Economic Institutions

http://www.econedlink.org/tool/186/

Economic institutions are formed by individuals who join together to accomplish common goals and interests, or promote certain values or belief systems.

There are different kinds of institutions that affect the economy. Aside from the basic family unit, there are formal organizations such as corporations, banks, government, labor unions, stock markets, political parties and many others.

Let's take for example the formation of a labor union. If one worker at a factory feels that his or her health benefits aren't sufficient, that one worker has very little ability to create change. But, if that one worker can join forces with lots of other workers that feel the same way, he can form a labor union. The union with its many members can exert more influence than just one worker could, working toward a common goal.

Other institutions follow the same model. In a market economy such as the US, profit is a very important motivator. It stimulates people to join together and form corporations with the goal of earning profits for their shareholders.

Laws are another important economic institution. For example, Private Ownership of Property is an institution that creates incentives that encourage people to conserve, improve, and use their property in ways that are beneficial to others.

Cultural traditions also influence the pattern of economic behavior. Holidays influence seasonal patterns of retail sales, and sporting events determine not only how we spend money on tickets, but also spending on clothing, equipment, and media advertising.

Because the economic institutions play a central role in every economic system, an understanding of how they work is essential to understanding economic activity.