

# ECON: Chapter 1 Section 1

## What is Economics?

### *Scarcity and the Factors of Production*

#### I. Scarcity and Choice

- Need – something necessary for survival (i.e. air, water, food)
- Want – an item we desire, but is not necessary for survival  
So, people cannot have everything they need or want so they must consider their options and decide which choice will best fill their needs.

#### II. Scarcity

- Goods – physical objects such as shoes or shirts
- Services – activities that one person performs for another (i.e. haircut, tutoring)

##### A. Defining Scarcity

1. Scarcity = limited quantities of resources to meet unlimited wants.
  - a. Sooner or later a limit is always reached. (A person cannot buy an unlimited amount of basketballs)
2. Economics, at its core, is about solving the problem of scarcity.

##### B. Scarcity Versus Shortages

1. Shortage – occurs when producers will not or cannot offer goods or services at the current prices
  - a. Shortage can be temporary or long term
  - b. Scarcity always exists

- Factors of Production = land, labor, and capital
- Land – all natural resources used to produce goods and services
- Labor – the effort that a person devotes to a task for which that person is paid
- Capital – any human-made resource that is used to produce other goods and services  
NOTE: there are two (2) kinds of capital; physical capital and human capital.

##### C. Physical Capital – any human-made resource that is used to produce other goods and services (i.e. buildings, tools)

##### D. Human Capital – the knowledge and skills a worker gains through education and experience

#### III. Entrepreneurs – an ambitious leader who decides to combine land, labor, and capital resources to create new goods and services.

- People who take risks to develop original ideas or start a new business