

Economic Choices

A. Scarcity

1. Scarcity
2. Economic wants are desires that can be satisfied by consuming a good or service
 - a. Goods
 - b. Services
3. Because of the situation of scarcity, people must make choices about how to use their resources to satisfy their wants
 - a.
 - b.
4. Scarcity v. Shortage – how they differ
 - a.
 - b.
5. Individuals, governments, & societies all experience scarcity because there are never enough resources to satisfy all of their wants

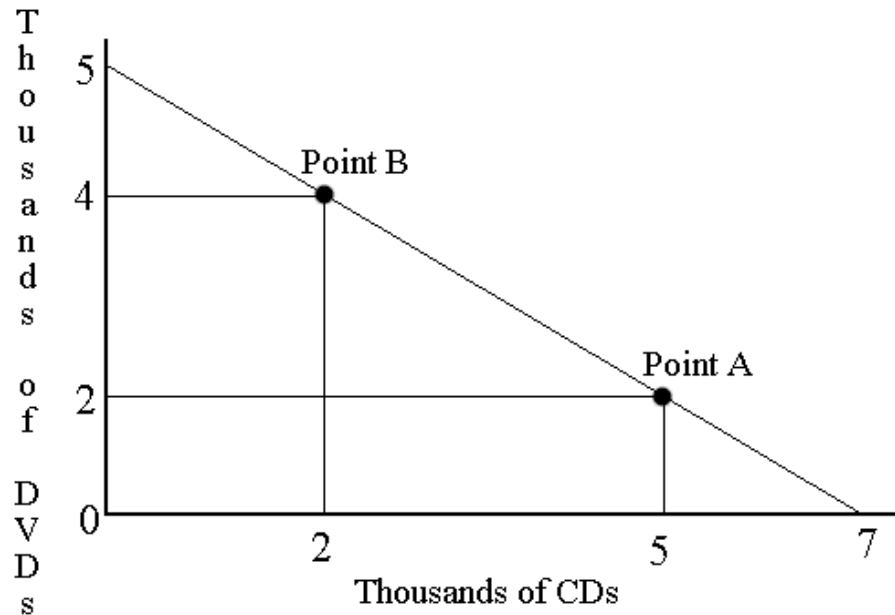
B. Factors of Production

1. Factors of production (productive resources)
2. There are 3 types of factors of production (productive resources)
 - a. Land (natural resources)
 - b. Labor (human resources) – the quantity & quality of human effort directed toward producing goods & services
 - (1)
 - (2) Entrepreneurship
 - (3)
 - c. Capital (capital goods)

C. Opportunity Cost & Trade-offs

1. Opportunity cost – the value of the next best alternative that was given up (foregone) because another option was chosen
 - a. Whenever someone makes a personal decision to use limited resources (including time), an opportunity cost is incurred
 - (1)
 - (2)
 - b. All choices & opportunity costs are subjective & vary across individuals & societies
2. Few choices are all-or-nothing decisions, but rather involve *trade-offs*
 - a. Trade-offs – involve getting less of one thing in exchange for getting more of another
 - (1)
 - (2)
 - b. In economics, when deciding if you should continue to do something, you should consider the benefits & costs of your decision
 - (1)
 - (2)
3. Opportunity costs between two specific goods/services produced by the same producer can be more easily determined by using an economic model called the *production possibilities frontier (PPF)*
 - a. PPF shows the maximum combinations of goods/services that can be produced from a fixed amount of resources in a given period of time
 - (1)
 - (2)
 - (3)

- b. Below is a PPF that will be used to look at production possibilities of a factory that produces both DVDs & CDs



(1)

(2)

(3)

(4)

D. Productivity

1. Productivity – amount of output (goods/services) produced per unit of input (productive resources) used

a.

b.

2. ***Specialization*** & the ***division of labor*** increases labor productivity, but they also tend to reduce self-sufficiency & increase economic interdependence

a. Specialization

b. Division of labor

3. Investment in capital goods & human capital also increases productivity
 - a.
 - b.
 - c. Such investments can have significant opportunity costs & economic risks
 - (1)
 - (2)
4. Additionally, *technological change* (the incorporation into production of new knowledge & processes) increases productivity
 - a.
 - b.
5. Government actions & policies play a role in productivity & can actually harm productivity if laws & regulations are too restrictive