HOW THE WORLD RUNS

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CONTENTS

INTRODUCTION

The Bible contains over two thousand verses that deal with the subject of money. About forty percent of Jesus' parables have something to do with economics. Plainly, God is interested in how we make use of our time and money.

The time is right for young people and Christian families to make this study a priority. When it comes to preparing a child for life, an economics course will be more important and useful than science and mathematics. Many of us will use science and mathematics now and then throughout our lives. But economics applies to real life every day. By what we find in the 4th commandment (Exod. 20:9-11), apparently God expects us to work six days a week, and all work ties into economics. Each day of our lives, we are either consuming or producing, or both.

Consider the following reasons why economics is an essential study for every young person growing up in Christian homes.

1. The Apostle Paul has rather grim words for a young man who does not make material provision for his own family or for his widowed mother or grandmother in their old age. Such a one has "denied the faith and is worse than an unbeliever" (1 Tim. 5:8). This is such a crucial issue that a failure to materially provide for one's family is a matter of church discipline. In 2 Thessalonians 3, Paul reiterates that the church should withdraw from the person who does not work. Then he says, "If anyone will not work, neither shall he eat" (2 Thess. 3:10).
2. Young women are called to be keepers of the home or managers of the home economy. The Greek word for "keeper of the home" is "oikos-despoteo." A direct translation of this word is "one who directs the home's day-to-day activities." Here is a God-inspired, definitive description of a woman's role (for those women who do not dedicate themselves to singleness). She is the manager of the

economic program in the home. Likewise, the Proverbs 31 woman is described in similar language: "The heart of her husband safely trusts her; so he will have no lack of gain" (Prov. 31:11). Economics is for everybody - man and woman alike.

3. Jesus said, "You cannot serve God and money." Money or mammon takes the role of the ultimate "master" or "lord" in the world's mind. Thus, it is helpful to know how the world views money. Within the same economy of the world, Christians are to be found serving God rather than money. There is a marked worldview difference between how the world views money and how Christians view money, and our Christian young people need to understand the difference.
4. As modern nations abandon Christian values, the consequences will be very bad. Now more than ever, this generation is witnessing the destructive work of bad economic ideas. If there will be any recovery, it will only happen by those who return to biblical principles (especially in the area of economics). While it may seem impossible to change the whole nation on a macro scale, consider that our Christian families may be able to retain some sound practices in micro communities. Most surveys of economics address the national economy and government policies. As Christians, however, we cannot leave the study of economics in the hypothetical. We are called to be doers of the Word and not hearers only. Therefore, the student must never study macroeconomics as applied to government policy without applying that study to direct his/her own life according to the will of God. I sincerely hope these studies would produce a profound reformation of thought and life for the Christian family.
5. If education is of any use to prepare a person for life, then every young person would do well to know something about how the world works and that with which they will be engaged for ninety percent of their adult life. If a young woman has a "very good education," by the time she is twenty-six years old, she knows the derivative of a cosine. She knows how Freudian psychology differs

> from Skinner's. She knows who Rome fought in the Punic Wars. She knows that Plato asserts ideal forms as an absolute and eternal reality of which the phenomena of the world are a transitory reflection. She knows how pinocytic vesicles function in an amoeba. She knows how to parse just about any Latin verb—on the assumption that she still remembers any of this after she has completed her "very good education."

Unfortunately, all too often the young woman still wouldn't have a clue how to manage a staff of seven in a home or how to handle a budget of $100,000 a year without running the household into the ground. She hasn't learned how to cook a meal, how to hire a contractor, how to raise children, how to change diapers, how to calm a baby, how to nurture a two-year-old, how to exercise authority, how to create a budget, how to cut food costs by forty percent without increasing time for shopping, or how to train a five-year-old in social skills. She doesn't know the best way to maintain vehicles. She doesn't know how to assess value in products and services. She doesn't know how to decorate a house. She doesn't know how to engage in hospitality with skill, wisdom, and grace. She doesn't know how to do ninety percent of life. Her education hasn't taught her that. The same applies to most young men.

Life isn't about school. Life is about work, money, eating, buying stuff, rest, business, sales, government, church, and family. Because life isn't about school, school shouldn't be about school either. It should be about life. That in a nutshell is the purpose of this economics course. This is a course about life.

2

THE LAWS OF SUPPLY AND DEMAND

WHERE DOES DEMAND COME FROM?

If people are going to want to purchase goods or services, they need to desire those goods or services. But why do people want a particular product or service?

First of all, they need to see some value in it. There are three kinds of values: **real useful value, perceived useful value**, and **exchange value**.

Something that is **really useful** has a practical benefit to human life. Food and clothing are basic useful products.

Some things are needful for life, and other things are luxuries. Luxuries might increase the comfort level of a particular lifestyle. And what may be useful to one person may not be useful to another. People who buy goods on the basis of useful value will assess an item's value on the basis of its usefulness to their lives. They plan to consume the product or use it for their own benefit instead of selling it to somebody else. This is the basis of most retail sales.

A **perceived useful value** is something that is presented as having useful value, but once it is purchased the thing has very little if any useful value to the consumer. Its value quickly fades after the purchase. Advertising can often impress the customer with the idea that a product has higher useful value than it really does.

Last is **exchange value**, which is the value set on a product by the market. The purchaser is not thinking in terms of what he is willing to pay for the product for his own use. He is concerned with the market price—what the market is willing to pay for it. The exchange value varies month to month, week to week, and day to day depending on the overall supply and the overall demand in any given market.

But what really contributes to a market demand? What enters into people's hearts to make them want to buy things? Some of these impulses are sinful, and others are not.

1. Advertising and fads created by famous athletes, pop stars,

and movie stars will affect tastes and preferences among consumers. By the endorsement of the celebrities, the product is associated with a certain image. This especially applies to items like tennis shoes, hair care products, jeans, soft drinks, and diet products.

2. Idolatry in the hearts of men and women as well as addictions (to media, gambling, alcohol, food, etc.) will increase a market for certain products.

Celebrity basketball star, Michael Jordan was known for marketing tennis shoes in the 1990s.

3. Covetousness—when men and women see the better conditions of others and desire this for themselves—will provide market demand.
4. Immediate bodily needs for food, clothing, and shelter coupled with an increased population in a certain area will increase demand.
5. Competing scientific studies and folk wisdom (especially relating to health) will sometimes produce an increased demand for certain kinds of food, medicines, and supplements. For example, by 2018, the organic food market in the United States increased to about six percent of the total food supply. Switzerland, Denmark, Sweden,

wOrganic food was popular in grocery stores in the 2000s.

Germany, France, Canada, Norway, United Kingdom, and China contributed large demand for organic foods.

6. Increases in take-home pay and family income (as God blesses a community economically) can result in increased demand for certain goods. This may also open a demand for higher quality goods. Whereas the community may have favored cheap soft-serve ice cream and popsicles, now they want high-end ice cream made from real cream.
7. Proven conveniences which make life more comfortable or more functional open a demand for new markets. For example, washing machines and clothes dryers are proven to be more efficient than washing clothes by hand. Once the word gets out about these helpful inventions, it's not long before everybody wants to purchase them.
8. Innovations and improvements of existing goods with added bells and whistles and helpful conveniences can also produce more demand. For example, the development of certain shampoos to eliminate dandruff would generate a demand from people with dandruff problems. Or new technical improvements to cars (like automated speed control, backup cameras, etc.) will create demand for the new car market.

Modern car interior

9. Things that go wrong in a society or smaller community can produce a change in demand. For example, an increase in certain diseases in a community will result in a demand for medical solutions. Increased crime rates encourage a demand for gun purchases.

Now, as Christians, we are careful to observe God's commandments when it comes to buying stuff or contributing to market demand. God forbids covetousness when He gave us the tenth commandment. This sin is to desire something that God has not given you nor given you the power to get. Covetousness is discontentment and ingratitude with God's recent provisions. To covet means to desire something that belongs to your neighbor or to set your heart on getting something you're not supposed to get or something you're not sure you should get. According to the instructions of 1 Timothy 6:6-8, we should be content with just our food and clothing. If we have a little extra money, there would be nothing wrong with enjoying other conveniences. But if not, we should be just as grateful with little as we are with much.

> Now godliness with contentment is great gain. For we brought nothing into this world, and it is certain we can carry nothing out. And having food and clothing, with these we shall be content. (1 Tim. 6:6-8)

This is not the mindset of the world. Greed, lust, discontentment, and ingratitude are normal attitudes of the world. These attitudes are fueled by idolatry and a rebellion against God. The worship of materials, wine, food, and money permeates our world around us. These are unhealthy elements that drive market demands. Proverbs, the Wisdom of God, reminds us that one of the results of excessive use of luxuries, wine, and food is drunkenness, gluttony, and laziness.

> Hear, my son, and be wise;
> And guide your heart in the way.
> Do not mix with winebibbers,
> Or with gluttonous eaters of meat;
> For the drunkard and the glutton will come to poverty,
> And drowsiness will clothe a man with rags. (Prov. 23:19-21)

The Scripture also warns us about the love of money which is the root of all kinds of evil (1 Tim. 6:10). We want to be careful not to spoil ourselves and our families with too many treats, luxuries, and unnecessary gifts. When we reach the point where we are less grateful to the Giver (God) and more grabbing after the gifts, we have given way to idolatry. When our focus is upon the gift more than the Giver, we have become too materialistic. We are serving mammon more than we serve God.

INCREASING DEMAND—HOW MUCH IS THIS THING WORTH?

What is the value of a product or service? What would you charge for the product if you were selling it? What price would you put on it? In the final analysis, you could only charge what somebody was willing to pay for it. If there was only one of this thing (like a rare piece of art), and nobody else could market the same art, you would still need somebody who wanted to buy it from you. If nobody wanted it, the price is $0.00. If there were three buyers, then you could auction the product to the highest bidder. Auctions help to identify the person who wants something more than

Diamonds are both scarce and considered aesthetically pleasing.

everybody else. Only by competitive bidding could we understand the real demand for the product in the hearts of the buyers in the market.

Some people place value on products for aesthetic reasons. They think the art piece is beautiful, for example. They may place value on products for sentimental reasons, as in the case of antiques. But most people place value on products for their **utility** or **usefulness.** The value is determined by **utility** and **scarcity (availability).**

Suppose you were to make cooking pots out of cardboard. Nobody would want to buy this silly product because it would burn up the minute you turned on the stove burner. **Usefulness** is really the degree of satisfaction people get from owning a product or receiving a service.

Scarcity also drives the market. Wealthy people living in rich communities purchase large diamond rings not always because they find a lot of utility in them but more so because of the scarcity of large diamonds.

The price of a product is decided by the amount a person or business is willing to sell it for, and what somebody is willing to pay for it. We call it robbery when a mobster forces a merchant to sell a product for a certain price against his will or if the civil government sets the price of goods and services by force.

The price a customer is willing to pay is related to the amount of satisfaction he would get out of the product as well as the degree of the product's availability on the market. For example, a starving man on a desert

Market stall of fruits and vegetables.

island might be willing to give $500 for a sandwich because of two reasons. First, he would get a lot of satisfaction out of it, and secondly, there aren't any other sandwiches on the island available for purchase.

A FREE MARKET EXCHANGE

> She considers a field and buys it;
> From her profits she plants a vineyard.
> (Prov. 31:16)

Buying and selling is really a form of trade. And, the most rudimentary form of trade is bartering in which one useful thing is traded for some different, useful thing. Most of the time, people don''t exchange one thing for the very same thing. That is, I wouldn''t trade a red ball for another red ball (that looks just like mine).

Trade is defined as a transaction where one party gives up something to get something else from another party.

A free market trade occurs when one party gives up something to a second party to get something else he wants more than the thing he is giving up. The same applies to the second party. Each party gives up something he considers less useful or important for something he considers more desirable. In the case of buying and selling, the buyer is willing to give his money for a product. The seller would rather have the money than the product he is selling. Often, the reason for this is that the seller has more of that product than he can use himself. The farmer who sells his apples at a stand on the side of the road could not possibly eat 1,000 apples. He would rather have money than apples because he could use the money to buy other things needful for himself and his family.

> "[The product] is good for nothing," cries the buyer; but when he has gone his way, then he boasts. (Prov. 20:14)

For most exchanges today, the prices are already fixed. There is no bargaining at the grocery store when you purchase fruit and vegetables. But in open markets, the prices are more negotiable. The buyer wants to know the lowest price for which the seller would part with his goods. The seller wants to know the highest price for which the buyer would purchase his goods. In the case of Proverbs 20:14, the buyer tries to conceal his valuation of the product. He wants the seller to think he would place a lower value on the product than he really does. He hopes the seller will give up some of his profit and lower the price for the exchange. Therefore the buyer doesn't want the seller to know how much he wants the product. Christians must not lie about their need or interest in a product. It would be better to know the market price of the product in your local area and to know something of the motivation of the seller. If the market has been slow on a given day, the seller will be more interested in lowering his price to get some profit for his labors.

But how do most sellers know how much to charge for something? That's simple in our society. We check out three sellers on the internet.

If, for example, we want to sell a used car, we look at how much other sellers are trying to get for the same model-and-year car. There are several factors that affect the price of the car.

1. **Location.** A car sold in one part of the country for a certain price may be twenty percent more or less expensive in another part of the country. These differences are affected by average incomes and the preferences of the consumers.
2. **Reputation of the seller or dealer.** Some dealers may be able to get more for their products because they provide better service and they have made a good reputation for themselves. Some people will pay more for more dependable and higher quality service.
3. **Financing.** Some people will pay more for a product if the dealer or seller is willing to finance the sale. This means that the consumer is borrowing money to buy the product.
4. **Quality of the product.** The same car sold somewhere else might have higher quality parts, more bells and whistles, fancier hubcaps, a better maintenance record, a better paint job, less dings on the body, and lower mileage. Cars that have been in an accident are usually

priced lower because damage to the body of the car could result in more problems later on.

As you can see, there are quite a few factors that go into the pricing of a used car or any other product. We as Christians are called to be plain and honest in the representation of whatever we are trying to sell.

UNDERCUTTING THE MARKET

Pre-owned cars

Now, suppose you wanted to undercut the market by lowering the price of a product or service. While other window washers were charging $5.00 per window, you decide you will do it for $1.00 per window. You hope this will increase your business such that you will put the other window washers out of business. Before you do this, you have to consider several things.

Window washing

for quality work. If you are a newcomer to the market, it will take a long time before they will trust you to do a good job. Value is as much established by quality as by quantity or completion of a job. You may promise to cut the price of a window job from $5.00 to $1.00 per window, but will you supply the same quality as those companies that charge $5.00 per window? If the customers in a certain market are accustomed to a certain level of quality and they don't get it, they will be upset with you. Because you failed to meet the reasonable expectations of a given market, you will have stolen from them and broken the eighth commandment.

2. You will have to work about the same amount of time on a window as your competitors. Counting travel time and preparation time, the average window washer may clean the average window in ten minutes. He earns about $30 per hour. If you are cutting the cost for your customer down to $1.00 per window, you (and your employees) will be earning about $6.00 per hour. Are you willing to do this all year and into the following years?
3. You might also overlook the unseen costs involved in a business. You will need to pay for insurance, travel to the work site, employment taxes, equipment costs, and so forth. Also, don't forget the added risk of climbing ladders to clean third story windows—and all of that for only $1.00 per window.

The average cost of doing business and providing services has already been thought out carefully by the market. The only way you could beat the average market price would be by improving on the method or the tooling used to clean windows.

4. Most importantly however, before you undercut the market, consider the words of Jesus. Would this be an act of love for your neighbor to disrupt the market in this way? In some cases, the competition you introduce to the market is healthy and it stirs everybody up to produce a better product or service for a good price. But, in other cases, the competition is unhealthy and undermines already existing, healthy business relationships.

> Therefore, whatever you want men to do to you, do also to them, for this is the Law and the Prophets. (Matthew 7:12)

New home construction

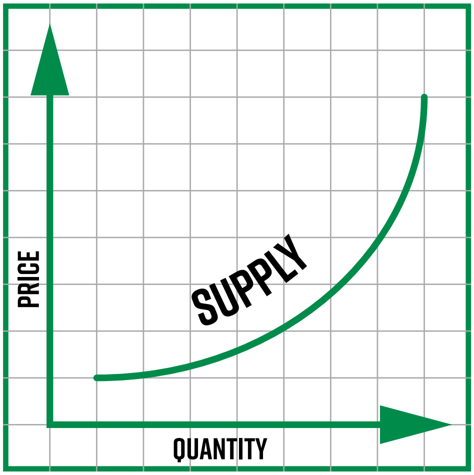
SUPPLY AND PRICE

While there will always be a limited supply of everything in the world, the supply can change quickly. Sometimes changes in supply and demand determine pricing. For example, if a wildfire burns down 300 houses out of 3,000 homes in a town, the price of renting a house would increase immediately. That's because the demand for houses increased suddenly, and the supply is low. The price of apples would come down if lots more apple trees were planted where you live. Water may be plentiful where you live. But people who live in the desert have to pay more for their water. Perhaps somebody would haul water to the desert town using a large tanker truck. Or another businessman might drill very deep wells and draw up the water using electric pumps. All of that calls for money and effort. The water is not readily accessible in the desert, so people will have to pay more for it.

THE LAW OF SUPPLY FOR PRODUCERS

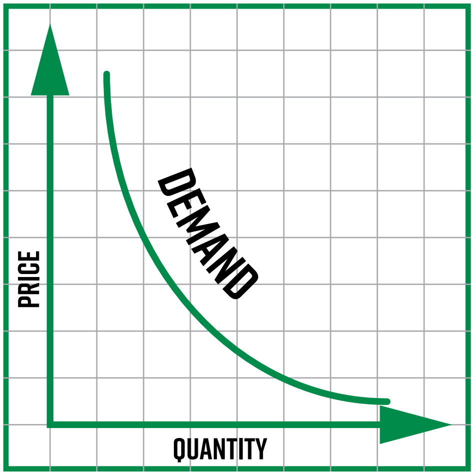

Various shoes

Most of the time, the price that people are willing to pay for products will drive the supply. Suppose that young men and women were willing to pay $50 for a certain special kind of tennis shoes during a certain year. But the following year, quite a few of these young folks were willing to pay $100 for the same pair of tennis shoes because their favorite sports stars were favoring these shoes. What do you think the manufacturer would do when they realized the market is willing to pay $100 for these tennis shoes? Then, on the second year of production, it turned out that the market was willing to pay $200 for the same tennis shoes because the product had become "all the rage." Now how many tennis shoes will the manufacturer supply to the market? As the price goes up, of course the manufacturer will increase the supply. That's because they suspect the market is growing, and they want to make as much profit as possible. *The law of supply states that the higher the price of a good, the quantity of goods supplied will increase as well.* The following graph illustrates this trend.



THE LAW OF DEMAND GOVERNING CONSUMERS

However, as the price goes up, what happens to the demand for these tennis shoes? Poor families have a harder time paying $200 for tennis shoes. Most young people don't have a lot of money, so the rising price weakens the demand for the shoes. Thus, the demand for the shoes starts to drop. The following graph illustrates this trend. *The law of demand states that as the price of a good increases, the demand for it decreases in the free market.*



HOW SUPPLY AND DEMAND SET THE MARKET PRICE

Suppose there is a strong demand for lemonade on hot afternoons in your town. People are willing to pay quite a bit of money for a glass of lemonade. Several kids open up lemonade stands along the streets. How does supply from the lemonade stands and the demand set the price of lemonade? Here's out it works.

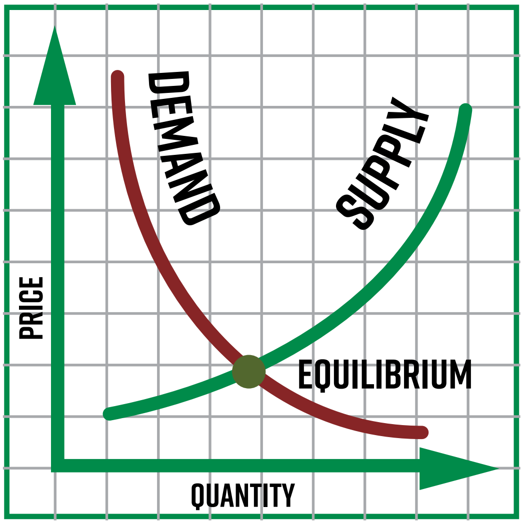
1. If the supply increases (more kids are making lemonade) and

demand stays the same, the price for a glass of lemonade will have to go down.

2. If the supply decreases (less kids are making lemonade) and demand stays the same, the price will need to go up.
3. If the supply stays the same and demand for lemonade increases during the hot summer months, the price for lemonade will increase.
4. If the supply stays the same and demand of lemonade decreases, the price for lemonade will drop.

MARKET EQUILIBRIUM

Market equilibrium is the point at which the supply or the quantity of the product provided by companies meets the demand for the product in the market. This should work its way out naturally in a market as companies do their best to meet the demand at the price people are willing to pay.



ELASTICITY

When setting prices for the products you sell, whether it is lemonade or lawn service, you want to know how a change in price might effect the demand. For example, let us suppose a young man opens a lemonade stand and sets a price of $1.00 for a 16 ounce cup of lemonade. He is selling 100 cups a day. But then, he decides to up the price to $1.20. Will he lose any customers? **Elasticity** is the measurement of change in demand to the change in price.

If the response to a 20% rise in the price of lemonade results in a 10% drop in demand, elasticity is calculated this way:

Elasticity = 10%/20% = 0.5

If the response to a 20% rise in the price of lemonade results in a 50% drop in demand, the elasticity would be

Elasticity = 50%/10% = 5.0

This would indicate that people who buy lemonade are pretty sensitive to the price of it. They are less likely to buy the lemonade if the price goes up too much.

GOD'S GOODNESS SUPPLIES FOR THE WORLD'S NEEDS

Thomas Malthus (1766-1834) introduced the idea that world population would outpace the food supply. Since then, increasing numbers of people worry about running out of natural resources like food and water. Should the world's population exceed 10 billion, they are afraid we will run out of farmland, oil and gas, or other important resources. What Malthus and others forgot is that God is good. They do not believe that God's provision on this earth is sufficient to sustain a very large population. But what if God gave farmers special insight into better farming methods? What if there were still undiscovered farmlands somewhere on earth where certain crops would grow exceedingly well? By God's grace, He can lead us to ways in which we can increase the size of the pie so more supply is available to the increased demands (as more children are born into this world).

Thomas Malthus (1766-1834)

WHERE DOES SUPPLY COME FROM?

> Therefore I say to you, do not worry about your life, what you will eat or what you will drink; nor about your body, what you will put on. Is not life more than food and the body more than

> clothing? Look at the birds of the air, for they neither sow nor reap nor gather into barns; yet your heavenly Father feeds them. Are you not of more value than they? Which of you by worrying can add one cubit to his stature? So why do you worry about clothing? Consider the lilies of the field, how they grow: they neither toil nor spin; and yet I say to you that even Solomon in all his glory was not arrayed like one of these. Now if God so clothes the grass of the field, which today is, and tomorrow is thrown into the oven, will He not much more clothe you, O you of little faith? (Matt. 6:25-30)

Increased supply of a certain product in a certain market (where the population or demand remains the same) will reduce the cost of that product.

In order to supply a product, you need any of the following:

1. God's Resources

You need natural resources—or, better put, God's resources. The discovery, provision, or availability of God's resources enable the flow of materials into the market. Apple trees produce apples. While man plants the apple seed and waters the tree, God brings forth the increase.

God supplies rain to water the earth and grow grass for herd animals. God's carbon dioxide and water grows the grass. God provides minerals, coal, oil, iron ore, and other raw materials hidden in the crust of the earth.

Cattle herd

To build houses, carpenters need iron ore for nails, limestone and silica sand for concrete, and God's trees for the lumber.

2. Labor

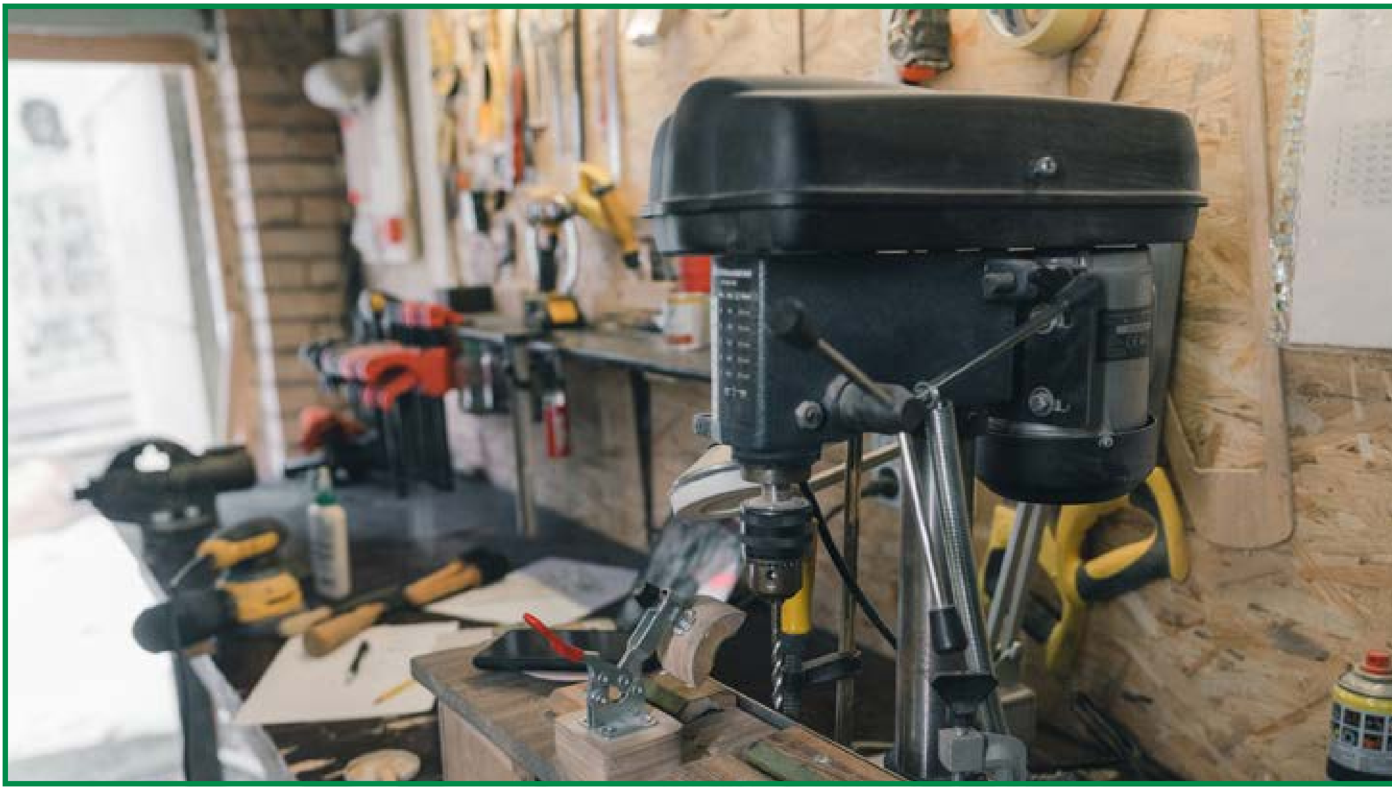
You need labor to find

the materials, to mine the materials, and to cultivate the materials. Farmers work hard to plant seeds, water their plants, kill bugs, and harvest crops. Manufacturers take the raw materials and turn them into useful things for the consumer. All of this takes hard work, time, energy, brainwork, and cooperation.

To build an average 2,000 square foot house requires about 2,400 man hours. That's one man working for almost a whole year.

3. Tools and Capital

You need capital to build machines and to buy tools to get the work done. Capital (or investment money) is used to hire employees, build buildings, and buy the machines needed to do the work. For example, if a car-



Tools are necessary to get certain kinds of work done.

penter is going to build a house, he will need capital to buy nail guns, saws, levels, and other tools. He will need to buy the wood, nails and screws, concrete, glass windows, asphalt shingles for the roof, PVC pipes for the plumbing, and copper wiring for the electrical system.

Tools are necessary to get certain kinds of work done

4. Creativity, Daring, Risk, and Entrepreneurship

> In the beginning God created the heavens and the earth. (Genesis 1:1)

God is the ultimate Creator, and the ultimate economic Contributor. At the beginning, God started out with nothing and made everything out of nothing. His profit was infinite, and His creativity was original, exceedingly beneficial, and awe-inspiring to the ultimate degree.

The final ingredient needed to supply human needs is this creativity. Every job requires a degree of daring, risk, and entrepreneurship to make it happen. This includes marketing and sales work. Somebody has to start up the business. Somebody has to drive the process. Somebody has to put the capital to work, contract with people to do the work, and oversee the process of business. Every house built by a carpenter will present its own unique challenges. Somebody has to risk time or capital to initiate the project or to pay the subcontractors. Somebody has to file permits with the local government. Farmers have to risk investment in seeds, land rental, fencing, fertilizer, and other expenses to get a crop. Yet the harvest still depends on weather and other factors under God's control.

In the ultimate sense, then, the harvest and the supply for the market still comes by the blessing of God. After all that man puts into it, God brings forth the increase.

> I planted, Apollos watered, but God gave the increase. So then neither he who plants is anything, nor he who waters, but God who gives the increase. (1 Cor. 3:6-7)