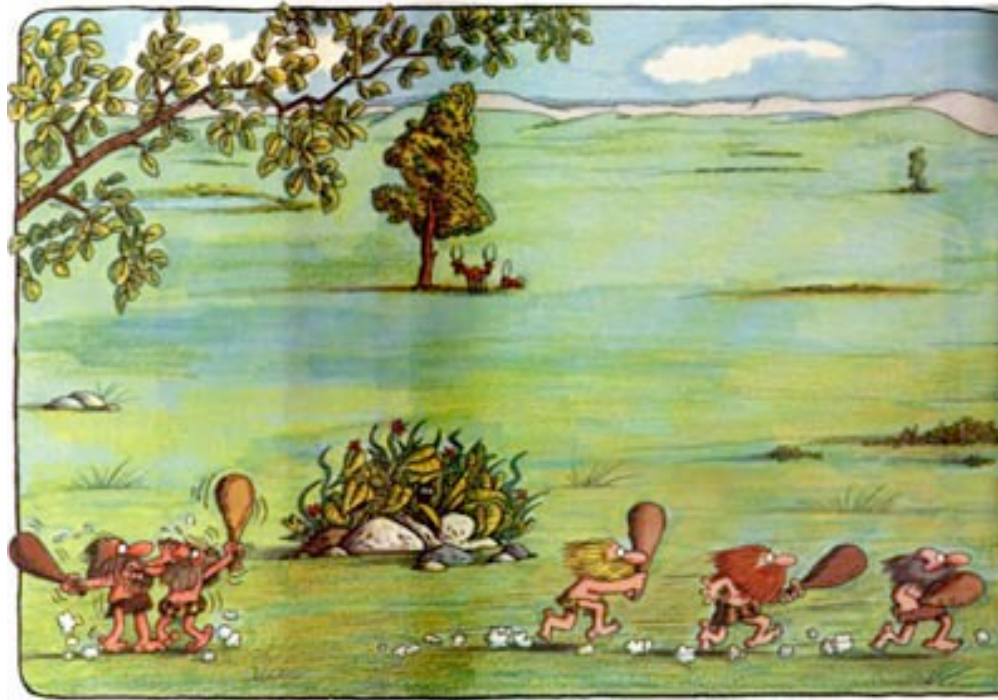
Sincerely,

Rebecca S. Shepherd
Executive Director
Powell Center for Economic Literacy

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...the club was one of early man's most useful tools. He used it to settle arguments...

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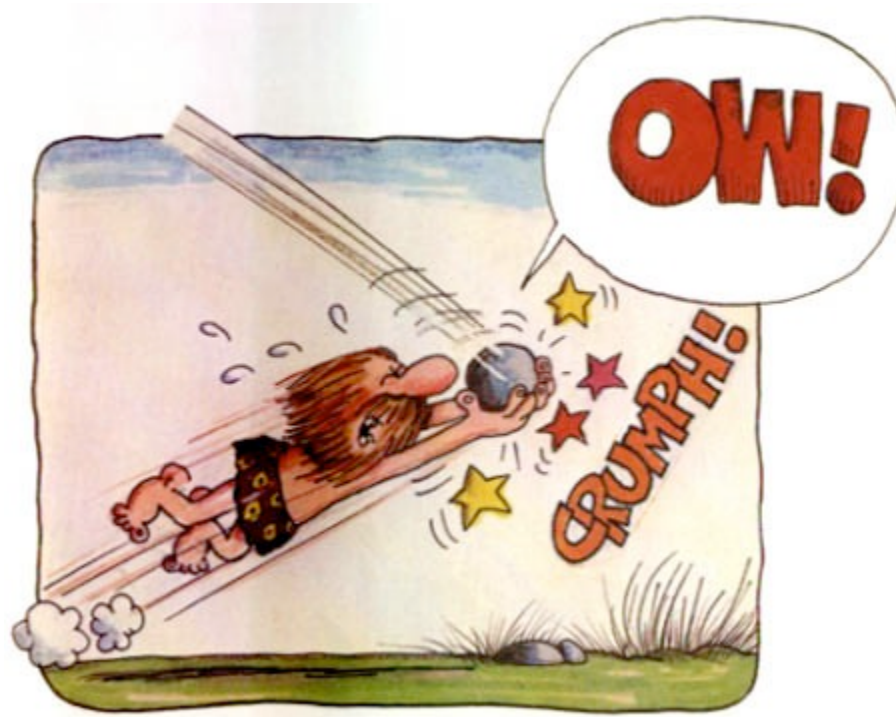
to hunt the short-tempered woolly mammoth...



and, most importantly, to play fwap.



Now fwap was a game which was invented by primitive man in order to pass the time between fighting and mammoth hunting. As these were very simple men, fwap was, at first, a very simple game.

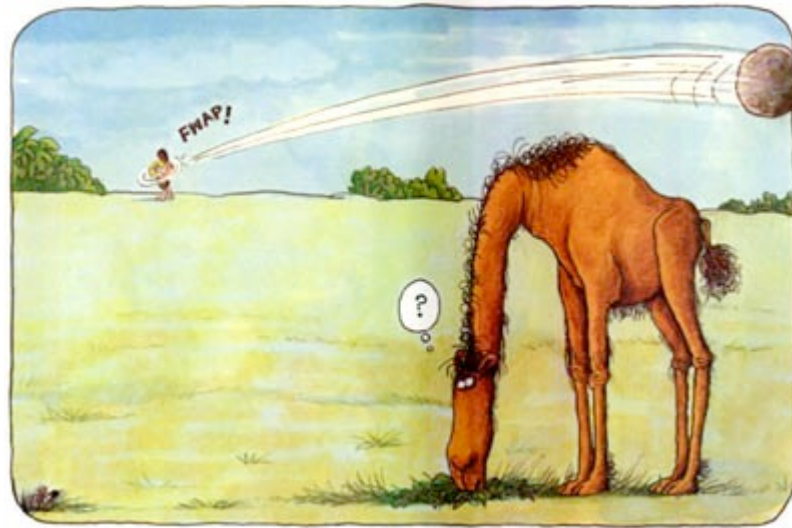


In brief, it consisted of tossing a rock into the air and fwapping it mightily with a club, or a fwat, as it later came to be known.* The man who fwapped the rock the farthest was the man who won.

*Some time later, as the game became more popular, the players wore crumphs. A crumph, of course, was the small piece of leather which the fwapper wrapped around his hand in order to catch the fwapped rocks without hurting himself.

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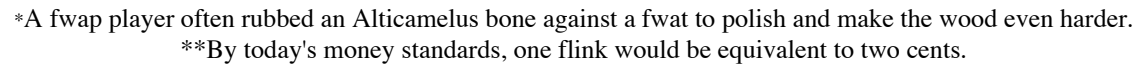
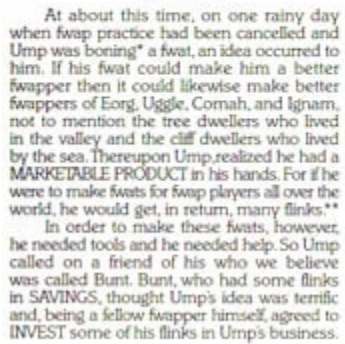
Now it became to pass that out of all the fwappers there arose one greater than all the rest and he was known as Ump. With a swift and steady swing he could easily fwap a rock over a grazing Alticamelus or even a meandering Mastadon.



Although the other men admired his skills, they were especially in awe of his fwat, for it was different from all the rest. Because it was lighter and smoother, it allowed a quicker, more accurate swing; thus, more distance, fewer aching muscles, and higher fwapping averages. Needless to say, Ump's fwat was very popular.

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With Bunt's flinks, Ump bought the tools he needed and hired the help he needed. Many JOBS were created and many men and women were EMPLOYED. Some were hired to cut the wood to size, others to carve the wood into proper shape, and still others to sand the wood to make it smooth.

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During the day, record keepers were needed to help Ump in his office. At night, fire tenders were needed to keep the fire going for the second shift. Within a very short time* the flinks came rolling in and Ump began making a PROFIT, for the fwappers proved to be willing to exchange their flinks for fwats after all.

*A short time would be seven months by today's calendar.

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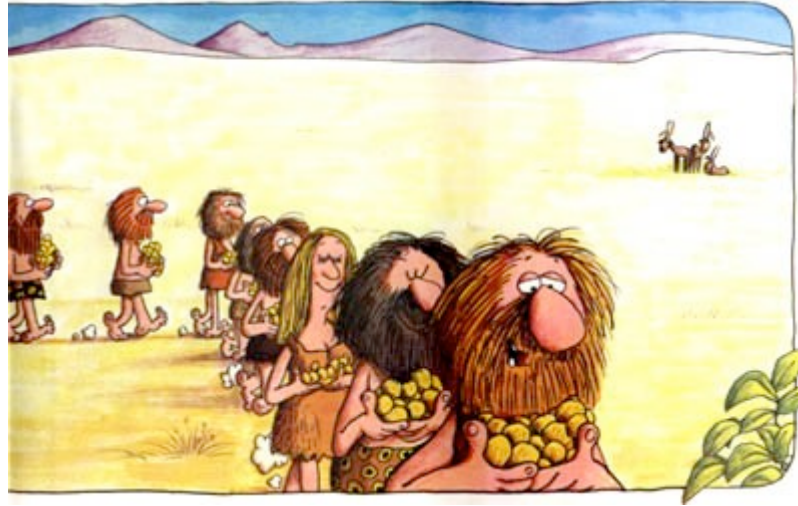
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Rather than spend his PROFIT on Brontop-tooth necklaces, fancy Holplophoneus coats, or Synthetoceros horns for his cave wall, Ump found other uses for it. He paid Bunt a DIVIDEND of 20 or so flinks for having invested in his business. He found a larger cave and bought more tools. And Lastly, he hired more EMPLOYEES.

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All of this he did so that he could make even more fwats. And to the delight of Eorg, Uggie, Comah, Ignam, the tree dwellers who lived in the valley, and the cliff dwellers who lived by the sea...this is exactly what he did!

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As you can see, "Ump's Fwat" is a fanciful tale about how one of the first businesses might have started. As was shown, Ump's Fwat Company began with a good **IDEA**. By creating the fwat, a **MARKETABLE PRODUCT** for which there was a great **DEMAND**, Ump made a **PROFIT**.



When a business such as Ump's makes a **PROFIT**, many good things happen. More **JOBS** are created and many more men and women are **EMPLOYED**. All of the people, then, can afford to buy the things they need and want because they receive **PAYCHECKS** from the company for the **JOBS** they do.



Sometimes these people, like Bunt, are encouraged to use their SAVINGS to INVEST in new business IDEAS, because there is a possibility of making a PROFIT. People who INVEST in a company are called STOCKHOLDERS or SHAREHOLDERS and are considered owners of the company.



The company, in turn, pays **DIVIDENDS** to these owners when it makes a **PROFIT**. Because **PROFIT** is a way of measuring success of a business, the more **PROFIT** a company makes, the larger the **DIVIDENDS** for the **STOCKHOLDERS** will be.

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Suggested Questions

1. What is a Fwat?
2. Why was Ump's Fwat better than any other?
3. Why did Ump decide to try and make Fwats for sale?
4. What did Ump need before he could start his business?
5. Why are people willing to invest in other people's ideas?
6. What is investment money used for?
7. Could people invest in businesses if they did not have savings?
8. What is profit used for?
9. Is profit important for a business to operate?
10. Did Ump's business benefit anyone besides those wanting a Fwat? Explain.
11. What are the typical expenses of doing business?
12. How does the American economic system answer the three basic questions of What to Produce, How to Produce, and For Whom to Produce?
13. Why is a stockholder considered an owner of a company?
14. How are dividends affected by profit?

Economic Concepts

Business An enterprise which organizes and uses resources to make goods and services people want

Consumer A person who is willing and able to buy goods and services

Corporation A business owned by many stockholders

Demand The amount of a good or service consumers are willing and able to purchase at various prices at a given time

Dividends Amount of profits shared by a stockholder

Economic Growth A net increase in the amount of goods and services produced

Economics The study of how people use their scarce resources to satisfy their unlimited wants and needs

Employment Hiring a person to do a particular job and exchanging something of value (money) for the effort

Free Enterprise System The freedom to start and operate one's own business

Investment The process of using money to purchase buildings and machines to be used in the production of goods and services

Management People in businesses who organize the production of goods and services

Marketplace A location where buyers and sellers come together to trade goods and services

Marketable A good or service which is available to people who want it

Money Anything which is generally accepted in exchange for other things

Paycheck A promise to pay a certain amount of money to a person for the work that he or she has done

Opportunity Cost The benefit that is given up when a choice must be made because resources are scarce in relation to wants. In choosing between two alternatives, there is always an opportunity cost.

Owner/Manager The person who starts the business from the idea stage to production

Production The process of providing those goods and services which satisfy human wants

Profit 1.) Total sales (revenues) of a business minus all costs of production; 2.) The extra money a business keeps from sales after paying all its costs.

Resources Anything that can be used to satisfy a human want

Savings The money made available by individuals for investment in the economy

Scarcity The condition that results because people's wants are relatively unlimited and the resources available to satisfy those wants are relatively limited. This condition forces people to make choices

Stockholder A part owner of a business who has no legal liability

Supply The amount of a good or service that sellers are willing and able to provide at all possible prices in a particular market at a given time

Tax A required payment to a unit of government

Economic Principles

Principle 1

We all live in a world of RELATIVE SCARCITY.

Scarcity refers to the fact that in the real world the acquisition of desired things requires both a choice and an effort. Scarcity also implies that individuals must give up something in making a choice, and, therefore, face opportunity costs in decision making.

Spending time playing tennis actually costs spending time sailing or working. Buying a car actually costs whatever else could have been produced with the inputs used to manufacture the car. In other words, we have the TANSTAAFL* PRINCIPLE: Whenever a decision is made to devote resources to some use, fewer resources will be available for other uses.

*There Ain't No Such Thing As A Free Lunch

Principle 2

PEOPLE'S WANTS ARE UNLIMITED. It is impossible to think of a real situation where we would not desire more. The new home would ultimately lead to new furniture. The lakeshore property would eventually dictate a boat. The psychic pleasure of watching a sunset would force us to seek a secluded observation area, and so on. It is a human condition to satisfy oneself to the greatest degree possible. In other words, we have a behavioral principle. People will behave in their own self-interest by weighing the costs and benefits to them of various courses of action and then choosing that course which maximizes their satisfaction.

Principle 3

THE ECONOMIC WELFARE PRINCIPLE:

Voluntary, non-fraudulent exchanges leave both parties better off. In a free market economy, the distribution of goods and services is accomplished through the pricing mechanism of the market. Buyers and sellers may enter the market at any time and decide whether to buy or sell. Because rational human beings attempt to maximize their satisfaction, only exchanges that make both parties better off will take place.

Principle 4

THE EXCLUSION PRINCIPLE:

The efficient functioning of the marketplace requires the ability to exchange property rights. Buyers will exchange something of value which they possess for another good or service only when they perceive ownership of all or part of the benefits from said good or service.

Principle 5

THE LAW OF DEMAND OR THE PRINCIPLE OF SUBSTITUTION

When the price of some good rises relative to the price of other goods, both consumers and business firms will demand less of it by substituting other goods for it. The substitution takes place because efficient resource allocation decisions associate prices or incremental costs with incremental benefits. A change in a price of some good or service distorts the relative cost benefit ration and places the individual or business firm in a position of becoming better off if a substitution is made.

Principle 6

THE PRINCIPLE OF COMPETITION:

Competition is a requirement for attaining an efficient allocation of resources. The dynamic condition of continually searching for resources which can make one better off will not tolerate resources being placed in a low return area.

Principle 7

THE PRINCIPLE OF EQUALIZED RATES OF RETURN:

In the long run, risk-adjusted rates of return among the industries will equalize at a normal level of price and profit by the entry and exit of producers. Within a free-market setting, high profits will attract new producers into the market. Low profits will allow only the most efficient producers to survive.

Principle 8

DEMAND CREATES SUPPLY.

If people are willing to pay a price for any good, which exceeds its cost of production, then the market will respond by supplying that good. Profits represent the value the consumer places on the new good or service, which is in excess of the total cost of individual inputs. When this value reaches a certain level, producers will decide to produce this item for the purpose of maximizing their satisfaction.

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The End.