




# Resolving Scarcity

Chapter 11  
SdP



# Learning objectives

- Learn what is the economic problem
  - Understand the role of the market in solving it
  - Understand how choices create opportunity cost
  - Learn how to analyse PPCs
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# Finite Resources

- ➡ All countries have water, minerals, soil, plants and people. However, there are limited or finite resources. These resources are scarce. These are the 4 factors of production.



# Infinite wants

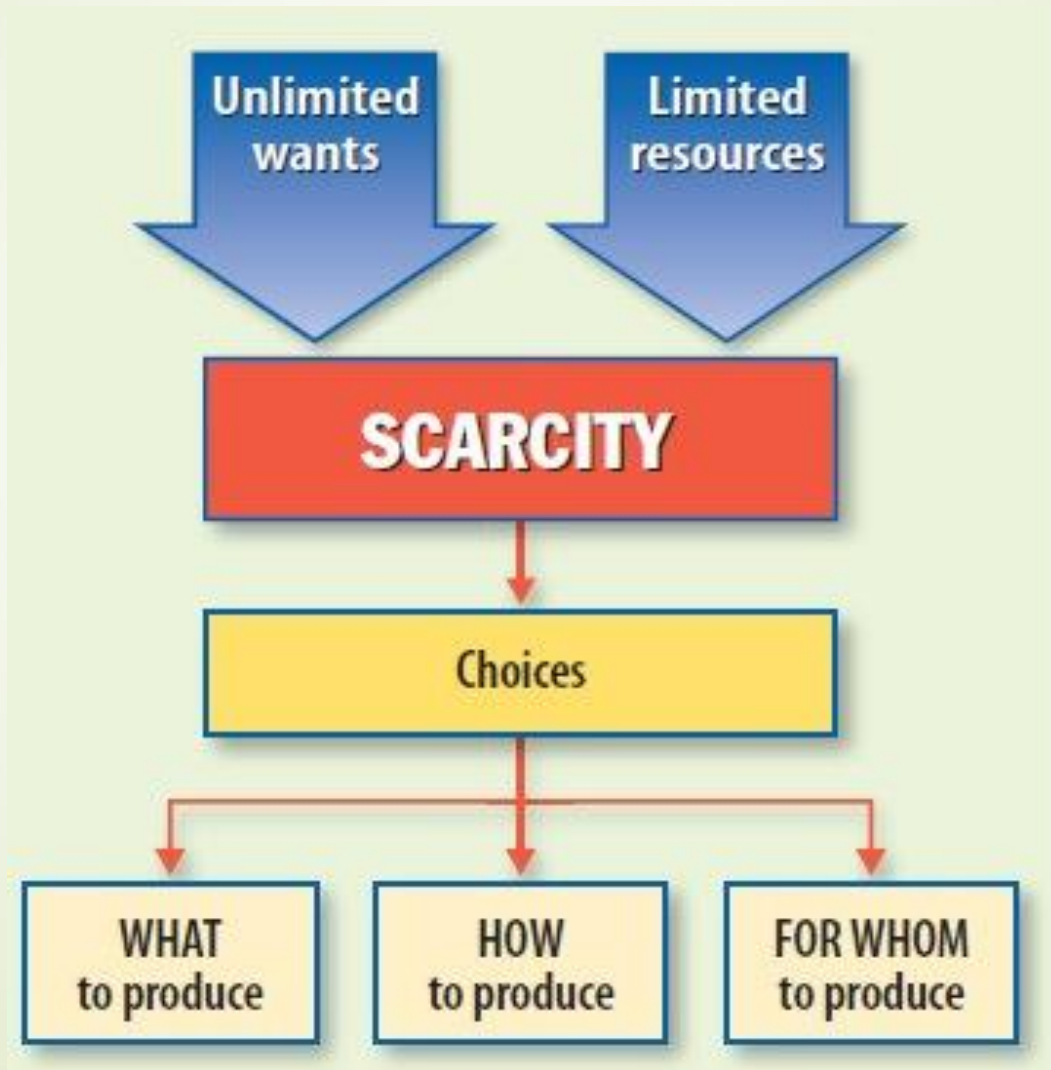
- Needs include things like survival , water , shelter.
- Wants are infinite or unlimited. People want more holidays, better cars, homes.



# The economic problem

- The basic economic problem is that resources are finite and wants are unlimited.
- Demand is greater than supply.
- The study of economics is how to allocate a nation's **scarce resources** between different users.

# The economic problem





# The economic problem

- What to produce? Schools vs. libraries vs. roads vs. hospitals
- How to produce? The use of LLCE (four factors of production)
- For whom to produce? Should certain groups get more or less than other groups.
- **ALL THIS DEPENDS ON THE TYPE OF ECONOMIC SYSTEM THAT EXISTS**



# Choice and Opportunity Cost

- Choice is faced by individuals, businesses and government. There is a sacrifice made.
- **Individuals:** decide how to spend their limited budget
- **Business** also decide where to spend their budget
- **Government** must decide where to spend their budget



# Choice and Opportunity Cost

- ➡ In economics we use the term ***opportunity cost*** to refer to the amount of one good or service that we have to give up when we choose another.



# Choice and Opportunity Cost

- As an example, the **opportunity cost** of saving towards driving lessons is forgoing drinking fizzy drinks.
- So saving towards driving lessons not only cost you £6.00 per week, but it also cost you the **opportunity cost** of not being able to enjoy all those bottles of fizzy drink after school.




# Choice and Opportunity Cost

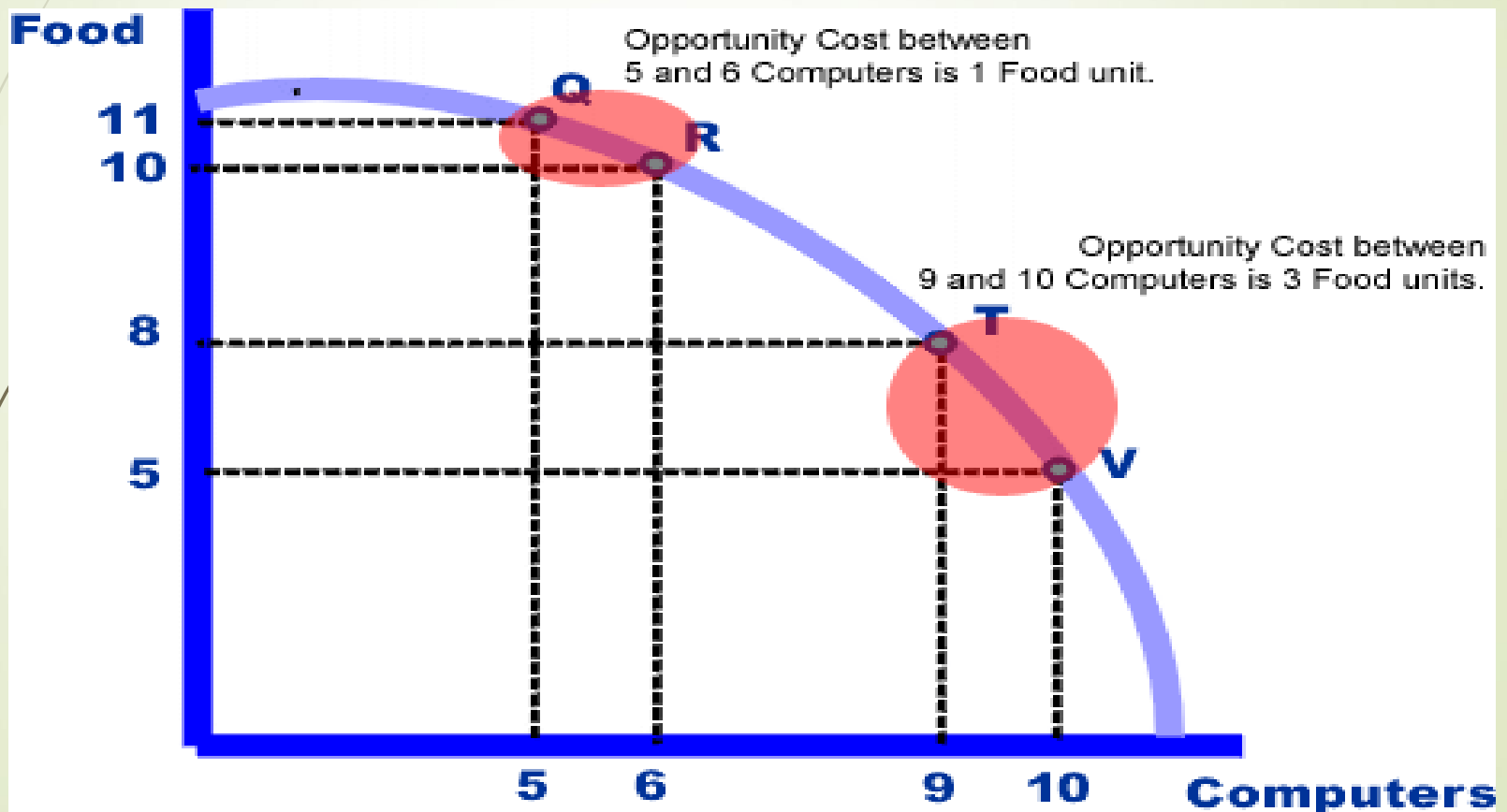
- ➡ There are a few 'goods' that can be used with no opportunity cost because people do not have to pay for them or give up anything to get them. An example that is collecting rainwater or picking wild fruit such as blackberries.
- ➡ These are called **free goods** because they can be used at no opportunity cost.



# Production Possibility Curve

- The idea of opportunity cost can be illustrated using a PPC
  - The PPC shows the combination of different resources when all resources are being used.
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# Production Possibility Curve





# Movement of the PPC

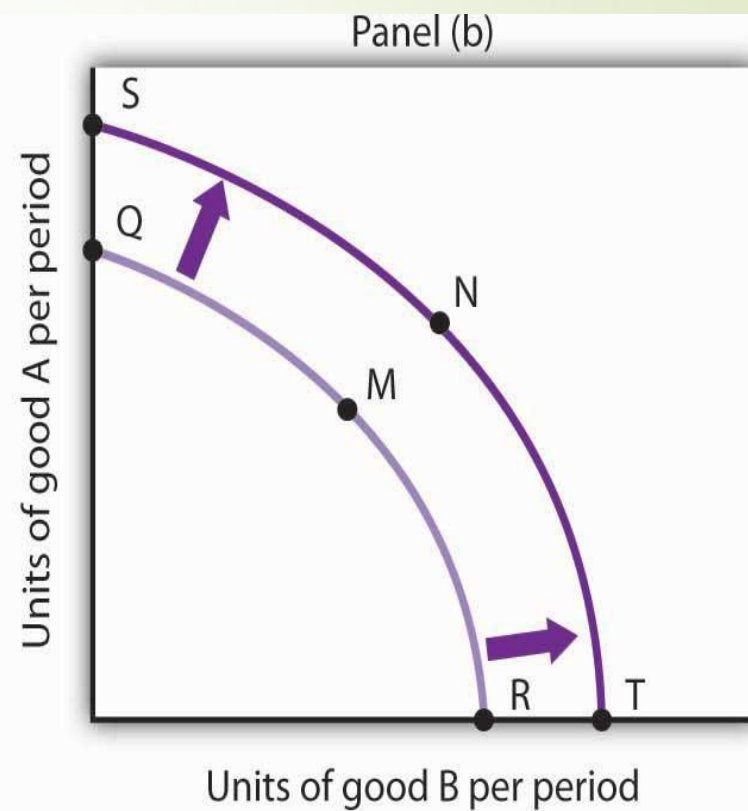
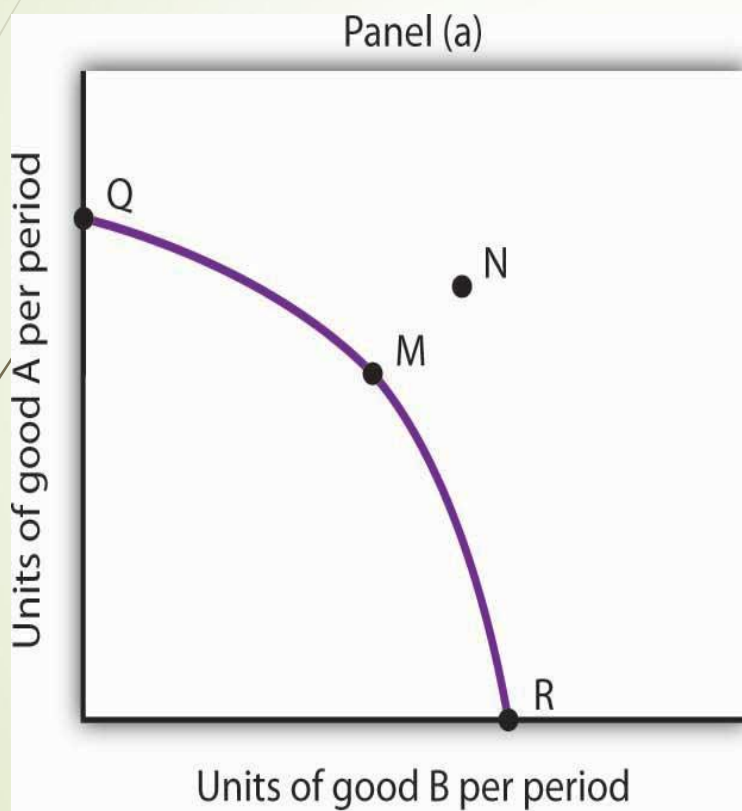
- Use resources more efficiently
- New production methods
- Discovery of new resources

**This is called Economic Growth**

(Chapter 31)



# Movement of the PPC





# Homework

- Economics in practice on p 45  
(separate paper)