Ch I

I. The fundamental economic problem

A. Scarcity

- having unlimited wants with limited resources
- everyone will always want something

B. Needs vs. Wants

1. Needs: basic requirement of life. (food, clothing, and shelter)
2. Wants: is and expression of a need:

Ex: You need food, you don't need McDonalds

C. TINSTAAFL

1. There is no such thing as a free lunch.
   - nothing in life is free.
   - may be "free" for you, but someone is paying for it.

D. Ways to Allocate Scarce Resources

1. Rule of Force
   - meanest and strongest simply take what they want from others.
   - This motivates destructive competition: wealth is destroyed and there is no reason to create new wealth.
2. First Come-First Serve
   - compete by waiting in line, with the competition favoring those who wait the longest.
   - Does not cause destructive competition.

3. Government
   - Gov. distributes the goods.
   - Goods go to those who most deserve them instead of to those who compete the best.

4. Markets (most common)
   - Firms compete for more customers and higher profits
   - workers compete for better jobs and larger incomes
   - Customers compete by being willing to pay more for the products they value the most.
   - Allows people to get more of what they want by helping others get more of what they want.

5. Appearances and personalities
   - popularity and good looks
   - competition is productive because it results in people being more pleasant to be around.
   - Does not motivate the development of skills and efforts that produce more general goods and services, as market competition does.

E. 3 Basic Economic Question

1. What to produce?
   - people will produce stuff that is profitable
2. How to produce?
   - people will produce products at the lowest costs possible.
3. For whom to produce?
   - will produce products for people that have demand for them.

F. The Factors of Production

- the resources required to produce all products

1. Land
   - "gifts of nature" natural resources
   - Ex: coal, fertile fields, mineral deposits,
   - in fixed supply
   - Scarcity becomes worse as time goes on

2. Labor
   - people with all their efforts, abilities, and skills.
   - Vary in size over time. (population growth, immigration, famine, war, and disease)

3. Capital
   - tools, equipment, machinery, and factories used in the production of goods and services.
   - Ex: Bulldozer, Hammer, Nails

a. Financial Capital
   - the money used to buy the tools and equipment used in production.

(End of Section 1)