

Topic 1.1

Scarcity

You Will Learn To:

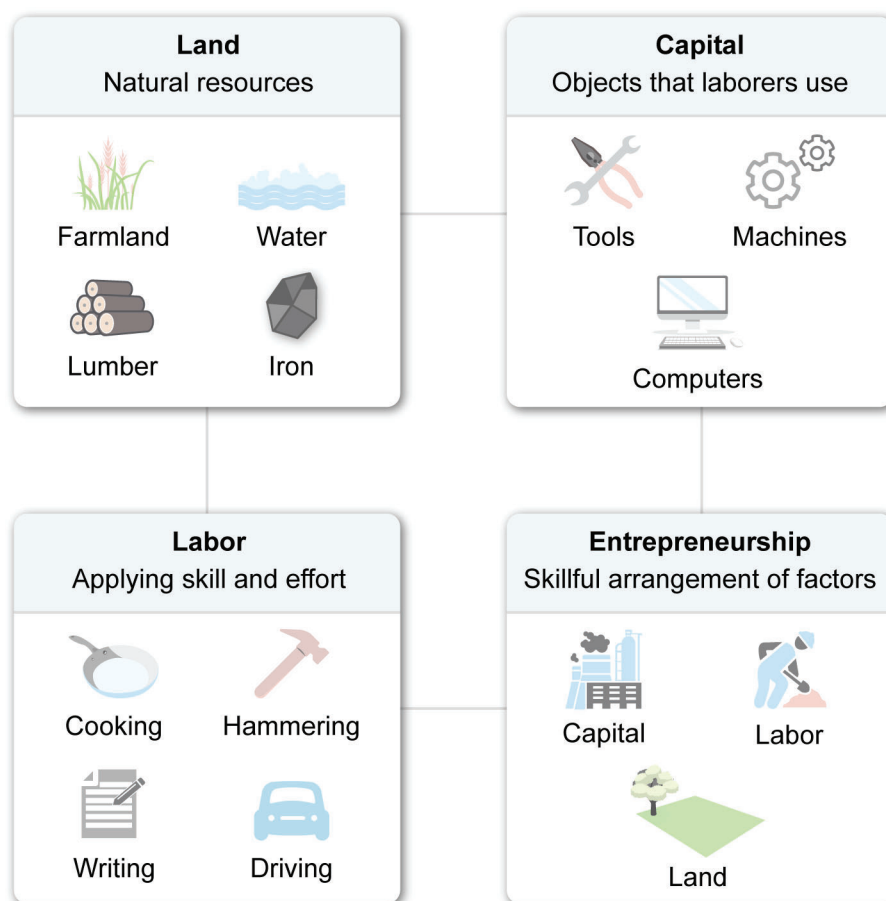
- Define scarcity and economic resources. Explain why individuals and societies must make choices regarding the use of resources.

Scarcity

The fundamental problem in economics is the issue of scarcity. People and societies have unlimited wants, but there are only so many resources available to satisfy those wants. **Scarcity** is the condition resulting from the inability of finite resources to satisfy infinite wants. Economics is the study of how individuals and societies allocate these scarce resources.

The four types of resources used to produce goods and services, called factors of production, are land, labor, capital, and entrepreneurship.

Four Types of Economic Resources



- Land** includes all natural resources used to produce goods and services in an economy. Examples include lumber, water, minerals, farmland, and anything naturally found in or on the land.

- **Labor** includes the human skill and effort needed to produce goods and services.
- **Capital**, sometimes called physical capital, includes objects, such as tools and machinery, used to make goods and services.
- **Entrepreneurship** includes the ideas of an individual or group of people used to combine the other factors of production to make new goods and services.

These four types of resources are combined in different ways to create everything in the economy. Individuals and society must make choices about how to use these resources, as well as the time they have available, to produce what society or individuals want. There are always **trade-offs** related to the production of goods because a resource must be chosen for one purpose over another. This means that once a productive resource is put into use, it cannot be used to make something else. For example, when lumber is used to make a house, it cannot also be used to make a piece of furniture.

Things to Remember

- Individuals and societies are forced to make choices because the finite resources of land, labor, capital, and entrepreneurship are scarce. These choices result in trade-offs regarding how to use those resources and what to produce.

1.1 Vocabulary

Scarcity	The condition resulting from the inability of finite resources to satisfy infinite wants.
Land	Natural resources that are used to produce goods and services.
Labor	Human skill and effort used to produce goods and services.
Capital	Objects, such as equipment or machinery, used to produce goods and services. Sometimes referred to as "physical capital."
Entrepreneurship	The ability to combine land, labor, and capital in new ways to produce goods and services.
Trade-off	A circumstance in which one course of action is taken over another.

1.1 Check for Understanding

- 1. Scarcity exists because resources are infinite.**
 - A. True
 - B. False
- 2. The physical objects, such as tools and machinery, used to produce goods and services are called**
 - A. land
 - B. labor
 - C. capital
 - D. entrepreneurship
- 3. The ability to combine other factors of production to produce new goods or services is called**
 - A. land
 - B. labor
 - C. capital
 - D. entrepreneurship
- 4. Once a productive resource has been put to use, it cannot be used to make something else.**
 - A. True
 - B. False