

Scarcity and Choice

Economics is a social science that studies how individuals, governments, firms and nations make choices regarding how to allocate scarce resources in order to satisfy unlimited wants.

Key points to remember:

- Wants are unlimited
- The means to fulfill these wants, known as resources, or “factors of production”, are limited (i.e. scarce)

This combination of limited resources/unlimited wants leads to the basic economic problem which is known as “scarcity”.

Wants vs. Needs:

Needs: Things which are important for our existence and without which we cannot survive. For example, food, clothing, water, shelter and air.

Wants: Things we would like to have, but on which our life does not depend. For example, going on a holiday. Wants are never ending, unlimited, and continuously increasing.

Resources/Factors of Production:

The term resources are used to describe the goods or services available in an economy which are used to produce valuable consumer products. These economic resources are also called the factors of production or “inputs”.

In economics, the factors of production are organized into four broad categories:

- **Land:** Refers to all natural (i.e. not man-made) inputs into production. Examples are timber, fish, agricultural products, etc. Land is usually a fixed resource for any economy. Some land such as agricultural products may be renewable but the total amount of land remains fixed.
- **Labour:** Refers to all human inputs into production. Labor represents the human capital – i.e. all able-bodied individuals capable of working which are available to transform raw or natural resources into consumer goods. This factor of production is a flexible resource as workers can be allocated to different areas of the economy for producing consumer goods or services. The quality and quantity of labor can be improved through training.
- **Capital:** All man-made inputs into production. The term refers to the major physical assets individuals and companies use when producing goods or services. These assets include buildings, production facilities, equipment, vehicles and other similar items.
- **Entrepreneurship:** Entrepreneurs organize the other three factors of production to make goods and services with an element of risk. Entrepreneurship is considered a factor of production because economic resources can exist in an economy and not be transformed into consumer