Chapter 1: The Economic Way of Thinking

Section 1: Scarcity: The Basic Economic Problem

By Mr. Booth
Economics
• **Economics:** The study of how individuals and societies satisfy their unlimited wants with limited resources.

• **Scarcity:** A situation in which there are not enough resources to satisfy human wants. It is ongoing tension of people not being able to satisfy their unlimited wants.
Wants VS. Needs

List 3 wants (Desires that can be satisfied by a good or service)

1.
2.
3.

• What are needs? Things that are necessary for food, clothing, shelter in order to survive.
Example of Scarcity
Why does Scarcity exist?

Why does everyone on earth, including governments, experience scarcity to some extent?
It exists because human wants for goods and services exceed the quantity of goods and services that can be produced using all available resources.

Governments can not supply citizens with enough goods or services

People make choices because they cannot have everything they want.

Whenever a choice is made, something is given up.

Ex = Can you have 4 yachts? Yes, but do you have the time?
Scarcity leads to 3 basic questions for each society...

1. **What will be produced?**
   - The U.S. lets the producers decide...What if a consumer wants an automatic transmission? An automaker makes manual and automatic transmission vehicles to meet the demand of the consumer.

2. **How will it be produced?**
   - For the U.S., workers must be efficient. Are you going to pay 15 workers during one shift at McDonalds? No...4-5 with machines...

3. **For whom will it be produced?**
   - So, how are goods and services distributed? Does the government have a role? Yes, trains, planes, trucking...But people ultimately decide based on how much money they have and the producer’s goal of profit.
The Factors of Production

So, to answer the question of why a society needs to address scarcity, economists say the factors of production, or the economic resources needed to produce goods and services.

- They divide these factors into 4 main categories:
  1. Land
  2. Labor
  3. Capital
  4. Entrepreneurship
Land

- All natural resources used to produce goods and services

- Ex. Forests, minerals, gas, oil, diamonds
Labor

- All of the human effort used to produce goods and services
Capital

- **Capital**: When you think of capital, you probably think of money. *However*, capital is: all of the resources made and used by people to produce and distribute goods and services.

Example: **Tools, machinery, and factories**.

**Businesses** invest in real capital for businesses: fax machines, computers, printers, and copy machines.

But **workers** invest in human capital – EDUCATION (H.S. and College degrees) More you have, more you are successful
It brings all factors together. It involves the vision, skills, and risk taking, needed to create and operate a business.

Analysts used to say 50% of all new businesses fail within a year.

Actually 7 out of 10 survive two years and 50% survive 5 years. (SBA, 2011)