

The Economic Problem: Scarcity and Choice

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Economy and Economics

- How individuals and societies *choose* to use the *scarce* resources
- A system or process that works to transform the resources that nature and previous generations provide into useful form
- Economics is the study of that process and its outcomes

Three basic questions to understand the functioning of the economic system

- What gets produced?
- How is it produced?
- Who gets what is produced?

Starting point

- Unlimited wants
- Limited resources having alternative uses
- Scarcity and Choices
- Alternative combinations of produced goods and services
- Alternative final distributions

What gets produced?

- What commodity needs to be produced?
- Basic goods (bread, rice, pulses etc.) or capital goods (machinery, equipment etc.)

How is it produced?

- What factors of production need to be used
- Capital intensive or labour intensive?

Who gets what
is produced?

- Rich or poor

How economic system works in different societies?

- Modern societies-Government plays a big role
- A laissez-faire Economy- individuals independently pursue their own self interest