Learning Objectives

• Understand the difference between needs and wants.
• Understand why scarcity exists.
• Determine how one measures opportunity cost.
• Show the relationship between opportunity cost, trade-offs, and the production possibilities curve.
• Show the relationship between the production possibilities curve and economic growth.

Economics

• Economics is a social science that studies how people allocate their limited resources to try to satisfy their unlimited wants.
• Economics is the study of how people make choices.

Needs vs. Wants

• The term need applies to the bare minimum physical necessities that allow you to survive: bare minimum of basic food, shelter, and clothing.
Needs vs. Wants

- **Wants** include those desires that you are able and also unable to pay for.
- They are unlimited.

Scarcity

- **Scarcity** exists because nature does not provide us with all of the resources required to satisfy our unlimited wants.
- For many people, the scarcest resource they face is time.

Goods and “Bads”

- **Goods** are defined as those items that give us satisfaction when we consume them. Examples include a sandwich, a cup of coffee, a warm sweater, etc.

Goods and “Bads”

- “Bads” are the byproducts of production and consumption that we would prefer to do without. They include pollution of any type, such as smog.
Scarcity and Decision Making

- **Scarcity** forces us to make choices.
- When we decide to do anything, we are implicitly deciding against doing something else. In other words, we are giving up an opportunity.

Opportunity Cost

- The **opportunity cost** of every economic decision we make is the value of the next-best alternative.
- It is the value of the alternative that we had to forgo, or do without, for the decision or choice we made.

Scarcity and Trade-offs

- **Scarcity** forces us to make choices.
- When we change our mind, and choose a different alternative, we face a trade-off.

Scarcity and Trade-offs

- **Trade-off** is the sacrifice of one good or service to purchase or produce another good or service.
Resources

- **Resources** are things (goods or services) used to produce other goods and services to satisfy people's wants.

Production Possibilities

- Most businesses can use their resources and technology to produce different goods or services.
- When businesses produce more of one good or service, they must produce less of another.

The Production Possibilities Curve (PPC)

- The PPC is a graphical representation of the maximum combination of two goods or services that can be produced, given a fixed amount of resources and technology.
Efficiency vs. Inefficiency

- Combinations along the PPC mean that the economy is producing its maximum output with given technology and resources.
- Those combinations represent productive efficiency.

Efficiency vs. Inefficiency

- Any point below the PPC represents an inefficient point or output combination, where some resources are being wasted.

Military Goods vs. Civilian Goods: a Real Trade-Off for the U.S.

- The U.S. is the only military superpower in the world.
- At times of peace, the United States economy produces relatively more civilian goods than military goods.
- A different production combination is chosen when the country goes to war.
Economic Growth and the PPC

- **Economic growth** is defined as an increase in output produced by a nation, and can be graphically depicted as an increase in the production possibilities of a nation.

Rational Self-interest

- A key assumption used by economists when formulating economic theories or models is **rational self-interest**.
- It is often misinterpreted as fostering selfishness to pursue just one’s monetary wealth.

Rational Self-Interest (cont.)

- This assumption also refers to individuals pursuing goals relating to prestige, friendship, love, power, helping others, creating works of art, and many other matters that make them and those around them better-off.
Key Terms and Concepts

- economic growth
- economics
- productive efficiency
- goods
- inefficient point
- needs
- opportunity cost
- production possibilities curve (PPC)
- rational self-interest
- resources
- scarcity
- trade-off
- wants