

INTRODUCTION TO ECONOMICS

[Unit 1] [Part 4]

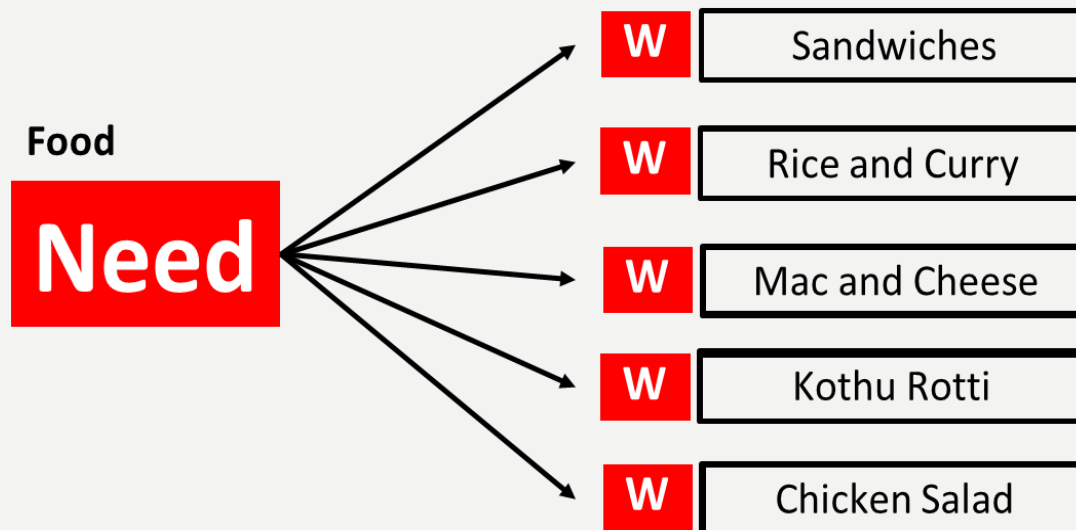
Mind-Hub

Econ-Hub

Theory

HUMAN NEEDS & WANTS

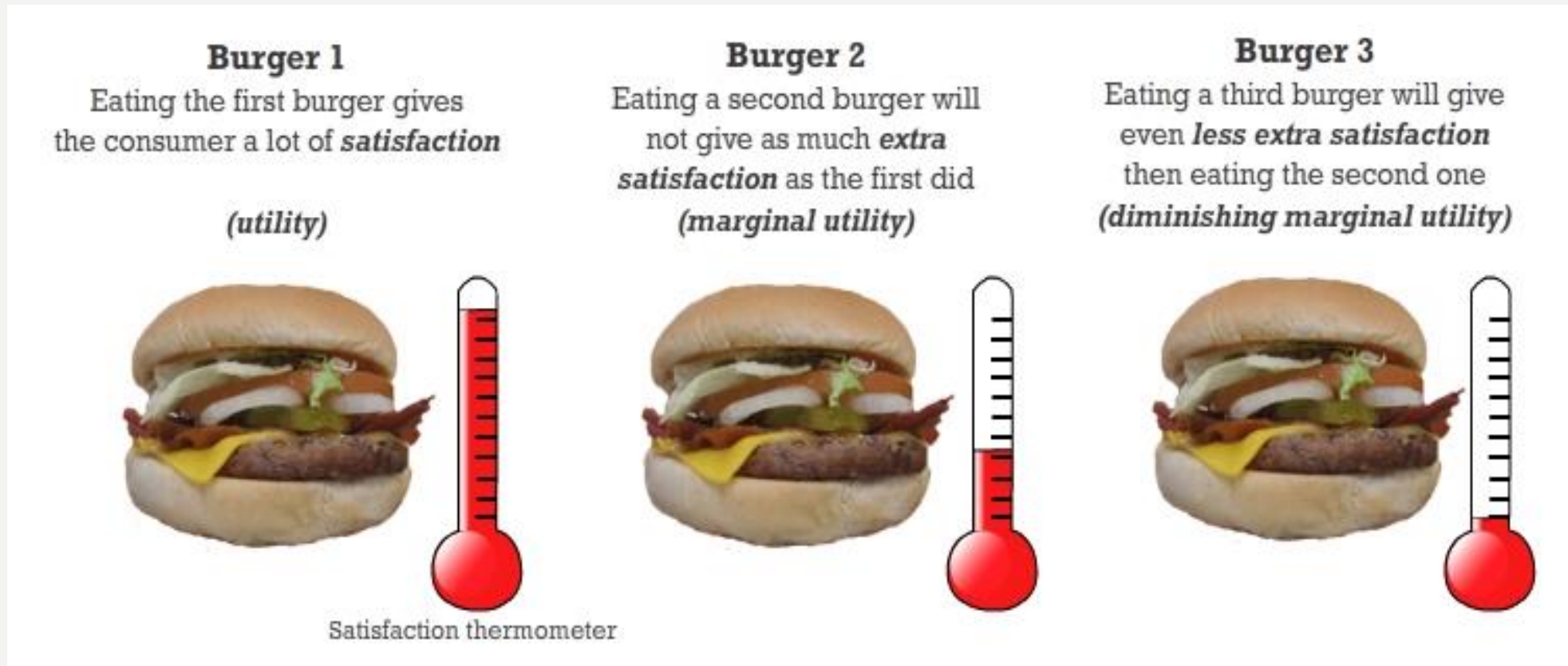
- 1) Human needs are **limited** but human wants are **unlimited**
- 2) Unlimited human wants reflect **different means** of **satisfying** limited **human needs**



Needs, Wants & Satisfaction:

- Needs create wants.
- Goods have utility within them, utility is the ability to satisfy needs and wants.
- When we use or consume a good, we are taking or deriving that utility and fulfilling a given human want.

THE LAW OF DIMINISHING MARGINAL UTILITY



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[2.5] Goods, Services and Bads:

Goods

Services

[SM (B1) Page: 21]

[2.5] Goods, Services and Bads:

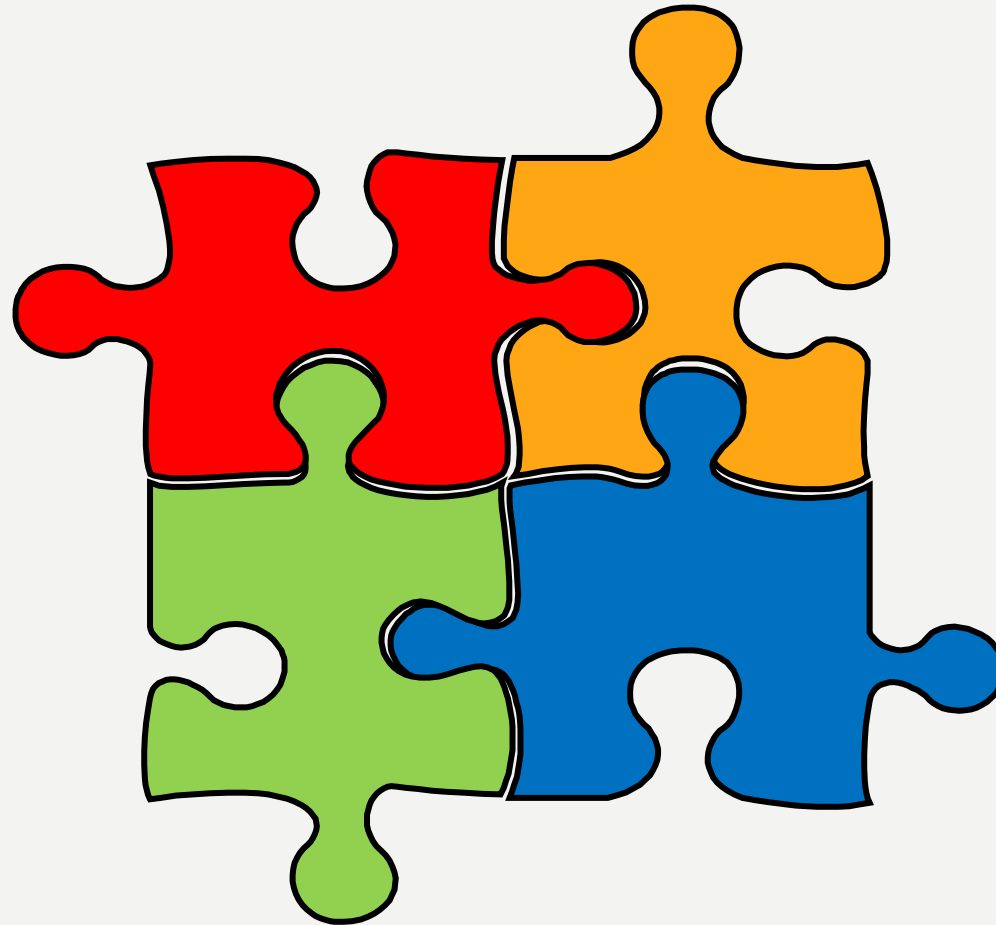
Bad

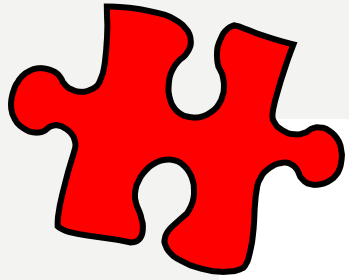
LEARNING KEY [2]

TEST YOUR KNOWLEDGE [TYK] QUESTIONS

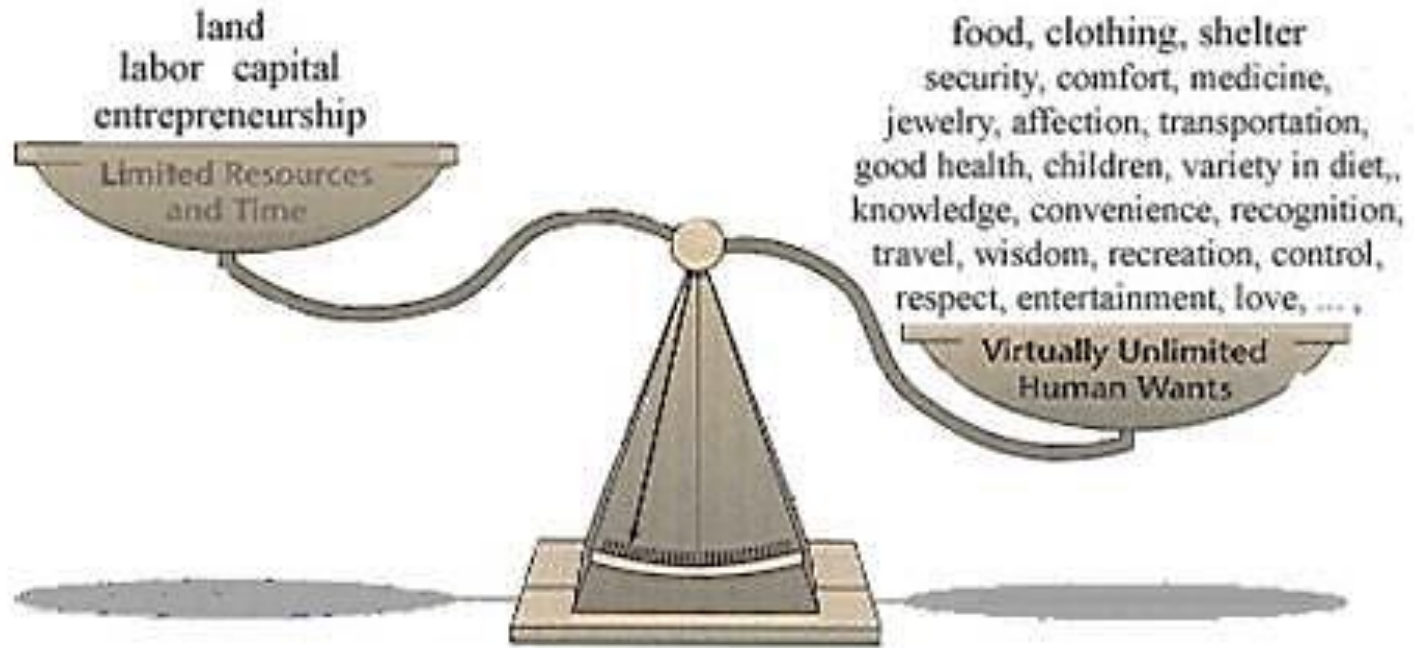
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THE ECONOMIC PROBLEM





SCARCITY



[3.1] SCARCITY [DEFINING SCARCITY]



- ✓ Scarcity of resources (or relative scarcity) is the **fundamental or central problem in economics.**
- ✓ Scarcity in the study of economics refer to the **'limitedness or inadequateness of a given society's productive resource endowment, in comparison to their human wants (unlimited human wants)'**.

[3.1] SCARCITY (DEFINING SCARCITY).....



Scarcity, an 'absolute' or 'relative' concept ?

The key term in defining scarcity in economics is 'Wants' (unlimited wants), i.e., whether a given endowment of resources creates scarcity, depends on the level of wants, we attempt to fulfil (that is, by producing the suitable goods and services), using such resources.

Therefore, scarcity should be defined in 'relative' terms or scarcity is a 'relative concept'.



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[3.1] SCARCITY [DEFINING SCARCITY].....



Foundations (Basis) of Scarcity:

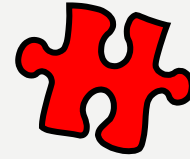


Characteristics (Features) of Scarcity

What to know and focus on when discussing scarcity

- Scarcity is the **central problem** in economics
- Scarcity is a **relative concept** (i.e. relative scarcity)
- Scarcity is a problem (or phenomenon) common all societies' and individuals' (i.e. **universal concept**)
- All individuals do not face the problem of scarcity in the same degree or intensity.
- Different economic agents, face different types of economic problems which are created due to relative scarcity

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Key 'Conceptual' Differences

[Let's avoid some common confusions about scarcity]



Scarcity and Shortage

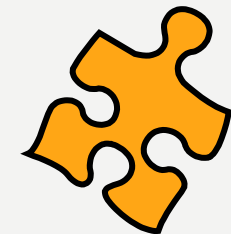
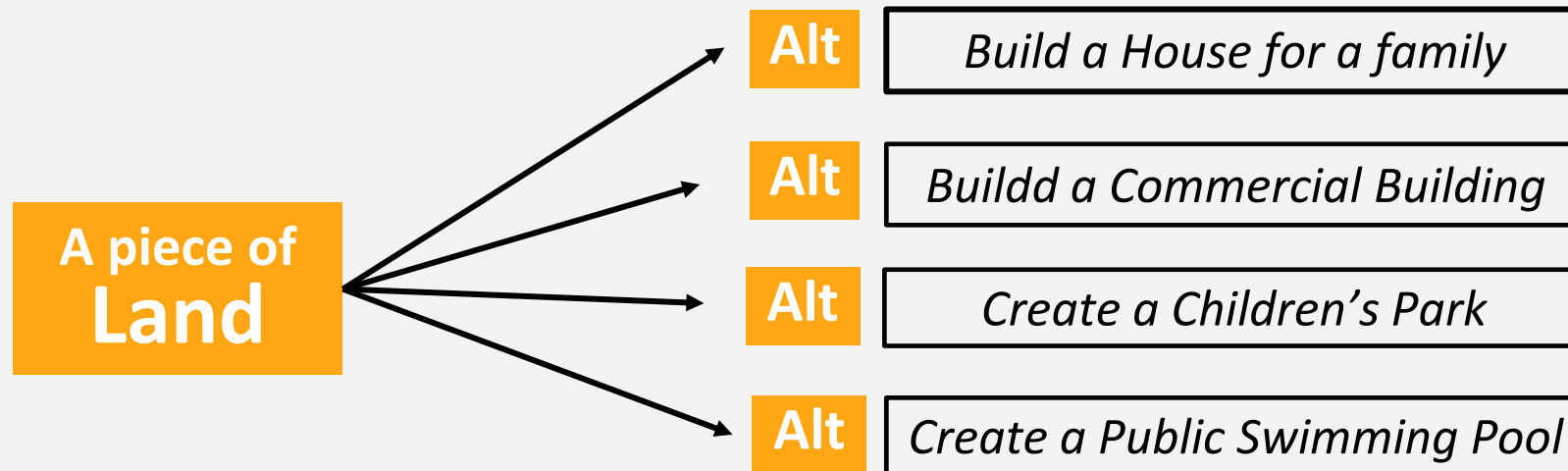


Scarcity and Poverty



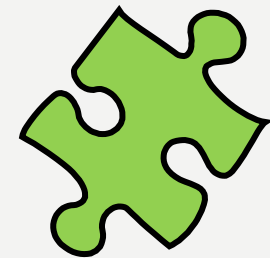
Scarcity and Efficiency

13.21 ALTERNATIVE USES OF RESOURCES



[3.3] THE PROBLEM OF CHOICE

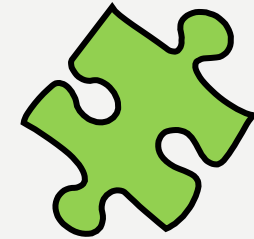
- ❑ Choice in economics is broadly a decision of:
Allocating relatively scarce resources with alternative uses to satisfy a society's unlimited wants
- ❑ When we live in a world of scarcity facing choices or **trade-offs** (i.e., a **problem of choice**) is unavoidable
- ❑ Economics is a '**Science of Choice**'
- ❑ A problem of choice is created due to **two main reasons:**



[3.3] THE PROBLEM OF CHOICE...

All economic systems' in the world are designed to make choices (trade-off based decisions) and find solutions to three basic problems

- 1) **What** to produce? in what quantity? [Allocation Problem]
- 2) **How** to produce? [Production Problem]
- 3) **Whom** to produce? [Distribution Problem]



'What'



'How'

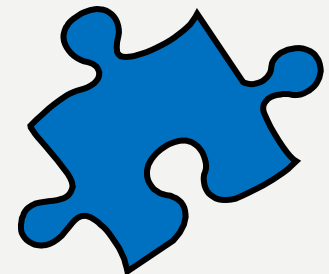


'Whom'



[3.4] OPPORTUNITY COST

- The opportunity cost is the value of the next best alternative sacrificed or foregone when a choice has to be made among alternative choices.



**“IF YOU CAN BELIEVE,
YOU CAN ACHIEVE”**