FUNDAMENTAL ECONOMICS: BASIC CONCEPTS

WHAT IS ECONOMICS?

-THE STUDY OF HOW PEOPLE TRY TO SATISFY WHAT APPEARS TO BE SEEMINGLY UNLIMITED AND COMPETING WANTS THROUGH CAREFUL USE OF RELATIVELY SCARCE RESOURCES.

NEEDS VS. WANTS

- -NEEDS = BASIC REQUIREMENT FOR SURVIVAL
- -WANTS = NOT NECESSARY,
 BUT NICE TO HAVE

SCARCITY

- -INDIVIDUALS HAVE WANTS THAT ARE UNLIMITED.
- -THE TOTAL RESOURCES OF SOCIETY ARE LIMITED.
- -THEREFORE SCARCITY EXISTS.
- -AS A RESULT, IT ISN'T POSSIBLE FOR EVERYONE TO HAVE EVERYTHING HE OR SHE WANTS.

WHAT IS IT?

-THE CONDITION THAT EXISTS BECAUSE HUMAN WANTS ARE GREATER THAN THE AVAILABLE RESOURCES TO SATISFY THOSE WANTS.

BASIC ECONOMIC QUESTIONS

- -BECAUSE WE LIVE IN A WORLD OF UNLIMITED WANTS AND LIMITED RESOURCES (LEADING TO SCARCITY), WE HAVE TO MAKE WISE ECONOMIC DECISIONS.
- -TO DO THIS, WE HAVE TO MAKE DECISIONS BASED ON THREE BASIC ECONOMIC QUESTIONS:
 - -WHAT TO PRODUCE
 - -How to produce
 - -FOR WHOM TO PRODUCE

PRODUCTIVE RESOURCES

WHAT ARE THEY?

- -Natural (Land) resources such as oil, iron ore, forests, and water
- -HUMAN (LABOR) WORKERS
- -CAPITAL GOODS (CAPITAL) GOODS AND SERVICES SUCH AS FACTORIES, MACHINERY, ROADS, TOOLS
- -ENTREPRENEURSHIP PEOPLE WHO ASSUME THE <u>RISK</u> OF ORGANIZING LAND, LABOR AND CAPITAL RESOURCES TO PRODUCE GOODS AND SERVICES

BASIC CONCEPTS

- -GOODS AN ITEM THAT IS ECONOMICALLY USEFUL OR SATISFIES AN ECONOMIC WANT
- -CONSUMER GOOD PRODUCTS THAT ARE PURCHASED FOR CONSUMPTION BY THE AVERAGE CONSUMER.
 - -EXAMPLES: DVDs, TOOTHBRUSH, JEANS, ETC.





-CAPITAL GOOD —
ANYTHING THAT IS USED TO PRODUCE GOODS OR SERVICES

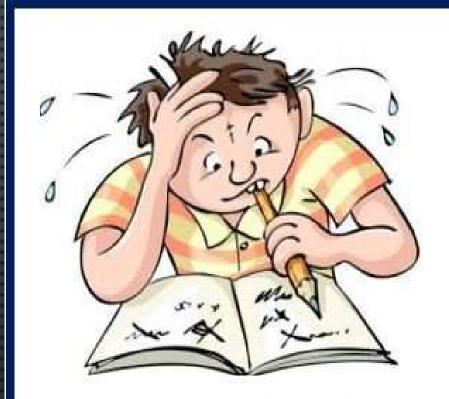


-EXAMPLES: MACHINERY, FACTORY BUILDING, ETC.

- -SERVICES WORK THAT IS PERFORMED FOR SOMEONE
- -CONSUMERS A PERSON WHO USES GOODS AND SERVICES TO SATISFY WANTS AND NEEDS

OPPORTUNITY COST

- -WHAT IS IT? WHAT YOU MUST GIVE UP TO OBTAIN SOMETHING ELSE, THE SECOND-BEST ALTERNATIVE
- -WHAT IS IT NOT? MONEY!
- -WHY IS IT NOT MONEY?
- -IT IS WHATEVER OTHER GOOD OR SERVICE YOU WOULD HAVE SPENT THE MONEY ON AS YOUR NEXT-FAVORITE CHOICE.



Next day John is

very sleepy.

A good night's sleep.

John studies all night for his exam.



