

## The Economic Problem

The economic problem is one that has been plaguing economists for a long time. The problem states that while the resources we have are finite, human wants are infinite. Three problems arise from this.

These three problems are:

- “What to produce?” What are you going to produce and how much of it are you going to produce?
- “How to produce?” How are you going to produce this? By investing in more machines or investing in more manual labour?
- “For who to produce?” For whom are you going to produce these goods? And how are they going to be distributed?

These problems are fundamental for economics. The resources we have are finite, however human wants and needs are infinite, as a result we have to find out how to satisfy wants and needs with limited resources. First we have to fulfil needs which are different from wants as needs are more basic and important. Then we have to organize production according to the wants hoping to satisfy most of them. When we choose to produce something but not the other there is an opportunity cost. An opportunity cost is the benefit that would have been gained by producing something else. For example the opportunity cost of 1 table is two chairs (hypothetically speaking).

Keeping the three problems above in mind, we have to see how many capital goods to produce and how many consumer goods to produce, as both are important we have to find a good production ratio between the two. When productive capacity grows, the standard of living increases as well.