

What is Economics?



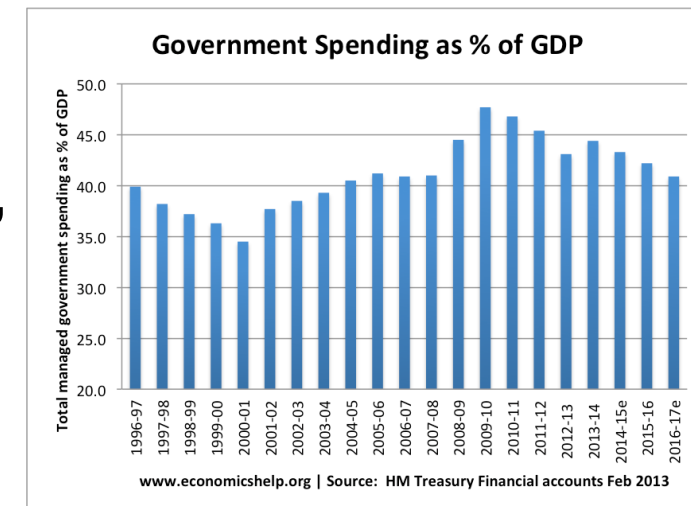
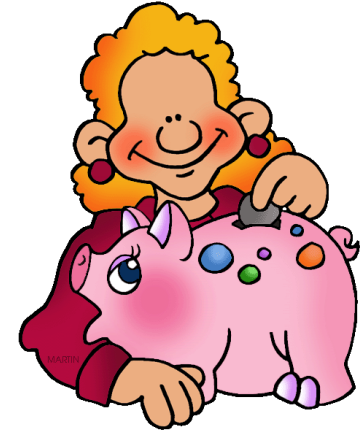
What is Economics?

- Economics is a social science that studies how people and nations buy, sell, produce, and consume in a world where there is scarcity.
- Economics deals with *description, analysis, explanation, and prediction* of economic activity.



Micro vs Macro Economics

- Microeconomics- study of economics at a individual or group level. (personal decision making) i.e.-How businesses establish prices, how taxes will impact individual decision making, the concept of supply and demand
- Macroeconomics- study economics at a national level (i.e.- GDP, unemployment rate, economics growth)



What Will We Study in this class?

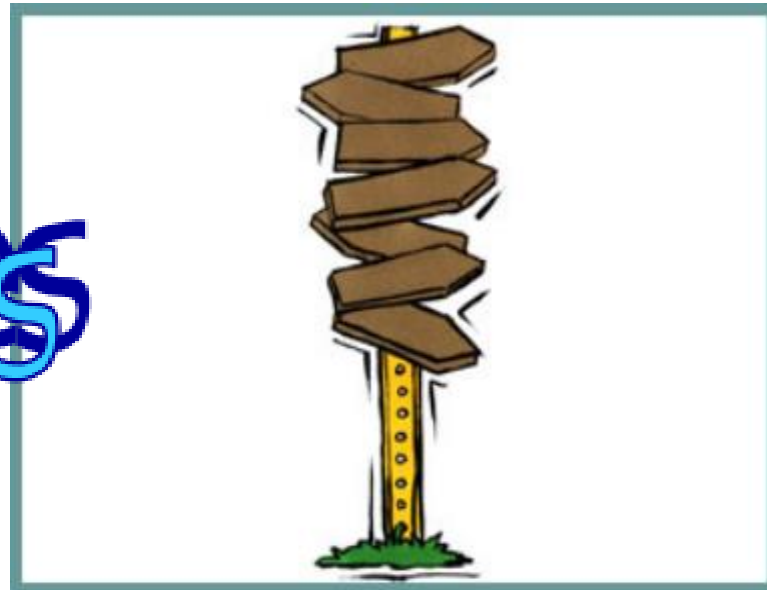
MICRO ECONOMICS!**

The Basic Economic Problem:

Scarcity

- Scarcity is caused by the combination of unlimited wants and limited resources. Because of scarcity we are forced to make !

choices





Unlimited Wants and Needs

- Are you satisfied with the things you have?
- What are the things you want?
- Whether rich or poor, most people seem to want more than they already have, and includes more things than we could ever hope to obtain.

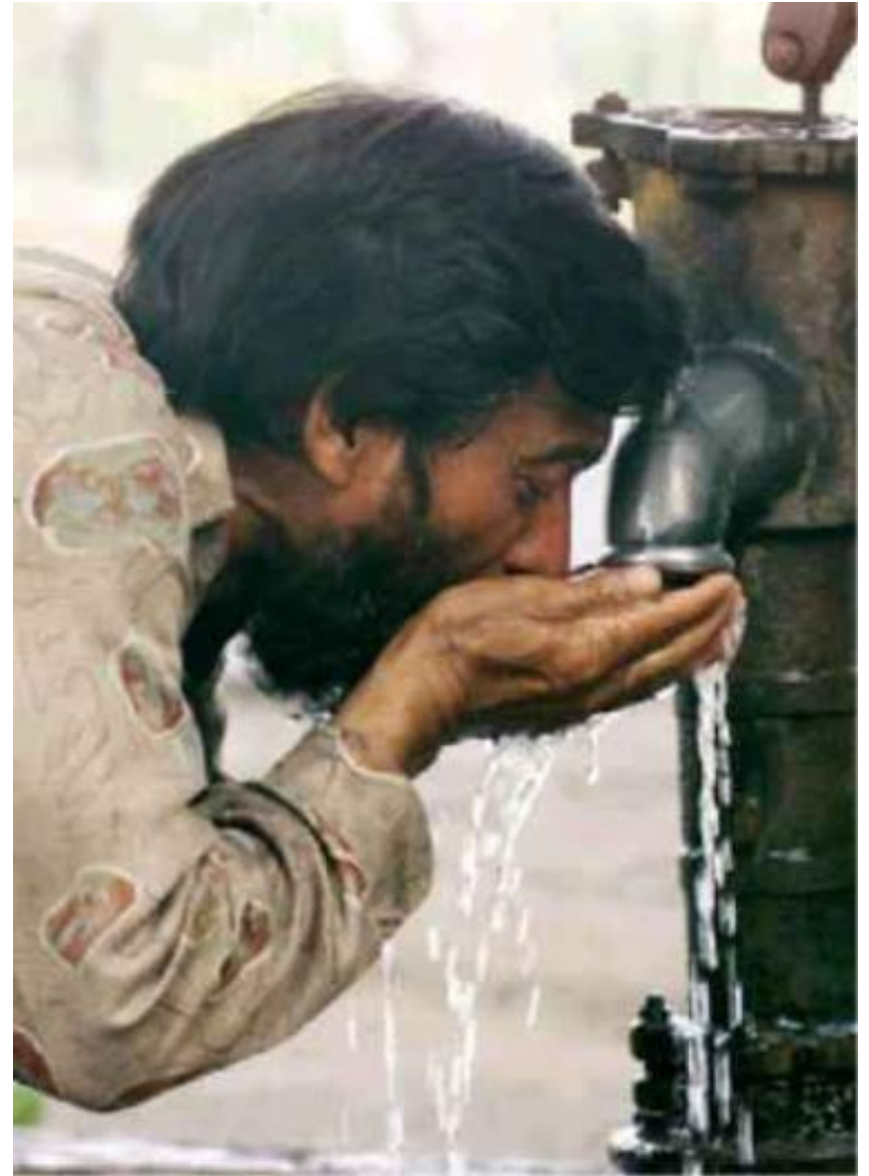
The Basic Economic Problem: Scarcity



- Which photograph represents a limited resource?
- Which photograph represents unlimited wants?

Scarcity

- **Scarcity** exists when (1) there are limited resources available to (2) satisfy unlimited wants and needs.
- Examples - money, jobs, oil, fossil fuels, collectibles, time.



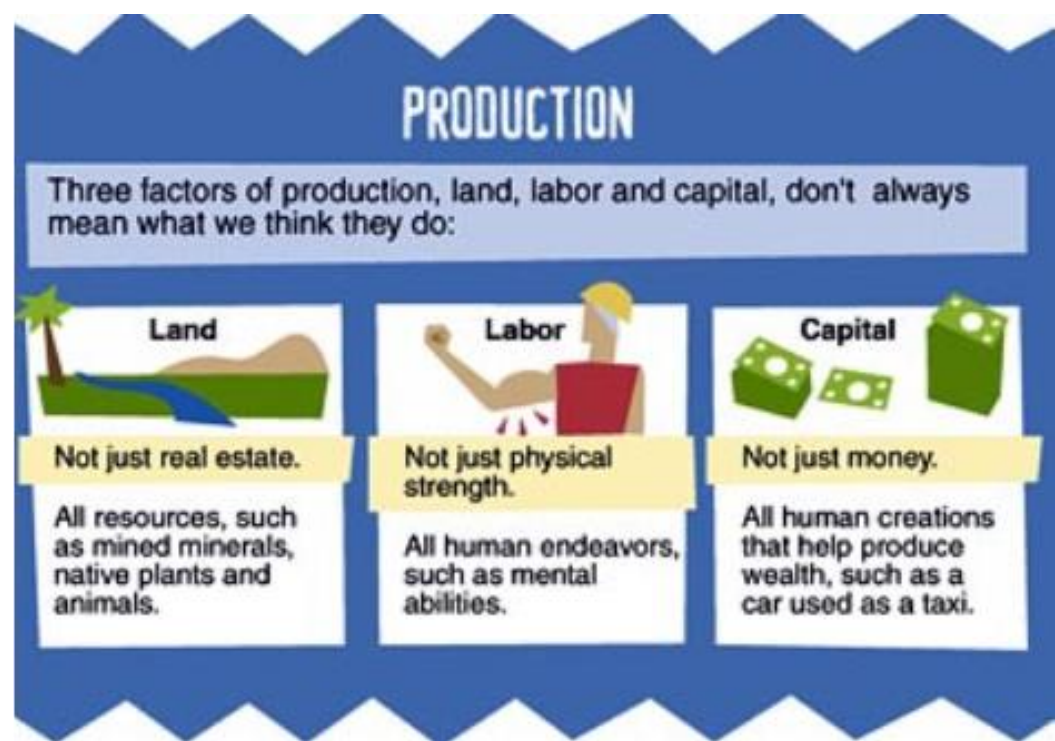
TINSTAAFL



- Because resources are limited, virtually everything we do has a cost.
- When a business offers someone something “free”, the price of that is usually buried somewhere in the price the firm charges for its products.
- If the individual does not buy, someone still has to pay for the production in the first place.
- Thus, *There Is No Such Thing As A Free Lunch*

Limited Productive Resources

- The reason people cannot satisfy all their wants and needs is the scarcity of productive resources.
- These resources, or **factors of production**, are land, capital, labor, and entrepreneurship.



Factors of Production



- **Land** refers to all natural resources not created by human labor.
- **Examples** - deserts, forests, mineral deposits, cattle, whales, sunshine, and climate.
- **How are these limited?**

Factors of Production

- **Capital** is the tools, equipment, and factories used in the production of goods and services.
- **Examples** - a bulldozer, the factory that built the bulldozer, a cash register in a store.
- What are some other examples?



Factors of Production



- **Labor** is humans with all their efforts, abilities, and skills.
- Example - an educated, skilled population
- Factors that affect this are: growth, famine, war, and disease.

Factors of Production

- **Entrepreneurs** are people who have brought innovations and change to the economy.
- Who can name an entrepreneur?

PROFILE

The fourth factor of production is entrepreneurship.

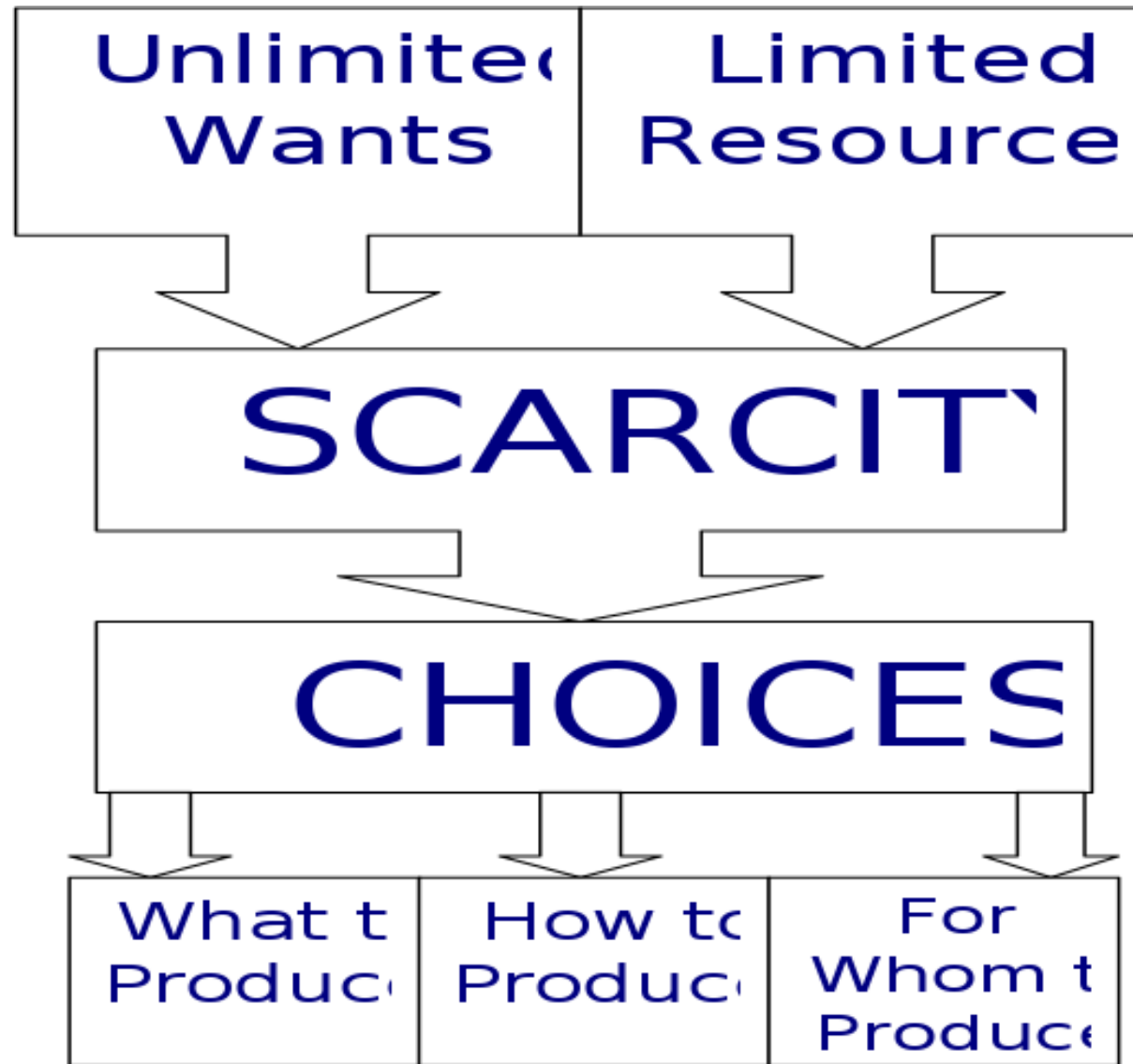


There are many traits an entrepreneur has to have to be successful. The following are just a few:

- Insight**
The ability to see what others might have missed.
- Vision**
To make connections between things that others have not.
- Creativity**
To successfully create something unique, using the three factors of production.
- Business sense**
To successfully market a product to society.

What are the unlimited wants? What are the limited productive resources?





Why is scarcity a universal problem?



Three Basic Questions

- Because we live in a world of relatively scarce resources, we have to make wise economic decisions.
- Society must answer three basic questions:
 - What to Produce?
 - How to Produce?
 - For Whom to Produce?
- In doing so, societies must make decisions about how to use their limited resources.

Three Basic Questions



- What to Produce?
- Should more resources be devoted to military equipment or other items such as food, clothing, or housing? How much of each will be needed?
- A society cannot have everything its people want, so it must decide *What* to produce.

Three Basic Questions

- How to Produce?
- Should factory owners use assembly line methods that require little labors, or should they use less equipment and more workers?
- The lower the cost to manufacture, the better.



Three Basic Questions

- For Whom to Produce?

- If a society decides to produce housing, how will it be distributed. To workers, professionals, or government employees?

- Who decides?





Three Basic Questions

- These three choices about WHAT, HOW, and FOR WHOM to produce are not easy for any society to make.
- Nevertheless, a society has few options. It must answer the three basic questions as long as there are not enough resources to satisfy the problem of scarcity.
- Different societies answer these questions in different ways.



What Causes Scarcity?

- 1. One's personal perspective
- 2. Exploitation of natural resources
- 3. Poor distribution of wealth
- 4. Increased demand for a good or service
- 5. Natural disasters and wars



How to Deal with Scarcity

- Learn to do without some of the things you want.
- Create more resources (substitution).
- Make better use of the resources available (conserve).
- Redistribute the resources so more people won't experience scarcity (rations, wage and price controls).



Scarcity You Have Experienced

- What are some resource scarcities that YOU have experienced in the previous 24 hours?
- What could be some alternatives to these resource scarcities?
- Who made the ultimate decision to use the resources in these ways?



Independent Assignment

- Make an advertisement “selling” economics as a subject that should be studied in class. The ad should: show the nature of economics, show the relevance of the subject, and show how one may benefit from an understanding of the subject.