

Scarcity, Choice, Opportunity Cost, Utility & The Basic Economic Problem

To understand the basics of economics, we must have a firm understanding of what economics is. Economics is a social science; it is the study of how people interact with each other. Individual behaviour unlike robots is not easily predictable. However, group behaviour is quite predictable and can be studied with ease. On average, economists have discovered that human beings tend to act in the same way.

Logic of Economics

- ✓ Earth has limited resources
- ✓ Resources are used to produce goods and services
- ✓ People have infinite wants and needs
- ✓ There is a conflict between finite resources and infinite needs and wants
- ✓ People can't have everything they want therefore resources must be rationed in some way

The above logics define what economics really is. Economics therefore is the study of how scarce resources are allocated to fulfil infinite wants and needs of consumers.

Core Economic Terms

- **Goods**- Physical objects that are tangible. Cars, phones
- **Services**- Non-physical things that cannot be touched e.g., haircuts, insurance
- **Wants**- The things that we would like to have but are not necessary for our immediate physical survival e.g., phones, cars etc
- **Needs**- Things that we must have to survive such as food, shelter, and clothing
- **Resources**. Are goods used to produce other goods.

SCARCITY

Simply means that there is not enough of something to satisfy everyone who wants it and therefore you must pay a price for it. Any item that costs something is scarce. Once you pay a price for it, that item becomes *economic good*, that is, any good or service that has a price and is thus being rationed. The opposite is a *free good* that charges nothing to acquire as they are in abundance.