

# **INTRODUCTION TO ECONOMICS**

**[Unit 1] [Part 5]**

**Mind-Hub**

**Econ-Hub**

**Theory**



## RECAP

### [2.5] Goods, Services and Bads:

**Goods:** Anything **tangible** which can provide **satisfaction** of a human want.

**Services:** Any **intangible** activity which can **satisfy** human needs and wants.

**Bad:** Anything which provides a **negative utility** or **dissatisfaction (disutility)**.

### [3.1] SCARCITY

limitedness or inadequateness of a given society's productive resource endowment, in comparison to their human wants (unlimited human wants).

The central problem in economics, which is universal in nature



## RECAP

### [3.2] ALTERNATIVE USES:

Resources represent **more than one** (or multiple) **productive uses**. One of the **main reasons** for the creation of a **'Problem of Choice'**

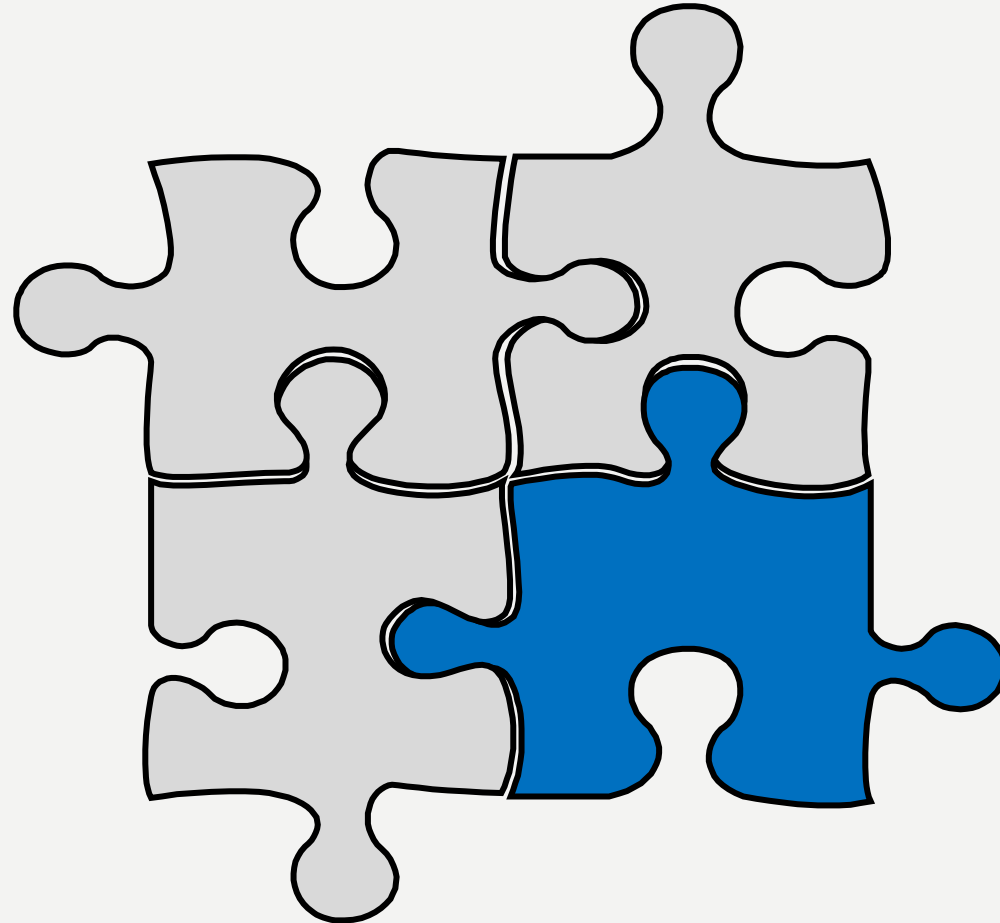
### [3.3] THE PROBLEM OF CHOICE:

Choice in economics is broadly a decision of **Allocating relatively scarce resources with alternative uses to satisfy a society's unlimited wants**

A problem of choice is created due to **two main reasons**:

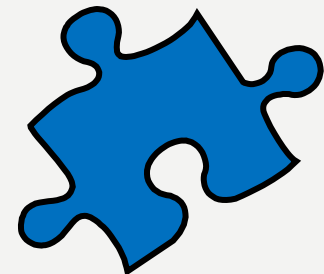
- Relative scarcity of resources
- Alternative uses of resources

# THE ECONOMIC PROBLEM



## **[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.
- **Opportunity cost the value of the nest best alternative forgone when an item or activity is chosen**
- **Opportunity cost is the value of the next best alternative choice that could have been made instead of the actual choice made**



## [3.4] OPPORTUNITY COST....

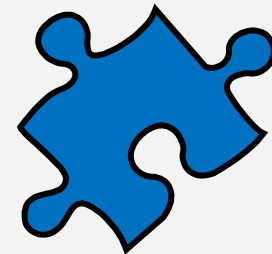
### Characteristics (Features) of Opportunity Cost:

What to know and focus on when discussing opportunity cost

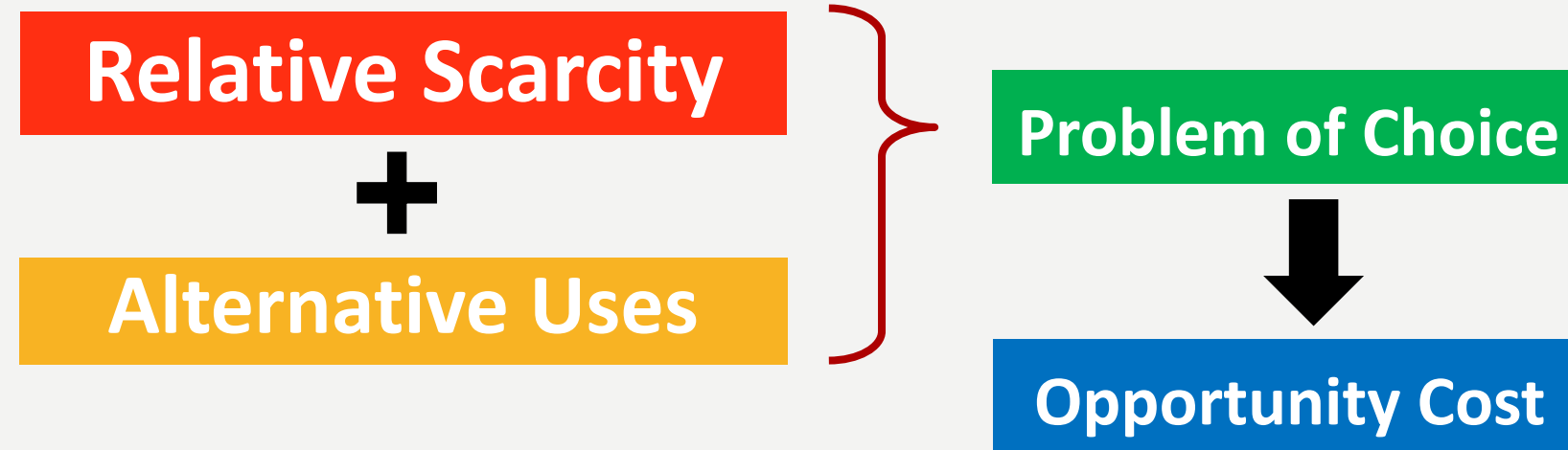
- Subjective**
- Real** concept
- May involve an **External Cost**

#### Further Features:

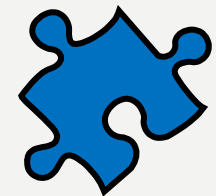
- Being **Positive**
- Includes monetary cost & foregone income (specially when estimating total cost of production)
- Goods with opportunity cost are **Economic Goods**
- Situations of **Zero Opportunity Cost** exist



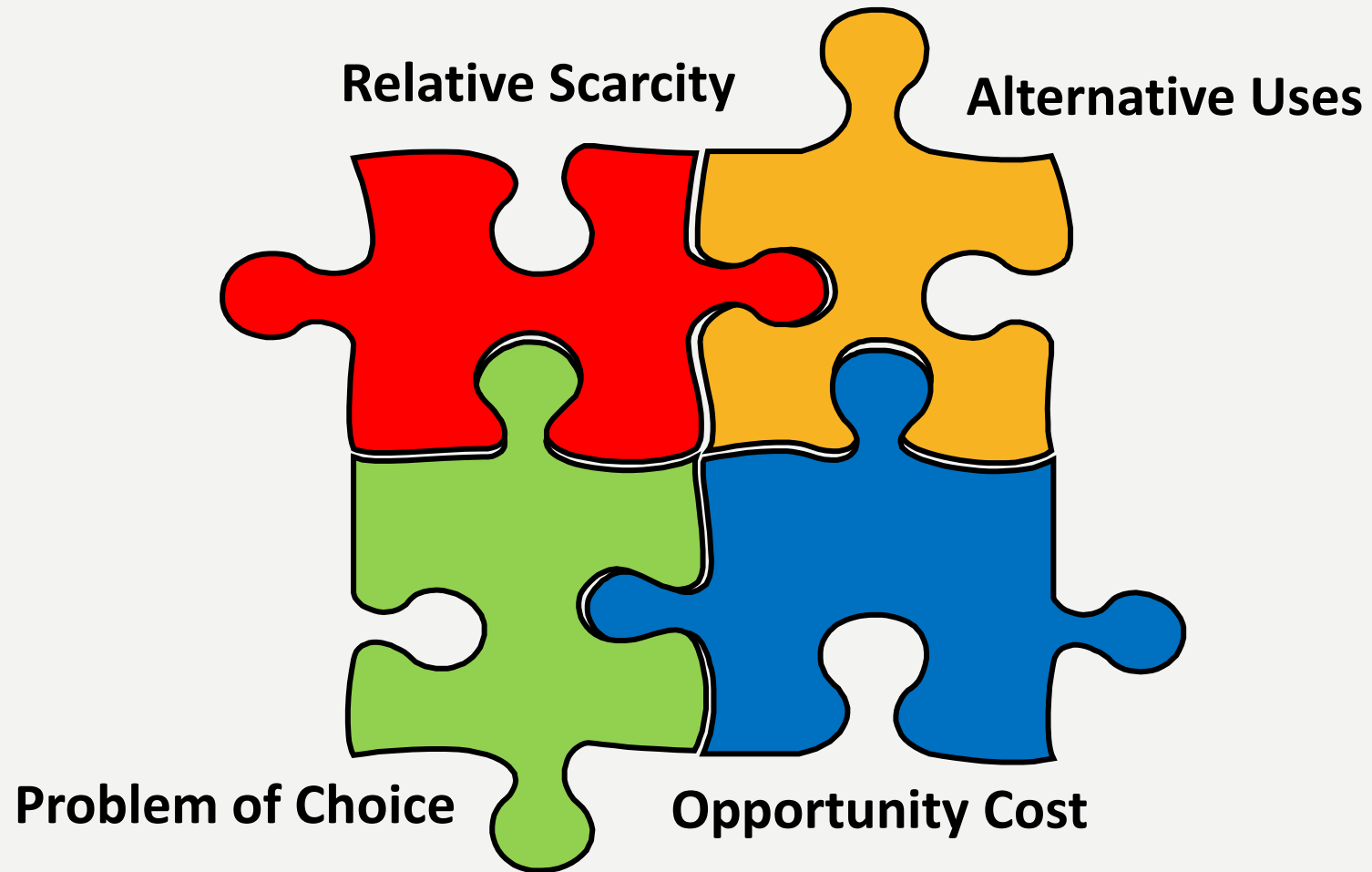
# THE 'RECIPE FOR OPPORTUNITY COST'...



Situations of Zero Opportunity Cost:



# THE ECONOMIC PROBLEM





[SM (B1) Page: 28]

## **[3.5] ECONOMIC GOOD VS. NON-ECONOMIC (FREE) GOODS:**

Economic Goods [Scarce Goods]:

## **[3.5] ECONOMIC GOOD VS. NON-ECONOMIC (FREE) GOODS:**

### **Summary: Main Properties of Economic Goods**

- Production of economic goods use limited resources
- Supply of economic goods are limited
- There is an opportunity cost, a price and a positive marginal cost
- There is ownership

[Source: P. Perera,2020; p26]

## **[3.5] ECONOMIC GOOD VS. NON-ECONOMIC (FREE) GOODS:**

### **Non-economic Goods [Free Goods]:**

- A good which is not a direct outcome of a human involved production process, which is able to fulfil human wants. These goods are available in abundance (unlimited in availability) at zero price, when the natural supply is available.
- There is zero or no opportunity cost when consuming these goods since there is no use of scarce resources (no resource cost), hence they are non-economic.
- The consumption of a free good by one person, will not reduce the amount of the good available for others.
- Non-economic goods are known as 'Free Goods' because they are freely available in nature, and they do not have any price.

**Examples:** Air (fresh air or oxygen), rain water and sunlight

[SM (B1) Page: 29]

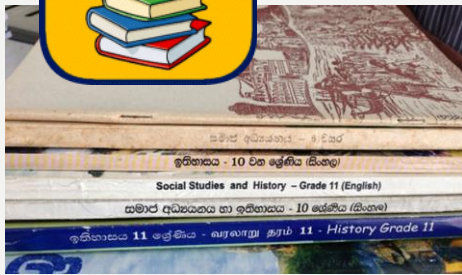
## **[3.5] ECONOMIC GOOD VS. NON-ECONOMIC (FREE) GOODS:**

**Summary: Main Properties of Free Goods**

# APPLICATION: ECONOMIC VS FREE GOODS



School textbooks given  
**free** by the GOSL



**an Economic  
Good**



Open-source (free) Statistics  
& the Google search engine

**an Economic Good**



Is 'Water' an Economic  
of Free good ?



**an Economic  
Good**



**a Free Good**

Depends on the Context

[SM (B1) Page: 29]

## **[3.6] Capital Goods Vs. Consumer Goods:**

**Capital Goods:**

**Consumer Goods:**

[SM (B1) Page: 29]

## **[3.6] Capital Goods Vs. Consumer Goods:**

### **Note:**

Whether a given good is 'capital' or 'consumer' does not depend on the nature of the good, rather the 'usage' of the good (e.g. computer, TV, printer)

# **LEARNING KEY [3]**

# **TEST YOUR KNOWLEDGE [TYK] QUESTIONS**

[SM (B1) Pages: 30 - 33]



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