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CHAPTER 14 THE PROBLEM OF SCARCITY

TOPIC: SCARCITY

There are not enough resources to produce all the goods and services that people need or want. Societies develop economic systems to decide *what to produce*, *how to produce it*, and *how to distribute what is produced.*

6.EC.B.13 ***The fundamental questions of economics include what to produce, how to produce and for whom to produce.***

After reading this chapter, you should be able to:

- ★ Define the following terms:
  - Goods / Services
  - Problem of Scarcity
  - Traditional Economy
  - Command Economy
  - Free Market Economy
  - Producer / Consumer
  - Supply / Demand

- ★ Identify the fundamental questions of economics.
- ★ Explain how individuals and societies answer the fundamental questions of economics
- ★ Explain why limited resources require individuals and societies to make choices.

MAIN IDEAS OF THIS CONTENT STATEMENT

GOODS

Goods are things that people make. Goods can be seen and touched. Some goods are **consumed** (*used up*) quickly, such as food, toothpaste, hairspray, and baked goods. Other goods are used over and over again. They slowly wear out and often can be maintained and repaired, such as toys, clothes, cars and even houses. Department stores, shoe stores, and supermarkets all sell goods to consumers.

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SERVICES

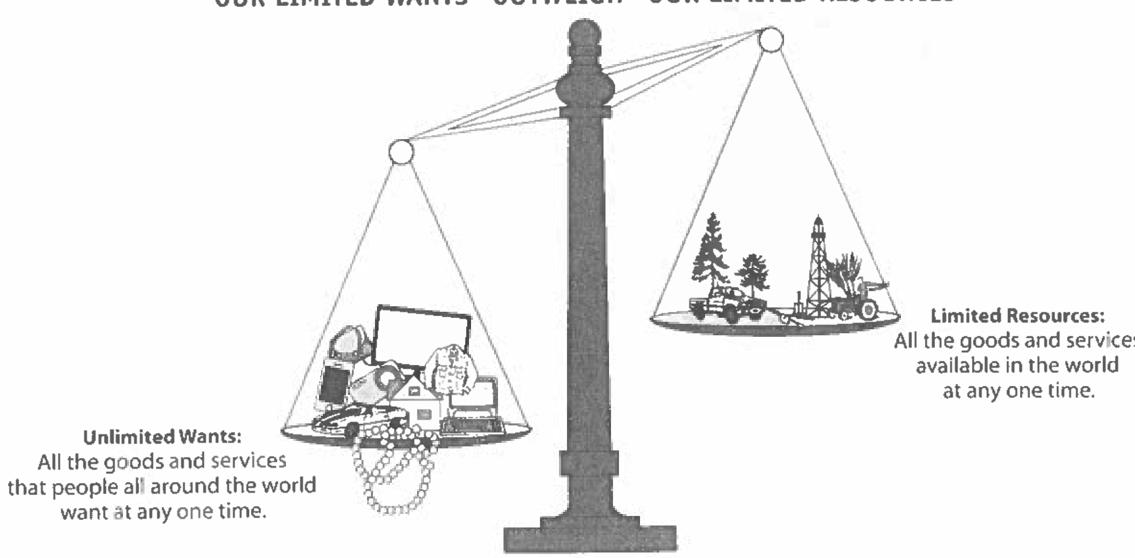
Services are actions that people perform for others. For example, a doctor checks the health of patients and prescribes medicines, while a banker provides financial services. People who provide services include plumbers, electricians, teachers, barbers, doctors, lawyers, nurses, waitresses, and auto mechanics.

THE PROBLEM OF SCARCITY

As you learned, **economics** is the study of how individuals, businesses, and countries make things, use things, and earn, spend and save money. People who study economics are known as **economists**. Economists see the basic problem of economics as the **problem of scarcity**. Something is **scarce** if there is not enough of it. The problem of scarcity is based on two facts:

- **Unlimited Wants.** There are many things each of us wants. This is just a part of human nature. Even if we had everything we want now, we would then find new things that we wanted. Therefore, human beings have **unlimited wants.**
- **Limited Resources.** There are only **limited resources** in the world. The goods and services that each society can produce at any one moment are limited. Thus, no society can ever fulfill all of its members' wants.

SCARCITY — THE BASIC PROBLEM IN ECONOMICS: OUR LIMITED WANTS "OUTWEIGH" OUR LIMITED RESOURCES



Societies understand that they cannot satisfy all of their members' unlimited wants. Each society must therefore make choices. It must decide **which** things to produce with the limited resources it has available. Once it has decided **what** to produce, it must decide **how** to produce those goods and services. Finally, it must decide **who** should get the goods and services that are produced.

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What should be produced? | **How should it be produced?** | **Who gets what is produced?**

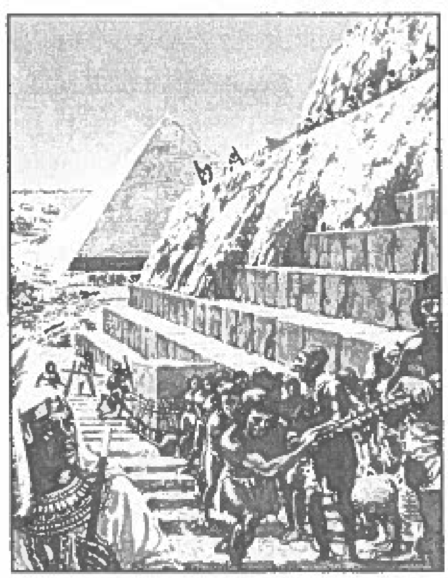
Societies answer these three fundamental economic questions in different ways. Each way is referred to as an economic system. An **economic system** is the framework that a society uses to answer these fundamental questions.

A TRADITIONAL ECONOMY

The oldest type of economic system is a traditional economy. In a traditional economy, people simply follow tradition. They do whatever their ancestors did. If a man's grandfather and father were fishermen, he will be a fisherman too. In these societies, the whole community might work together to harvest crops. People often grow just enough food to feed themselves and their families. Their focus is on meeting immediate needs, known as **subsistence agriculture**. Because people follow traditional ways, often there is no improvement.

> In a **traditional economy**, the three fundamental economic questions — *what to produce*, *how to produce it*, and *who gets what* — are answered by following custom and tradition.

A COMMAND ECONOMY



In ancient times, strong rulers emerged in places like Mesopotamia and Egypt. In these societies, the command economy emerged. In such economies, the ruler told everyone what to do. People generally followed tradition, but the ruler could command people to fight in wars, help with the harvest, or build pyramids. In a **command economy**, government rulers tell members of society how the fundamental questions will be answered. In these societies, the government directs the use of resources to make and distribute goods. More recently, governments have directed economic activities in dictatorships, in socialist societies, and even in freer societies in wartime or in times of economic crisis.

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In a **command economy**, the three fundamental economic questions — *what to produce*, *how to produce it*, and *who gets what* — are answered by the government or its rulers.

A MARKET ECONOMY

The economic system of the United States is known as a **market economy**. In a market economy, also known as **capitalism** or the **free enterprise system**, people own their own goods and property. People get to pick and choose what they do, just like in a giant super "**market**."

PRODUCERS AND CONSUMERS

In a market economy, the answers to the three fundamental economic questions are based on the interaction of two groups — producers and consumers.

- **Producers** are those who make goods or provide services. They decide how much to produce and how to produce it. They also set their own selling prices.
- **Consumers** are those who buy the goods and services they want from producers.

In a market economy, producers are free to decide what goods and services to make and what prices to charge. How much consumers are willing to buy is based on their incomes, needs, and preferences. Consumers are free to spend their money on whatever products they want. They determine which businesses will eventually succeed through their buying decisions.

In a market economy, a consumer's income and needs determine what she will buy.

If consumers do not buy a particular product, after a while producers will lower their prices and may even stop making it. If consumers like a product, producers will make more of it since they are interested in making as much money as possible. If the **demand** for the product is greater than the available **supply**, producers may also raise their prices.

In a **market economy**, the basic economic questions — *what to produce*, *how to produce it*, and *who gets what* — are answered by the **interaction** of producers and consumers. Producers will eventually reach the point at which they are making and selling goods at the right price for consumer demand to equal their supply.