What is Economics?

Chapter 1
SECTION 1
The Foundation of Economics

Scarcity Exists

People have unlimited **WANTS** - things they desire to have.

- They want the things they think will make them **HAPPY** and **SATISFIED**.

**RESOURCES** are needed to produce the goods and services that people want.

The resources available to satisfy our wants are **LIMITED**.

- In other words, people’s wants are **GREATER** than the limited resources available to satisfy all the wants.
- This condition is called **SCARCITY** (one of the most important fundamental economic concepts).
Scarcity Means Making Choices

- Scarcity exists because wants are **UNLIMITED** and resources are **LIMITED**.
- Therefore, people must make **CHOICES**.
  - Four examples of “wants” that exist in society.
    - **HEALTH CARE FOR EVERYONE**
    - **REDUCED CRIME**
    - **BETTER SCHOOLS**
    - **A CLEAN ENVIRONMENT**
  - It takes resources to bring these things about. We must choose which wants we will try to satisfy and which wants will be left unsatisfied, as individuals and as societies.
Making Choices Means Incurring Opportunity Costs

- Every **CHOICE** we make has an opportunity cost.
- **OPPORTUNITY COST** is the most **VALUABLE** opportunity or alternative you give up to do something.
- Another word for opportunity cost is **TRADE-OFF**. This means that you can get more of one good only by giving up another good.

**EXAMPLE: Big Bang Theory**

Using the concept of opportunity cost to explain “senioritis.”

**THE OPPORTUNITY COST OF GOING TO CLASS AND PUTTING EFFORT IN TO CLASS IS LESS AFTER A SENIOR HAS BEEN ADMITTED TO COLLEGE OR MET MOST GRADUATION REQUIREMENTS. THEREFORE WE WOULD EXPECT A HIGHER ABSENTEE RATE AND LOWER EFFORT.**
A **PRODUCTION POSSIBILITIES FRONTIER** (PPF) shows **ALL** possible combinations of **TWO** goods that an economy can produce in a certain period of time.

- If this economy produces 40,000 skis per year, how many snowboards can it produce? ________________

- If this economy produces 50,000 snowboards per year, how many skis can it produce? ________________
Any point on the PPF itself (A-D in the example) is **AVAILABLE** to us. We can also have the combination of goods represented by any point **BELOW** the PPF, such as point _________.

Because resources are limited, we don’t have enough to produce at point ______ which is **BEYOND** the PPF.

- If we narrow our choices to only points B and C. Then we make a final decision to produce at point B, what is the opportunity cost of a set of skis over this range? ________________
A Consequence of Scarcity: The Need for a Rationing Device

• A **RATIONING DEVICE** is a way to decide **WHO** gets what portion of all resources and goods available and how **MUCH** each gets.

• The most common way to determine this in our society is **MONEY**.

• **PRICE** is the most widely used rationing device in our society.

• By using price, all products are rationed out to the people who are **WILLING** and **ABLE** to pay.

• If **SCARCITY** did not exist, a rationing device would not be necessary because everyone would get everything he or she wanted.
Another Consequence of Scarcity: Competition

Economists believe that COMPETITION exists because of scarcity.

Competition means people try to get more of the rationing device. In other words, people will compete to earn DOLLARS/MONEY.
A Definition of Economics

Economics is the science that studies the choices of people trying to satisfy their wants in a world of **SCARCITY**.

Economics is the study of how people use their limited **RESOURCES** to satisfy their unlimited **WANTS**.