**CONCEPT REVIEW**

**Economics** is the study of how individuals and societies satisfy their unlimited wants with limited resources.

**CHAPTER 1 KEY CONCEPT**

**Scarcity** is the situation that exists because wants are unlimited and resources are limited.

**WHY THE CONCEPT MATTERS**

You confront the issue of scarcity constantly in everyday life. Look again at the caption on page 2. Suppose you have $20 to cover the cost of lunches for the week. How will you use your limited funds to meet your wants (lunch for Monday through Friday)? What if you stayed late at school twice a week and bought a $1 snack each day? How would this affect your lunch choices? Identify one or two other examples of scarcity in your everyday life.

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**Online Highlights**

Go to **ECONOMICS UPDATE** for chapter updates and news on the cost of expansion plans at O’Hare Airport in Chicago. (See Case Study, pages 32–33).

Go to **ANIMATED ECONOMICS** for interactive lessons on the graphs and tables in this chapter.

Go to **INTERACTIVE REVIEW** for concept review and activities.
What Is Scarcity?

Have you ever felt you wanted a new cell phone, a car, a new pair of running shoes, or the latest MP3 player? You are not alone. Consumers have many economic wants. 

**Wants** are desires that can be satisfied by consuming a good or a service. 

**Needs** are things that are necessary for survival. 

**Scarcity** exists when there are not enough resources to satisfy human wants. 

**Economics** is the study of how individuals and societies satisfy their unlimited wants with limited resources. 

The result of this difference is **scarcity**, the situation that exists when there are not enough resources to meet human wants. Scarcity is not a temporary shortage of some desired thing. Rather, it is a fundamental and ongoing tension that confronts individuals, businesses, governments, and societies. Indeed, it is so basic to human experience that a social science has developed to understand and explain it. That social science is **economics**, the study of how people choose to use scarce resources to satisfy their wants. Economics involves 

1. examining how individuals, businesses, governments, and societies choose to use scarce resources to satisfy their wants 
2. organizing, analyzing, and interpreting data about those economic behaviors 
3. developing theories and economic laws that explain how the economy works and to predict what might happen in the future.
PRINCIPLE 1 People Have Wants

Choice is central to the use of scarce resources. People make choices about all the things they desire—both needs and wants. You might think of food as a need, because it is necessary for your survival. Nevertheless, you make choices about food. What do you want for dinner tonight? Will you cook a gourmet creation or heat up a frozen dinner? Or will you treat yourself to a meal at your favorite restaurant? You make choices about other needs too. For example, consider the choices you make about the clothes you wear.

Wants are not only unlimited, they also are ever changing. Twenty-five years ago, for example, few Americans owned a personal computer. Today, however, few Americans can imagine life without computers and computer-related technology.

PRINCIPLE 2 Scarcity Affects Everyone

Because wants are unlimited and resources are scarce, choices have to be made about how best to use these resources. Scarcity, then, affects which goods are made and which services are provided. Goods are physical objects that can be purchased, such as food, clothing, and furniture. Services are work that one person performs for another for payment. Services include the work of sales clerks, technical support representatives, teachers, nurses, doctors, and lawyers. Scarcity affects the choices of both the consumer, a person who buys goods or services for personal use, and the producer, a person who makes goods or provides services.

APPLICATION Applying Economic Concepts

A. Identify five wants that you have right now. Describe how scarcity affects your efforts to meet these wants.

Shortages and Scarcity Shortages often are temporary. Movie tickets may be in short supply today, but in a few days’ time they may be easy to come by. Scarcity, however, never ends because wants always exceed the resources available to satisfy them.
Scarcity Leads to Three Economic Questions

**KEY CONCEPTS**

If you have ever had to decide whether something you want is worth the money, then you have experienced scarcity firsthand. Scarcity in the lives of individual consumers—the gap between their unlimited wants and limited resources—is all too easy to understand. Scarcity, however, also confronts producers and whole societies. Indeed, scarcity requires every society to address three basic economic questions: What will be produced? How will it be produced? For whom will it be produced?

**QUESTION 1 What Will Be Produced?**

To answer the first fundamental economic question, a society must decide the mix of goods and services it will produce. Will it produce mainly food, or will it also produce automobiles, televisions, computers, furniture, and shoes? The goods and services a society chooses to produce depend, in part, on the natural resources it possesses. For example, a country that does not possess oil is unlikely to choose to produce petroleum products. Resources, however, do not completely control what a country produces. Japan does not possess large amounts of the iron ore needed to make steel. Yet Japan is a leading producer of automobiles, whose construction requires a great deal of steel.

Some countries, including the United States, resolve the issue of what goods and services to produce by allowing producers and consumers to decide. For example, if consumers want cars with automatic transmissions, automobile companies would be unwise to make only cars that have manual transmissions. In other countries—Cuba and North Korea, for example—the consumer plays little or no part in answering this question. Rather, the government decides what goods and services will be produced.

This first fundamental economic question involves not only what to produce, but also how much to produce. To answer this, societies must review what their wants are at any time. A country at war, for example, will choose to produce more weapons than it would during peacetime.

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### Some Leading Products

<table>
<thead>
<tr>
<th>China</th>
<th>South Africa</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>Chemicals</td>
<td>Automobiles</td>
</tr>
<tr>
<td>Machinery</td>
<td>Coal</td>
<td>Coal</td>
</tr>
<tr>
<td>Rice</td>
<td>Gold</td>
<td>Textiles</td>
</tr>
<tr>
<td>Steel</td>
<td>Metal ores</td>
<td>Timber</td>
</tr>
<tr>
<td>Textiles</td>
<td>Metal products</td>
<td>Wheat</td>
</tr>
</tbody>
</table>

*What to Produce?* The availability of natural resources, such as gold, influences what the country of South Africa produces.
QUESTION 2 How Will It Be Produced?

Once a society has decided what it will produce, it must then decide how these goods and services will be produced. Answering this second question involves using scarce resources in the most efficient way to satisfy society’s wants. Again, decisions on methods of production are influenced, in part, by the natural resources a society possesses.

In deciding how to grow crops, for example, societies adopt different approaches. Societies with a large, relatively unskilled labor force might adopt labor-intensive farming methods. For this society, using many workers and few machines is the most efficient way to farm. The United States, however, has a highly skilled workforce. So, using labor-intensive methods would be an inefficient use of labor resources. Therefore, the United States takes a capital-intensive approach to farming. In other words, it uses lots of machinery and few workers.

QUESTION 3 For Whom Will It Be Produced?

The third fundamental economic question involves how goods and services are distributed among people in society. This actually involves two questions. Exactly how much should people get and how should their share be delivered to them?

Should everyone get an equal share of the goods and services? Or should a person’s share be determined by how much he or she is willing to pay? Once the question of how much has been decided, societies must then decide exactly how they are going to get these goods and services to people. To do this, societies develop distribution systems, which include road and rail systems, seaports, airports, trucks, trains, ships, airplanes, computer networks—anything that helps move goods and services from producers to consumers in an efficient manner.

APPLICATION Analyzing Cause and Effect

B. Why does the basic problem of scarcity lead societies to ask the three fundamental economic questions?
The Factors of Production

**KEY CONCEPTS**

To understand how societies answer the first two basic questions—what to produce and how to produce it—economists have identified the factors of production, or the economic resources needed to produce goods and services. They divide the factors of production into four broad categories: land, labor, capital, and entrepreneurship. All of these factors have one thing in common—their supply is limited.

**FACTOR 1 Land**

In everyday terms, the word land usually refers to a stretch of ground on the earth’s surface. In economic terms, however, land includes all the natural resources found on or under the ground that are used to produce goods and services. Water, forests, and all kinds of wildlife belong in the category of land. So, too, do buried deposits of minerals, gas, and oil.

**FACTOR 2 Labor**

The word labor usually brings to mind images of hard physical work. In economic terms, however, its meaning is far broader. Labor is all the human time, effort, and talent that go into the making of products. Labor, then, is not only the work done by garbage collectors, factory workers, and construction workers. It also includes the work of architects, teachers, doctors, sales clerks, and government officials.

**FACTOR 3 Capital**

When you hear the word capital, you probably think of money. In economic terms, however, capital is all the resources made and used by people to produce and distribute goods and services. Tools, machinery, and factories are all forms of capital. So are offices, warehouses, stores, roads, and airplanes. In other words, capital is all of a producer’s physical resources. For this reason capital is sometimes called physical capital, or real capital.

While businesses invest in real capital, workers invest in human capital—the knowledge and skills gained through experience. Human capital includes such things as a college degree or good job training. When workers possess more human capital, they are more productive.

**QUICK REFERENCE**

Factors of production are the resources needed to produce goods and services.

- **Land** refers to all natural resources used to produce goods and services.
- **Labor** is all of the human effort used to produce goods and services.
- **Capital** is all of the resources made and used by people to produce goods and services.

**Human Capital**

Education increases your human capital and makes you more productive in the workplace.
FACTOR 4 Entrepreneurship

The fourth factor of production, entrepreneurship, brings the other three factors together. **Entrepreneurship** is the combination of vision, skill, ingenuity, and willingness to take risks that is needed to create and run new businesses. Most entrepreneurs are innovators. They try to anticipate the wants of consumers and then satisfy these wants in new ways. This may involve developing a new product, method of production, or way of marketing or distributing products. Entrepreneurs are also risk takers. They risk their time, energy, creativity, and money in the hope of making a profit. The entrepreneurs who build a massive shopping mall or who open a new health club do so because they think they could profit from these business ventures. The risk they take is that these enterprises might fail.

APPLICATION Applying Economic Concepts

C. Think of a product that you recently purchased. How do you think the four factors of production were used to create this product?
Analyzing Cause and Effect

Causes are the events that explain why something happens and effects are what happens. An effect can become the cause of other effects, resulting in a chain of events or conditions. Identifying causes and effects helps economists understand how economic conditions occur. Use the strategies below to help you identify causes and effects using a graphic organizer.

**Turmoil Reduces Oil Supply**

Oil is a scarce resource, but events in the Middle East have made it more so. The invasion of Iraq in 2003 by U.S.- and British-led coalition forces led to an almost immediate shutdown of Iraq’s oil exports, thereby reducing the availability of crude oil by some 1.8 million barrels per day. Unrest in Nigeria, Africa’s largest oil producer, further added to global scarcity. More than two years later, in part due to continued unrest in the Middle East, oil production was still sluggish. One result of the continued scarcity was a rise in energy prices. Increased energy prices in turn caused shipping costs to rise. The increased costs of shipping led shippers to seek more economical means of transport. Some shippers have decreased their use of planes and trucks. Instead, they have turned to less fuel-dependent modes of transport. One example is the use of double stacked railroad cars that can carry two shipping containers stacked one on top of the other.

**Think economically Analyzing Causes and Effects**

Locate and read an economics-related article in a current affairs magazine, such as *Time, Newsweek, or U.S. News & World Report*. Make a diagram to summarize the causes and effects discussed in the article.
1. Explain the relationship between the terms in each of these pairs:
   a. wants
   b. consumer
   c. factors of production
   scarcity
   producer
   entrepreneurship

2. What is the difference between needs and wants? Explain how a need may also be a want.

3. How does scarcity affect consumers? Producers?

4. What services that individuals or businesses provide do you use every day?

5. Describe how the owners of a computer repair store might use the four factors of production to run their business.

6. Using Your Notes How does scarcity affect methods of production? Refer to your completed cluster diagram.

7. Drawing Conclusions Many high schools throughout the United States have faced a serious shortage of math and science teachers. Many prospective teachers choose to go into business and industry because of higher salaries. In some communities, businesses are “loaning” employees who want to teach part-time to schools to fill the math and science teacher gap. Does this scenario illustrate scarcity? Why or why not?

8. Applying Economic Concepts Consider the following entrepreneurs: Lucy, who runs an organic farm, and Ron, a sports superstar who owns several restaurants. Describe how they may have used entrepreneurship to establish and run their businesses.

9. Writing About Economics Select a 10-minute period of time in your day-to-day life—when you are in the cafeteria at lunchtime, for example. Analyze how scarcity affects your activities during this time period. Write your analysis in a paragraph.

10. Challenge At one time or another, you have probably made a choice about how to use your scarce resources that you later regretted. For example, you may have purchased a music download instead of going to the movies. What led you to your choice? What did you learn later that might have led you to a different choice?

Using Scarce Resources
Suppose you are moving into your first apartment like the young woman above. You have saved $1,200 to use for this purpose. When you go shopping, you learn that these are the prices for things you had on your list of furnishings.

<table>
<thead>
<tr>
<th>Item</th>
<th>Price ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kitchen table and chairs</td>
<td>200</td>
</tr>
<tr>
<td>TV set</td>
<td>150</td>
</tr>
<tr>
<td>Dishes</td>
<td>45</td>
</tr>
<tr>
<td>Silverware</td>
<td>25</td>
</tr>
<tr>
<td>Towels</td>
<td>35</td>
</tr>
<tr>
<td>Couch</td>
<td>300</td>
</tr>
<tr>
<td>Desk &amp; chair</td>
<td>175</td>
</tr>
<tr>
<td>Bed</td>
<td>350</td>
</tr>
<tr>
<td>Computer</td>
<td>400</td>
</tr>
<tr>
<td>Stereo system</td>
<td>300</td>
</tr>
</tbody>
</table>

Make Economic Choices Use these prices to decide how you will spend your budget for furnishings. Make a list of the things you will buy.

Challenge What did you have to give up to get the things you chose? Why did you decide to give those things up?