

Scarcity—The Basic Economic Problem

- **Scarcity** results from society not having enough resources to produce all the things people need and want.
- **Economics** is the study of how people try to satisfy their needs and wants through the careful use of relatively scarce resources.
- A **need** is a basic requirement for survival, and a **want** is something we would like to have that is not necessary for survival.
- **Goods** can be categorized into :
 - Durable- lasts more than 3 years, when used regularly.
 - Nondurable- lasts fewer than 3 years, when used regularly,
 - Consumer- goods intended for final use by consumer; shirt.
 - Capital goods: tool or equipment used to produce another product.
- **Service**-work or labor performed for someone; haircut
- A product's **value** depends both on its **utility** (usefulness or satisfaction) and its **scarcity**.

Questions All Societies Face

- **Paradox of value**- contradiction between high value of a nonessential and low value of an essential item.
- **Wealth** is an accumulation of tangible products; goods are counted as wealth, but services are not.
- **TINSTAAFL**- “There is no such thing as a free lunch”
- All societies face **three basic economic questions** about the use of resources.
- Societies must decide **WHAT** to produce.
- After determining what to produce, societies must decide **HOW** to produce it, making the best possible use of available resources.
- Societies must determine **FOR WHOM** to produce the products

Economic Growth

- **Economic growth** occurs when a nation's total output of goods and services increases over time.
- Investing in new **physical or human resources** involves risks and sacrifices today to increase future production.
- When more products can be produced with the same amount of resources, **productivity** goes up.
- **Human capital** provides a major contribution to productivity, so investing in education can have a substantial payoff in the future.
- **Division of labor, specialization, and interdependence** can improve productivity and income as well as make the world a safer place.
- **Economics models** reduce complex situations to their most basic elements so that they can be more easily understood.
- All models are based on **assumptions**.
- A **cost-benefit analysis** compares the benefits of an action or decision with its expected costs.

