

Economics

The ideas of supply and demand, and philosophies concerning trade and the production and consumption of goods and services, are concepts that have existed since the dawn of mankind. As societies became more complex, however, people began to study these abstract concepts in a more formal way. The first recorded study of economics as a science, rather than a philosophical or political concept, was the book "The Wealth of Nations" by Scottish economist Adam Smith. This book represents the first attempt to fully analyze sources of income and the distribution of wealth. Smith's analysis of economics served as a guide by which many of the governmental economic policies of the present day were formed.

Banking

Many of the services performed by banks today can be traced back to medieval Europe. Certain families, such as the Medici's of Italy, were known for the banking duties they performed. These wealthy merchants pooled their surplus money into a bank, then loaned cash (with interest) to other commercial enterprises. The availability of this capital for investment made many new businesses possible, accelerating economic growth. The first modern banks were established in Europe during the late 1600s. The primary function of today's banking system is the granting of loans to consumers and businesses. In addition to loaning money and safeguarding deposits, banks also invest in government and private securities and bonds. Both the loan and investment functions of banks not only make profits for the bank itself, but also stimulate the economy by providing funds for business growth and consumer purchases.

Currency

As cities grew, their internal economies became more complicated. People became specialists, some primarily producing grain, some pottery, some bricks, etc. A system of barter developed, so that one individual's wares and services could be exchanged for those of another. Gold and silver were widely used in such transactions, but the pieces needed to be weighed and tested for purity each time they changed hands. In 600 BC, the Lydian's found a way around this problem. They began the practice of shaping electrum, an alloy of gold and silver, into pieces of predetermined weight and purity, stamped with an official symbol. This idea caught on, and within 50 years all the important trading centers of the world had adopted similar practices. The widespread use of currency created universal standards of value, allowing people from various societies to conduct business almost anywhere without being forced to bring along bulky goods for trade and barter.

Decentralization

Decentralization describes an economy in which the central government doesn't attempt to manage every aspect of a nation's production. The government doesn't set quotas, doesn't determine exactly what the nation's farms, factories, theatres and schools will output. Each farmer determines what his or her farm will produce; each factory owner

decides what to build, whether to modernize or not, and so forth. This kind of a totally freewheeling economy may seriously increase a nation's productivity. However, it may also lead to disaster - if all of the farmers decide to produce cotton then the nation's people will be very hungry - well-dressed, perhaps, but still very hungry.

Free Market

A free market system is similar to a decentralized system, in that the government doesn't try to impose price controls, quotas or other artificial limits on production. The market - what people want and what they are willing to pay for it - determines production. Unlike in decentralization the state maintains some controls over the system, attempting to ensure that the markets remain truly free and is not distorted by monopolies or corruption. A state may have some free markets while maintaining more control over others that it considers critical to the state's survival; in modern times these usually include the production and dispersion of energy and the production of weapons.

Grocer

The word "grocer" is the ancient term for a grocery store. It denotes a market, usually under single ownership (unlike the older bazaar-style markets, which contain dozens or hundreds of small independent operations). The store sells fresh foodstuffs as well as canned goods and other household staples. Modern groceries - also known as "supermarkets" - are much larger than the originals, thanks in large part to the invention of refrigeration. They contain an extensive variety of foods from all over the world. Comparatively, food prices are much lower than they used to be, and today's families spend a historically low portion of their income on food of much higher variety than that offered to shoppers in the past.

Harbor

Just because a city is built in a coastal region doesn't guarantee that the city is readily accessible by ship. In order for a port city to establish a steady trade, fishing, or other shipping industry, the city must have a harbor. A harbor is a protected body of water that opens into an ocean or lake that shelters ships from waves and high winds. Although some coastal cities are established in areas where a natural harbor exists, most seaports are forced either to improve the existing natural harbor, or to build a man-made harbor to shelter ships and provide channels deep enough to accommodate large vessels.

Market

As cities grew and prospered, trade between the farmers, artisans, and craftsmen who lived in the vicinity contributed to the economic health of the city. It soon became apparent that the best way for conducting trade within the city was to have a central location, or marketplace, where the people offering goods and services, or seeking them, could meet and conduct business. As a city's marketplace grew larger and more active, the economic vitality of the city grew as well.

Mercantilism

Mercantilism refers to government policy that strictly manages the nation's production. The government determines which farmers produce which crops, decides who will be allowed to sew pants and who will have a monopoly on shirts, and so on. The nation may ban all foreign imports. The advantages of mercantilism are that it ensures that a nation's wealth remains within the nation itself, and that its people are not put out of business by cheap foreign imports. On the other hand, the success or the failure of the entire economy is in the hands of just a few men or even one, and if they make foolish or unlucky decisions, the nation as a whole suffers. Further, the ban on foreign imports limits the nation's exposure to new products and new ideas. And if someone has a monopoly on an item, there is little pressure for that person to improve the item or make it cheaper.