

2. the concepts of opportunity cost and the economic problem

Typical description of Economics

Economics is a study of how society deals with the problem of scarcity. Scarcity exists because, while economic **resources are limited**, **needs and wants are unlimited**. It is, therefore, not possible for people in a society to have everything they want.

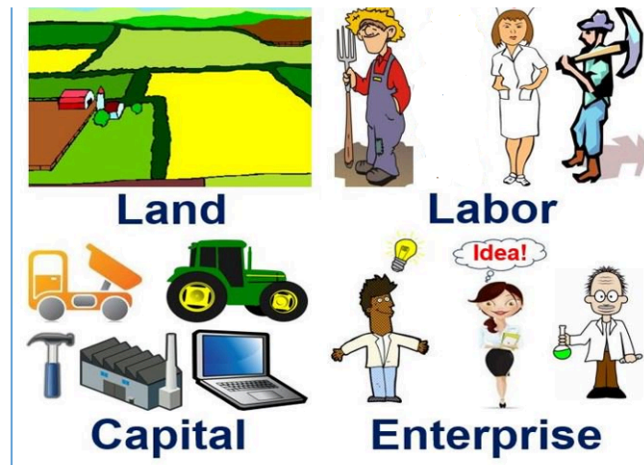
Lets break this down

Limited Resources

The supply or availability of resources (or factors of production) is limited relative to the level of demand for resources that are needed to make goods and services.

There are four types of resources (Factors of production). Resources are the inputs used to produce a good or service

FACTORS OF PRODUCTION



Land	Natural resources - Inputs that occur naturally and that are available for economic use E.g Soil, trees, air, minerals
Labour	Refers to the human effort, skills, and expertise that go into the production of goods and services. It includes the work performed by individuals in various occupations, from manual laborers to professionals E.g Bricklayer, Doctor, Teacher

Capital	Physical and financial assets used in production. Physical capital includes machinery, equipment, factories, and infrastructure (anything man made), while financial capital refers to funds and investments used to finance and support economic activities. E.gCash (anything man made)
Enterprise	Represents the innovative and organisational abilities of individuals who take the initiative to bring together the other three resources (land, labour, and capital) to create new products, services, or business ventures. Entrepreneurs play a crucial role in identifying opportunities, taking risks, and driving economic growth E.g Boss, Manager, CEO

Needs and wants

Products provide consumers with benefits, satisfaction or utility. Consuming some products is more urgent than others.

Needs	Things you must have to survive	Basic physiological needs (food, water clothing and shelter)
Wants	Things you would like to have but are not necessary for survival	TV, mobile phone, holiday to Bali

Needs and Wants characteristics

1. Unlimited:

- Needs are essential and fundamental requirements for human survival and well-being. They are unlimited because they persist throughout a person's life and cannot be fully satisfied. Basic human needs include food, water, shelter, clothing, and healthcare.
- Wants are also unlimited, no one is ever completely satisfied

2. Changing:

- While basic needs like food, water, and shelter remain relatively constant wants are highly subject to change because they are influenced by individual tastes, trends, and societal shifts. What is considered desirable today may not be the same tomorrow.

- Example: Fashion preferences change rapidly. Clothing styles and trends that were popular a decade ago may not be in demand today, reflecting the changing nature of wants.

3. Recurrent:

- Needs are recurrent because they must be satisfied repeatedly over time. These are ongoing requirements that individuals cannot do without. Breathing is a recurrent need as individuals need to inhale and exhale air continuously to survive. Sleeping is also a recurrent need because people require rest on a regular basis.
- Wants recur all the time. Just because you consume something it doesn't mean you will not consume the same good again. For example, Val drinks a can of coke today, but he will want another can in the near future

Needs and wants are satisfied by consuming goods and services

Goods:

- Goods are tangible, physical products that can be seen, touched, and generally stored. They are often produced, bought, and sold in the marketplace. Goods can be further categorised into two main types:
- **Consumer Goods:** These are products purchased by individuals for their own consumption or use. Examples include clothing, electronics, food, and automobiles.
- **Capital Goods:** These are goods used by businesses to produce other goods and services. Examples include machinery, tools, and factories.

Services:

- Services are intangible products or actions that are performed by individuals or businesses to fulfill a specific need or desire.
- Unlike goods, services cannot be held or touched physically. Instead, they involve activities, expertise, or processes that provide value to consumers. Examples of services include:

Example: *Healthcare services provided by doctors and nurses, Legal services offered by lawyers, Transportation services, such as taxi rides or public transit, Education services provided by schools and universities, Entertainment services, including concerts, movies, and sports events.*

Economic goods and free goods

Economic goods are *relatively* scarce, that is demand is greater than supply at zero price.

Almost every good or service is an economic good, it is just that some goods and services are more scarce than others.

Free goods aren't *relatively* scarce, that is supply exceeds demand at zero price. As there is enough for everybody consuming the product means nobody has to sacrifice or go without anything e.g. Air, Sunshine, Ocean Water

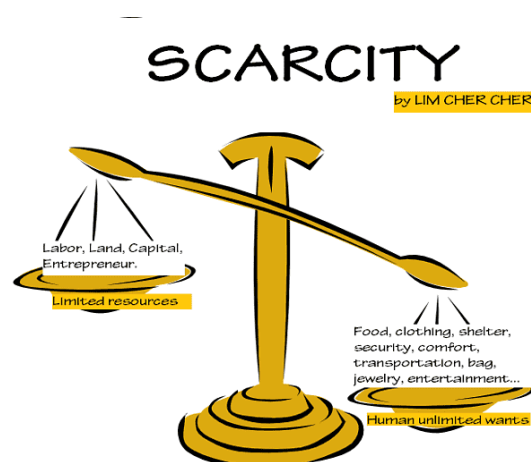
The Economic Problem

Ok so we have a limited number of resources

However

Unlimited needs and wants

The economic problem refers to the fundamental challenge that societies and individuals face because of limited resources and unlimited wants and needs. In other words, there are finite resources (such as labour, land, capital, and enterprise) available to produce goods and services, but people have infinite desires and demands for those goods and services. The economic problem necessitates making choices about how to allocate limited resources efficiently to satisfy as many wants and needs as possible.



This means we must make choices. Choice leads us to another concept in Economics known as Opportunity Cost

Opportunity Cost

- **Opportunity cost represents the value of the next best alternative forgone when a decision is made.**
- It is the cost associated with choosing one option over another.
- In other words, when resources are allocated to a particular choice, the opportunity cost is what could have been gained or enjoyed by choosing the next best alternative.

Examples of Opportunity Cost:

Individuals:

Example: Suppose an individual has the choice to spend their evening either working overtime to earn extra money or going out with friends. If they choose to work overtime, the opportunity cost is the enjoyment and socializing with friends that they forego. Conversely, if they decide to go out with friends, the opportunity cost is the additional income they could have earned through overtime.

Businesses:

Example: A small manufacturing company has a limited budget and can invest in either upgrading its machinery or expanding its marketing efforts. If the company chooses to upgrade machinery, the opportunity cost is the potential increase in sales and market share that could have resulted from investing in marketing.

Government:

Example: A government has a budget allocation decision to make between investing in healthcare infrastructure (building hospitals and hiring medical staff) or improving education (building schools and hiring teachers). If the government chooses to invest in healthcare, the opportunity cost is the potential improvement in education outcomes and human capital development that could have been achieved with the same resources.

Scarcity, Choice, and Opportunity Cost

Limited Resources & Unlimited Wants



Scarcity



Choices



Opportunity Cost

**Good diagram to link resources, needs and wants,
economic problem and opportunity cost**