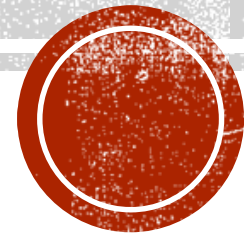


# UNIT 7

Decisions, Decisions



# ECONOMICS AND SCARCITY

- **Economics:** the study of our choices between our needs and wants
- **Scarcity:** Unlimited wants and needs for limited resources
- **Shortage:** Temporary situation in which an item is scarce.
- **Decisions:**
  - **Trade off:** an alternative we sacrifice when we make a decision
  - **Opportunity cost:** The most desirable trade off



# THE THREE ECONOMIC QUESTIONS:

1. What to Produce:
  1. What is going to be made?
2. How to Produce:
  1. What resources are available
  2. Is there the right ration of factors of production?
3. For Whom to Produce:
  1. Who is the customer base?



# GOODS AND SERVICES

- Good – tangible objects consumers buy, can be used to make other objects
- Service – consumers buy but are non-tangible
- Needs – have to have to survive
- Wants – don't need to survive



# FOUR FACTORS OF PRODUCTION

- Land – renewable and non-renewable resources – can be anything that is grown or the land the business sits on
- Labor – the workforce
- Capital – items that go into the creation of a product
  - Physical – the tools that go into making a product
  - Human – education/training employees have
- Entrepreneurship – taking a risk to create a new item or improve an existing one.



# GOVERNMENT INVOLVEMENT

- How much a government interacts and makes resources available.
- Examples:
  - They may own the land
  - They may make safety regulations
- Different governments get involved for different reasons



# TYPES OF COSTS

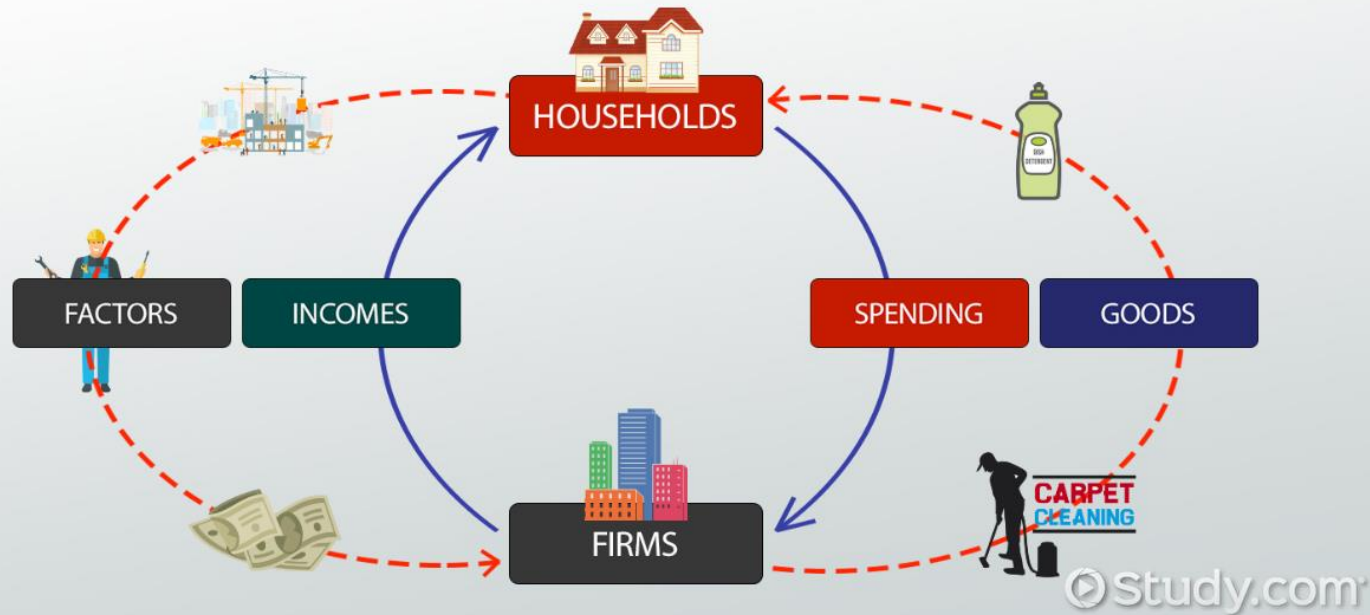
- **Fixed costs:** Don't change month to month
- **Variable cost:** Changes depending on use
- **Marginal cost:** cost of making one extra item
- **Marginal benefit:** the profit from the extra item
- **Cost Benefit Analysis:** The relation of the cost of making something versus the benefit.



# CIRCULAR FLOW

## LESSON SUMMARY

### Circular Flow Diagram





# CIRCULAR FLOW

- Visual representation of ECONOMIC INTERDEPENDANCE
- Economic interdependence – how everything/one is affected by everything/one else
- Factor Market: Where factors of productions (land, labor, capital, entrepreneurship) are exchanged for money.
- Product Market: Where goods/services are exchanged for money
- Consumer: who buys things
- Producer: who makes things



# CIRCULAR FLOW CONT.

- **Private Property: Critical in a Free Market/Market economy**
  - Incentive to maintain or grow a business (or home, etc.)
  - Profit incentive
- **Government Involvement:**
  - Government buys and sells goods/services too
    - Different reasons/reactions in different types of markets

