

## Unit 3: Economic Resources and Markets

### Introduction

The fundamental economic challenge every society faces is the scarcity of resources. Scarcity refers to the limited availability of resources needed to produce goods and services, despite the unlimited wants of humans. This unit explores various types of resources, factor payments, renewable and non-renewable resources, types of markets, the circular flow of economic activities, and the role of land as an economic resource in Ethiopia.

### 3.1 Types of Resources and Factor Payments

#### Types of Resources

- **Free Resources:** These are unlimited in supply and do not have a price, such as air and sunlight.
- **Economic (Scarce) Resources:** These are limited and have a price due to their scarcity, such as land, labor, capital, and entrepreneurship.

#### Categories of Economic Resources

1. **Labor:** Human effort, both physical and mental, used in production. Payment: **Wage**.
2. **Land:** Natural resources used in production. Payment: **Rent**.
3. **Capital:** Manufactured goods used to produce other goods and services. Payment: **Interest**.
4. **Entrepreneurship:** The skill of organizing resources to produce goods and services, involving risk-taking. Payment: **Profit**.

### 3.2 Renewable and Non-renewable Resources

#### Renewable Resources

- Resources that can be replenished naturally over time, such as solar energy, wind energy, and water.

#### Non-renewable Resources

- Resources that are finite and cannot be replenished once used, such as coal, oil, and natural gas.

## Conservation of Resources

- Conservation involves reducing, reusing, and recycling resources to ensure their sustainable use. For example, turning off lights when not needed reduces electricity consumption.

## 3.3 Types of Markets

### Goods and Services Market

- Where households buy goods and services, and businesses sell them.

### Labor Market

- Where employers find workers, and workers find jobs.

### Financial Market

- Where financial assets such as stocks and bonds are traded.

## 3.4 Circular Flow of Economic Activities

### Circular Flow Model

- A visual representation of how money and resources move between households, businesses, and the government.

### Real Flows vs. Money Flows

- **Real Flows:** The movement of goods and services.
- **Money Flows:** The movement of money as payment for goods and services.

### Two-Sector Model

- Involves households and businesses, showing how income and expenditure circulate between these two sectors.

### Three-Sector Model

- Includes households, businesses, and the government, illustrating a more complex flow of income that includes taxes, government spending, and subsidies.

### 3.5 Land as an Economic Resource in Ethiopia

#### Importance of Land

- Land is vital for agriculture, which is the backbone of Ethiopia's economy. The country has diverse agro-climatic zones that support different types of crops, contributing to food security and export potential.

#### Land Ownership and Rights

- Ethiopia's current land ownership system is state-controlled, with peasants and pastoralists given lifetime "holding" rights but not ownership. This system limits the ability to sell or mortgage land, affecting land rights and access.

#### Unit Summary

- **Resources** are categorized as free or economic, with economic resources being scarce and requiring payment. **Markets** facilitate the exchange of goods, labor, and financial assets. The **circular flow** model illustrates the movement of money and resources in an economy. In Ethiopia, **land** is a crucial resource for agriculture, but land rights and ownership remain complex and state-controlled.