Unit One - Basic Economic Concepts

Wants - Simply the desires of citizens. Wants are different from needs as we will see below. Wants are a means of expressing a perceived need. Wants are broader than needs.

Needs: These are basic requirements for survival like food and water and shelter. In recent years we have seen a perceived shift of certain items from wants to needs. Telephone service, to many, is a need. I would argue, however, that they are wrong.

Scarcity - the fundamental economic problem facing ALL societies. Essentially it is how to satisfy unlimited wants with limited resources. This is the issue that plagues all government and peoples. How do we conquer the issue of scarcity? Many people have thought they had the answer (see Marx, Smith, Keynes, etc.) but the issue of scarcity still exists.

Factors of Production/Resources - these are those elements that a nation has at its disposal to deal with the issue of scarcity. How efficiently these are used determines the measure of success a nation has. They are

- Land - natural resources, etc.
- Capital - investment monies.
- Labor - the work force; size, education, quality, work ethic.
- Entrepreneurs - inventive and risk taking spirit. This is a rather new addition to a traditional list.

The "Three Basic Economic Questions" - these are the questions all nations must ask when dealing with scarcity and efficiently allocating their resources.

- What to produce?
- How to produce?
- For whom to produce?

Economics - Economics is the study the production and distribution of goods and services, it is the study of human efforts to satisfy unlimited wants with limited resources.

Opportunity Cost - the cost of an economic decision. The classic example is "guns or butter." What should a nation produce; butter, a need, or guns, a want? What is the cost of either decision? If we choose the guns the cost is the butter. If we choose butter, the cost is the guns. Nations must always deal with the questions faced by opportunity cost. It is a matter of choices. Resources are limited thus we cannot meet every need or want.

Free Products: Air, sunshine are and other items so plentiful no one could own them.
Economists are interested in "economic products" - goods and services that are useful, relatively scarce and transferable.

**Good:** tangible commodity. These are bought, sold, traded and produced.

**Consumer Goods:** Goods that are intended for final use by the consumer.

**Capital Goods:** Items used in the creation of other goods. Factory machinery, trucks, etc.

**Durable Goods:** Any good that lasts more than three years when used on a regular basis.

**Non Durable Goods:** Any item that lasts less than 3 years when used on a regular basis.

**Services:** Work that is performed for someone. Service cannot be touched or felt.

**Consumers:** people who use these goods and services.

**Conspicuous Consumption:** Use of a good or service to impress others.

**Value:** An assignment of worth. The assignment is usually based upon the utility (usefulness) or scarcity of the item (supply and demand).

**Utility:** capacity to be useful.

**Paradox of value:** assignment of the highest value to those things we need the least, like water and the highest things we often don't need at all like diamonds. Why do we do this? Good question. I do not have an answer.

**Wealth:** the sum collection of those economic products that are tangible, scarce and useful.

**Productivity** - the ability to produce vast amounts of goods (economic products) in an efficient manner. The American capitalist economy is productive because:

- We use our resource efficiently.
- We specialize to increase efficiency and productivity.
- We invest in Human Capital (our labor pool)