

What Economics Is About

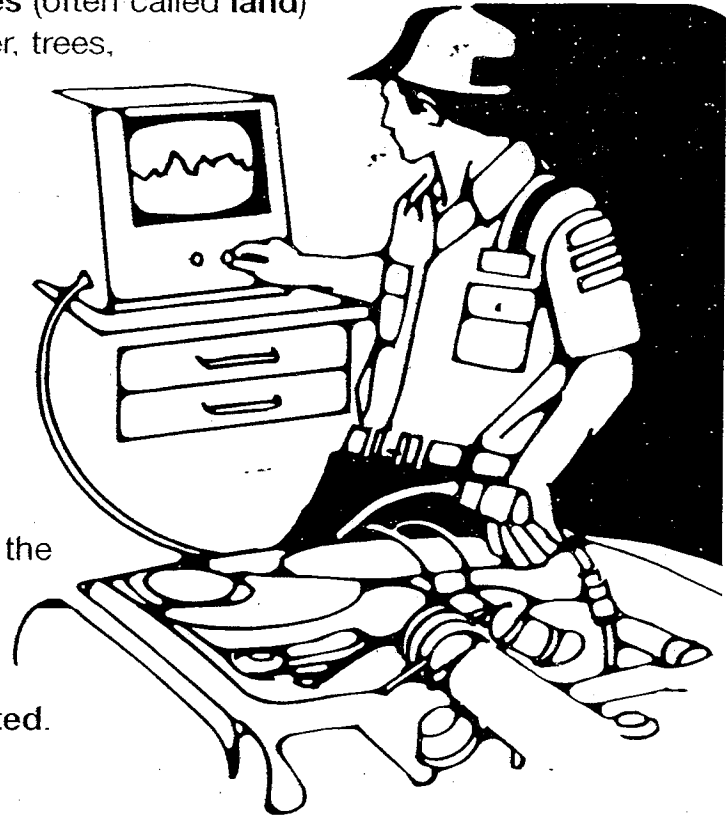
Scarcity

Every society is endowed with **resources** which are used to **produce** the goods and **services** that enable it to survive and prosper. These resources, called **productive resources**, can be classified into three groups: natural resources, human resources, and capital resources. **Natural resources** (often called **land**) refer to resources such as minerals, water, trees, and land itself. **Raw materials** used in production come from natural resources.

Human resources (**labor**) describe the human work effort, both physical and mental, expended in production. **Capital resources** are the man-made physical resources (such as buildings, tools, machines, and equipment) used in production.

The study of **economics** explains how productive resources are used to provide the **goods** and **services** that satisfy human wants.¹ Because productive resources are limited, the goods and services that can be produced from them are also **limited**. In contrast, the goods and services wanted by individuals and societies are virtually **unlimited**.

This tension between unlimited wants and the limited productive resources available for satisfying these wants is what economists refer to as **scarcity**. Thus, stereos, hot dogs, education, lawn mowers, T.V. repair services, and bubble gum are all considered **scarce** because many individuals desire these things, but their availability is limited. Scarce goods and services command a price in the marketplace. The price indicates how scarce a good is relative to other goods.



What Economics Is About

Economics is the study of how individuals and societies use their scarce productive resources to obtain goods and services.

Every society has

PRODUCTIVE RESOURCES

Natural Resources

All natural resources (land, oil, minerals, etc.) not produced by people

Human Resources

Human work effort, both physical and mental

Capital Resources

Man-made items such as tools, machinery, and factories

Which are used to produce

Goods and Services

However...

Productive resources and, therefore, goods and services are limited.

Human wants are basically unlimited.

Scarcity

Therefore...

Choices must be made to answer

Three Basic Questions

WHAT goods and services will be produced?

HOW will the goods and services be produced?

WHO will consume the goods and services?

This creates the need for an

Centralized
(Command)

Economic System

Decentralized
(Market)

The Basic Economic Problem: Every society must decide how to make the best use of its limited productive resources. Scarcity, with the resulting need to choose among competing alternatives, is the basic economic problem.