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Scarcity and Efficiency: The Twin Themes of Economics

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Recapitulation

“Economics is the study of how societies use scarce resources to produce valuable goods and services and distribute them among different individuals”

Two Key Ideas

- Scarcity
- Efficiency



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Consider these

Consider a world without scarcity. If infinite quantities of every good could be produced or if human desires were fully satisfied, what would be the consequences?



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- People would not worry as they could have everything they wanted
- Businesses would not need to fret over the cost of labor or health care
- Governments would not need to struggle over taxes or spending or pollution
- All of us could have as much as we pleased
- No one would be concerned about the distribution of incomes among different people or classes



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What is reality

- No society has reached a utopia of limitless possibilities
- Ours is a world of **scarcity**, full of **economic goods**
- A situation of **scarcity** is one in which goods are limited relative to desires.



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Why Efficiency

- Given unlimited wants, it is important that an economy make the best use of its limited resources
- This implies efficiency
- **Efficiency** denotes the most effective use of a society's resources in satisfying people's wants and needs.



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Economic efficiency requires that an economy-

- Produce the highest combination of quantity and quality of goods and services given its technology and scarce resources
- An economy is producing efficiently when no individual's economic welfare can be improved unless someone else is made worse off.



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Things to Think

With the rapid economic growth, does production in the United States is enough to meet everyone's desires?





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What is the Role of Managerial Economics

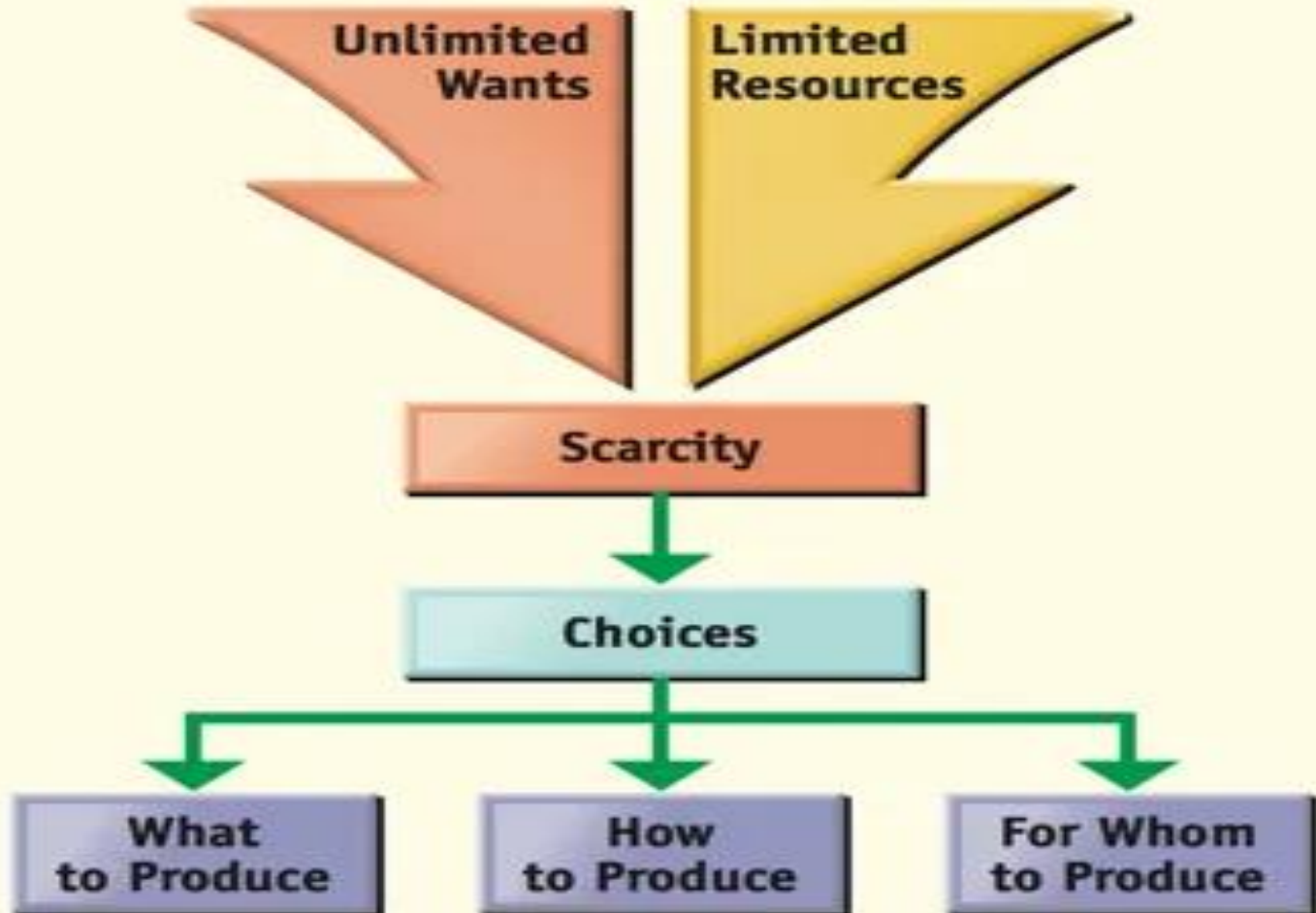
- The essence is to acknowledge the reality of scarcity and then figure out how to produce most efficiently
- That is where ME makes its unique contribution
- It helps the managers how to produce efficiently and achieve the objectives

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Scarcity





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Happy Learning

