Basic Economic Concepts: The Law of Scarcity and Opportunity Costs

Recall Samuelson's Definition of Economics

"Economics is the study of how people and society choose, with or without the use of money, to employ scarce or limited resources to produce various commodities and distribute them to various members of society. It is also the study of how to improve society."

Key idea: **Economics requires choices about society's use of scarce resources.**

Law of Scarcity

"Society does not have sufficient resources to produce all the things humans want to have."

The **Law of Scarcity** entails 2 underlying assumptions:

1. Productive resources are limited.
2. Human wants are unlimited.

Note: There is no debate about assumption #1, but assumption #2 may be arguable.

Factors of Production

- Economists refer to productive resources as “factors of production.”

- Some factors of production are renewable (e.g., wood, human labor) while others are non-renewable (e.g. petroleum).

The 4 Factors of Production are:

1. **Land**: Natural Resources (e.g., water, minerals, animals, and forests.)
2. **Labor:** Physical and Mental Talents.
3. **Capital:** Productive Machinery and Technology. (Note: in this sense capital **is not** money.)
4. **Entrepeneurship:** Business skill, drive, and acumen (think Andrew Carnegie, Steve Jobs, and Sam Walton.)

The Law of Scarcity's Second Assumption is Arguable.

Philosophic Questions:

* Are human wants truly limitless? Is less ever more?
* Is mass consumerism a cultural and social construct partially driven by the mass media?
* Or does mass consumerism simply reflect human nature?
* Can individuals be persuaded to sacrifice individualistic consumptive instincts for the common good?

Thought Excercise

- Imagine that you suddenly have 1 unexpected free hour.
- Brainstorm in your journal a list of at least 5 things you might do.
- Circle your 1st choice.
- Place an asterisk next to your 2nd choice.

Opportunity Cost

- Definition: The highest valued alternative that must be given up because another option has been selected.
- Opportunity Cost reflects the essence of economic thinking. It encompasses the subsidiary ideas of:
  - Tradeoffs
  - Cost/Benefit Analysis