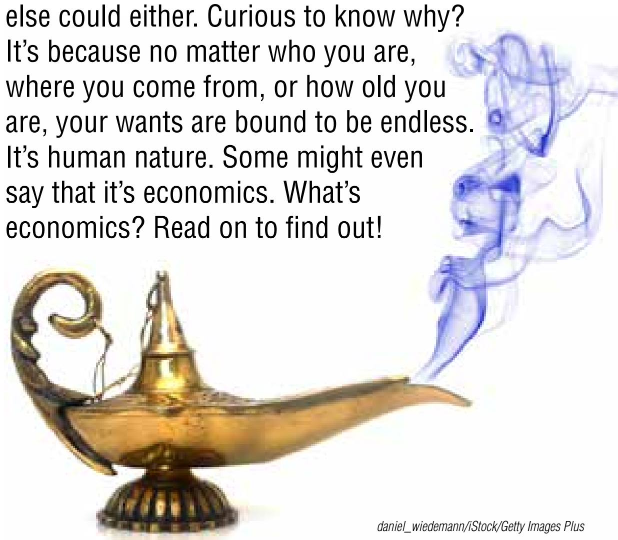
Are You Satisfied?

Economics and Economic Activities

So What?

Have you heard of the folktale "Aladdin"? In the story, the title character finds a magic lamp and becomes master of a powerful genie. The genie makes Aladdin's greatest three wishes come true, and along the way, much drama and excitement ensue. Sure, magic lamps and genies are make-believe, but imagine for a moment what you would do if they were real. If you were to find a magic lamp with a genie inside, what would your three wishes be?

It's hard to narrow your list down to three, isn't it? Could you even get all of your wishes and dreams down on paper? No? That's OK. Nobody else could either. Curious to know why? It's because no matter who you are, where you come from, or how old you are, your wants are bound to be endless. It's human nature. Some might even say that it's economics. What's economics? Read on to find out!



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Objectives

A. Discuss the nature of economics.

B. Explain economic activities.

You Can't Always Get What You Want

Economics is the study of how to meet unlimited, competing wants with limited resources. It is the process of deciding how to get the most with the least—obtaining the greatest satisfaction from the least amount of resources. For example, countries must decide how to meet their citizens' wants with the resources available. Businesses must decide what products to produce and/or provide to consumers. Consumers must decide how to spend their **incomes** to get the goods and **services** they want.

What are wants? **Wants** are desires for things that may or may not be necessities. Your wants might include more friends, sunshine, a new pair of shoes, or an ice cream cone. Or you might want world peace, a higher allowance, or a haircut. It all depends on who you are. No matter what your wants might be, all wants can be divided into two categories: economic wants and noneconomic wants.

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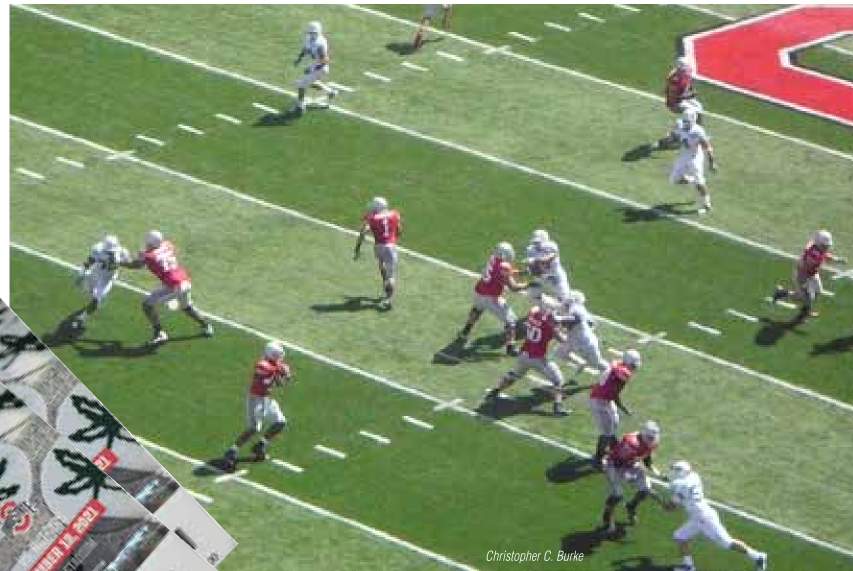
▲ When you're deciding to purchase shoes, you're deciding that the purchase will satisfy a specific want—new shoes.

Economic wants are desires for items that can only be obtained by spending money. These wants can be tangible **goods**, such as jewelry, a cell phone, or food, or intangible items like a manicure, downloadable music, or health care. What things do you want that have monetary value attached to them? A car? An apartment? Tickets to next week's game? These involve the exchange of money and are, therefore, considered economic wants.



Christopher C. Burke

▲ Tickets to a football game may satisfy the want for entertainment with friends on a weekend.

Noneconomic wants, on the other hand, are desires for things that can be obtained without money. Sunshine, fresh air, and friendship are all noneconomic wants. They do not involve the exchange of money and, therefore, are considered to be **free goods**. For our purposes, we will be discussing economic wants—desires for goods and services which can be satisfied through the use of money.

Wants are considered unlimited because everyone always has them. Can you think of even one time in your life when you did not want anything? Consumers, businesses, and governments all have unlimited economic wants throughout their existence. However, these desires change.

For instance, as a child, Courtney wanted a bicycle. As a teenager, she lost interest in the two-wheeler. Instead, she wanted a car—a red convertible, to be exact. Then as an adult, her transportation wants changed again. After having her first child, Courtney wanted a vehicle with plenty of room for her growing family—a minivan.

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▲ Courtney's wants evolved over time because situations change. Each mode of transportation was useful at the time but pertained to different economic wants.

Businesses' economic wants change as well. Suppose that an entrepreneur starts their business in a garage. Then, as the business grows, they move into a small storefront and hire employees. Finally, when the business booms, the entrepreneur invests their funds in a new building for the business.

Our government's economic wants have changed as technology has advanced. Two hundred years ago, our military used muskets. Early in the last century, tanks became the weapon of choice. Today, our military uses missiles and nuclear weapons to protect the nation.

In addition to being unlimited and changing, wants are always competing. This means that we must choose which wants to satisfy at any one time because our resources are limited. We simply don't have enough resources to satisfy all of our needs and wants at the same time.

Where in the World Are the Resources?

Resources are items used to accomplish activities, such as producing or providing goods and services. In economics, there are three categories of resources:

- **Natural resources**
  Natural resources are items found in the environment that are used to produce goods and services. Trees, air, and land are all natural resources. Trees can be used to produce paper products, air can be used to generate electricity, and land can be used to grow agricultural products.

- **Human resources**
  People are our **human resources**. In economics, they are valued for the physical and mental work that they do to produce goods and services. Some examples of human resources are entrepreneurs, construction workers, bus drivers, and police officers. What other human resources can you think of?

- **Capital goods**
  Capital goods include all of the manufactured or constructed items that are used to produce goods and services. This includes the buildings, equipment, and machinery used to produce goods and services, along with the transportation systems used to provide access to the products.

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▲ All resources are limited. Some of those limitations could include a worker's time and energy, or the number of trees that can be removed from a worksite.

Natural resources, human resources, and capital goods are all limited—there are not enough of these resources available to satisfy everyone. Let's consider why our resources are limited.

We depend on the earth for most of our natural resources. As the world's population increases, there will be more people making use of those resources. As a result, there will be fewer resources per person.

Although many natural resources are plentiful, some of them are difficult or costly to obtain. Wind power, for instance, can be difficult to capture when the wind isn't blowing. Also, some developing countries lack the technology to tap their natural resources. In other cases, the supply of natural resources, such as oil, may be running out. Finally, weather conditions and the environment affect the supply of some natural resources. Just think how freezing temperatures affect orange groves.

Even though the earth's population is growing, our human resources are still limited. Only some of the world's people are willing and able to work. Others, especially those who are too young, too old, or who have a debilitating disability, are not part of the workforce.

In addition, many parts of the world are experiencing worker shortages in professions such as nursing and welding. These shortages are occurring for a couple of reasons. First, the labor force in general may lack the specialized training needed to do these jobs. Second, even if there are people who are qualified, they may not live in the geographic region where the job opportunities exist.

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For example, the COVID-19 pandemic has caused more shortages in the health care industry in general. Read more about those shortages here: https://abcnews.go.com/US/pandemic-made-shortage-health-care-workers-worse-experts/story?id=77811713.

Capital goods are limited by the amount of labor and natural resources available to produce them and the money available to purchase them. For example, May's Flowers needed a second delivery truck, but the business could not afford to purchase it and had to rely on the van it already had instead.

In some parts of the world, capital goods are limited due to a lack of technology. In developing societies, people use hand tools rather than mechanized machinery to produce goods and services. As a result, they produce fewer goods and services than other societies, and those that they produce are for personal use rather than capital goods.

The gap between limited resources and unlimited wants for goods and services creates **scarcity**. Economics, in fact, is sometimes called the "study of scarcity." Our goods and services are said to be scarce, or limited, because not everyone can have everything they want.

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To learn more about scarcity and its important role in economics, watch the video "Why Can't We Have Everything We Want?" from EconClips: https://www.youtube.com/watch?v=-0od0t45oeY.

The Gray Zone

Have you looked at your clothing labels lately to find out where your clothes were made? Chances are that most of them were not made in America. Instead, many of today's apparel companies manufacture their products in developing nations, such as China, Mexico, Bangladesh, and Nicaragua. Workers are often paid little and work long, grueling hours with few breaks and uncomfortable conditions.

Although these factories are not in the United States, many people believe that the manufacturers should abide by our labor laws and treat workers with respect, even though it may cost more and ultimately raise prices for consumers. Some of the apparel companies argue in response that they are abiding by the laws of these other countries and are simply making an economic decision. Companies choose to produce in these countries because doing so allows them to sell goods at lower prices and earn higher profits.

The countries where these factories are built are also making economic decisions. Their governments set a low minimum wage requirement in exchange for the investment that companies will make in their economies. They have decided that the opportunity cost of low wages is less than the benefits that large factories will bring to their societies overall.

What do you think? Is the exchange of low wages for labor a fair transaction? Are the companies and countries involved making ethical economic decisions? Would you consider paying more for your clothes if you knew the workers who made them earned a fair wage?

▲ Purchasing a new phone may make it easier to get in touch with friends and family, but it could be much more expensive than your current phone. How would you decide on buying a new phone?

What's It Worth to You?

Although there may be optimists who believe that we can have everything we want, we simply can't. The only ways to eliminate scarcity are to find unlimited resources or to limit human needs and wants. No matter how hard we try, we will never find unlimited resources. It's also impossible to put a limit on the hopes, dreams, and wants of human-kind. There's always something else that somebody in the world wants.

Because our resources are scarce, they must be allocated to their best use. For example, should a person purchase a new cell phone or continue to use their existing phone? Should a business produce its goods by hand or by machine? Should the government spend more money on education or defense?

The process of deciding which goods and services to purchase or provide so that the most satisfaction can be obtained is known as **economizing**. Everyone who has resources tries to economize—to obtain the greatest satisfaction from their limited resources.

When we economize, we decide how scarce resources will be used. Suppose that we decide that a piece of land should be used for a nature preserve rather than for a shopping center. We've decided that we will gain more satisfaction from the nature preserve than from the shopping center. When a choice is made about the best use of resources, the next-best alternative that is given up is called the **opportunity cost** of that choice. Opportunity cost is the benefit that is lost when you decide to use scarce resources for one purpose rather than for another. In this case, the opportunity cost of our decision is the lost income of the shopping center.

Let's look at the opportunity costs in the following:

- You decide to study for an economics exam rather than go out with friends. The opportunity cost of this decision is the lost benefits of socializing with others.
- A retailer decides to close on Sundays so that its employees can rest. The store's opportunity cost is the lost benefits received from being open for business on Sundays.
- A government decides to spend more money on its defense program than on education. The opportunity cost of this decision is the lost benefits from education.

Before deciding how to use your scarce resources, you should examine the opportunity costs involved. Ask yourself, "What am I giving up by making this choice?" If you don't consider what you are giving up, you may make a poor choice.

Economic choices also involve **trade-offs**. This means that individuals, businesses, and governments must be willing to give up all or part of one thing to get something else. For example, some managers may be willing to accept the **production** of fewer products if workers produce higher-quality products. The trade-offs that a person or organization is willing to accept should be based on the opportunity costs involved.

Learn more about opportunity cost in the video "What Is Opportunity Cost?" from Marginal Revolution University: https://www.youtube.com/watch?v=x-hYzRncxTc.

Decisions, Decisions, Decisions

To use scarce resources efficiently, all societies must answer three basic economic questions:

1. **What will be produced?**
Societies must determine what and how many goods and services to produce. They must decide how to allocate their limited resources between production of capital goods and consumer goods.
2. **How will the products be produced?**
Most goods and services can be produced in a variety of ways. Societies must decide the best, most efficient ways to use their limited resources to produce their products.
3. **How will the products be allocated?**
Societies must determine how the goods and services will be divided among their people. They need to decide how individuals, businesses, and governments will share their products.

If more resources are devoted to capital goods than consumer goods, societies can make more and better consumer goods available in the future. Societies, therefore, weigh current consumption against future consumption.

The heart of economics is **decision-making**—choosing among alternatives. The objective of studying economics, therefore, is to prepare for effective decision-making and responsible citizenship in society.

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For a more detailed explanation of these three questions and how they can apply to business, read "Three Basic Economic Questions" by Bobby Jan: https://www.gaebler.com/Three-Basic-Economic-Questions.htm.

Summary

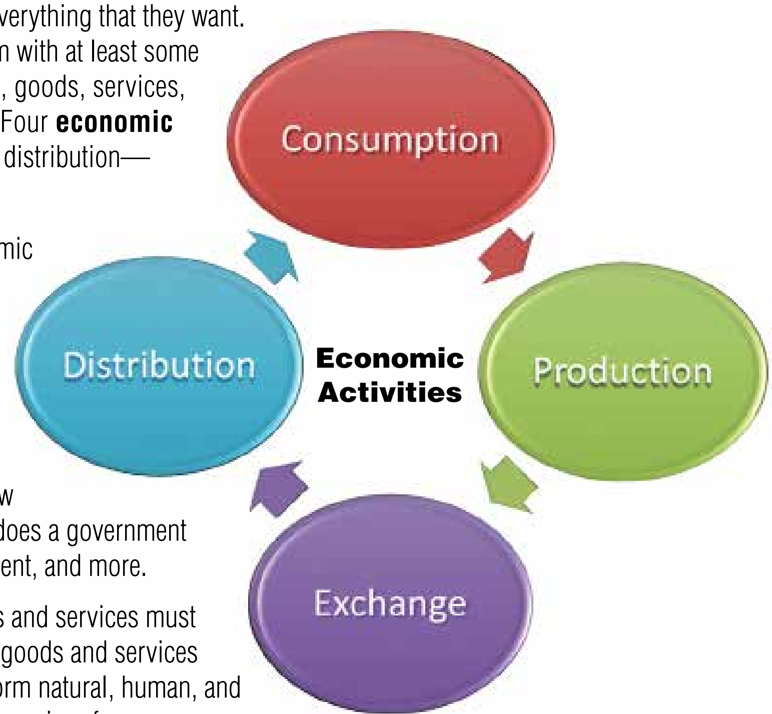
Economics is the study of how to meet unlimited, competing wants with limited resources. Our wants are unlimited because everyone always has desires for goods and services. Our resources are limited because the demand for them is greater than their availability. The gap between unlimited wants and limited resources creates scarcity. Because of scarcity, we must economize, consider the opportunity costs of our decisions, and make trade-offs. To use scarce resources efficiently, societies must decide what will be produced, how products will be produced, and how products will be allocated.

TOTAL RECALL

1. What is economics?
2. Distinguish between economic and noneconomic wants.
3. Explain why wants are considered unlimited, changing, and competing.
4. Identify and describe three categories of resources.
5. Why is each of the categories of resources limited?
6. What is scarcity?
7. Describe the concept of economizing.
8. What is opportunity cost?
9. Discuss the role of trade-offs in economic decision-making.
10. Explain the three basic economic questions that all societies must answer.

Keep Moving for a Healthy Economy

Very few people in the world today can grow or make everything that they want. Instead, most individuals rely on others to provide them with at least some of the goods and services that they desire. As a result, goods, services, and resources must flow from one person to another. Four **economic activities**—consumption, production, exchange, and distribution—make this movement possible.



1. **Consumption.** The ultimate goal of all economic activity is **consumption**, which is the process or activity of using goods and services. Anyone who uses goods and services is a **consumer**. People consume goods and services to satisfy their wants and needs. An individual might consume food, water, and gasoline during a typical day. A business might use electricity, raw materials, and machinery in production. What does a government consume? Paper, automobiles, military equipment, and more.
2. **Production.** For consumption to occur, goods and services must be produced. Individuals who make or provide goods and services are called **producers**. These producers transform natural, human, and capital resources into more valuable goods and services for consumers. Producers include hairstylists, clothing manufacturers, and farmers. How many other producers can you think of?

   The relationship between consumption and production must be balanced. This means that enough goods and services must be produced to satisfy consumers' wants but not so many that producers lose money.

Sustainable Consumption and Production

Recently, there has been a global shift toward minimizing resource use, pollution, and waste in consumption and production. This movement is based on the idea that all resources are limited and should be preserved. Sustainable consumption and production focuses on managing resources in a way that fosters economic growth while also protecting the environment and the needs of future generations.

"3 Ways Sustainability Is Good for Business" from the American Society of Civil Engineers (ASCE) offers an explanation of how sustainable consumption and production can have a positive impact on business: https://www.youtube.com/watch?v=yZYiDhbROZc.

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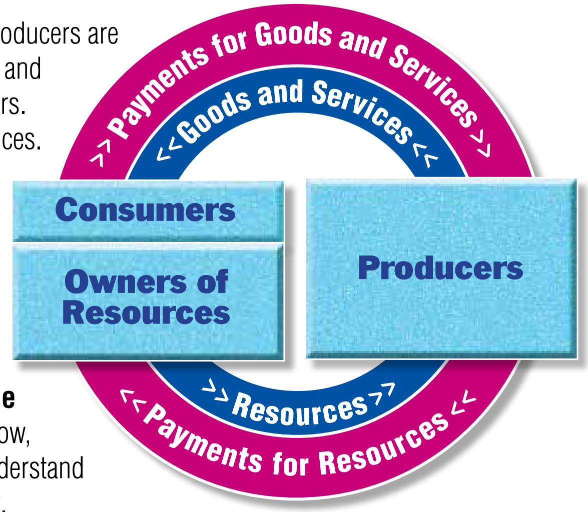
3. **Exchange.** Would you work at your job without being paid? Probably not. After all, you're contributing a human resource (yourself) so that your employer (a producer) can produce a good or service for consumption. Likewise, most **resource owners**—people and organizations who provide human resources, natural resources, or capital goods for use in production—require some form of payment for the use of their resources. Usually, this payment is in the form of money. This money payment may be called different things based on the type of resources being used. For instance, payments for human resources are called wages, salaries, or profits. Payments for capital goods, on the other hand, might be interest or rent. Since producers must have resources for production, they make these money payments.

   After acquiring enough resources from resource owners, producers are able to produce goods and services. To obtain these goods and services, consumers make money payments to the producers. These money payments are the **prices** of the goods or services.

   Are you a consumer, producer, and/or resource owner? Is it possible to be all three?

   The producers, consumers, and resource owners **exchange** money payments. This results in a circular movement, or flow, of resources, goods, services, and money payments. To understand this movement better, take a look at the diagram to the right.

4. **Distribution. Distribution** is the process or activity by which income is divided among resource owners and producers. Money received by resource owners and producers is known as income. The resource owners use their income to buy more goods and services. Producers use their income to buy more resources. The producers and resource owners who receive larger incomes can buy more goods, services, and resources than those who receive lower incomes.

   Producers must feel that their incomes are large enough to continue to provide goods and services. Likewise, resource owners must receive enough income to continue to supply resources. If incomes are not large enough, production and consumption will cease. This results in a tug of war between resource owners and producers over how to divide the income that they receive from consumers. The manner in which resource owners and producers divide their income depends on the type of economic system that exists.

   Think for a minute about a bookstore. The bookstore owner is a producer; they provide consumers with books, magazines, and newspapers. The store makes payments to book suppliers to obtain the store's merchandise. In addition, the store employs individuals who provide human resources to sell the merchandise.

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The bookstore earns an income by selling its goods to consumers. This income must be distributed among the bookstore owner, the book suppliers, and the employees. If any suppliers or employees decide that they are not being paid enough for their resources, they may stop providing their merchandise or labor to the bookstore. Without books and employees, the bookstore could not offer products. Therefore, the bookstore would cease production.

Let's suppose, though, that the suppliers and employees are happy with their incomes. If the bookstore owner is not satisfied with their income or, worse yet, loses money on the venture, they may choose to go out of business. In that case, consumers could no longer purchase reading materials from the store. Consumption would cease.

What's It Worth to You?

In our society, resources, goods, and services have different monetary values. Consumers are typically willing to pay more for goods and services that bring them greater satisfaction, and goods and services that give consumers little satisfaction are usually less expensive. Look at the following examples:

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- An ounce of gold has more monetary value than an ounce of tin.
- Filet mignon has more monetary value than hot dogs.
- Ultra-soft toilet paper has more monetary value than the one-ply kind.
- Bottled water has more monetary value than tap water.

The values attached to money payments depend on a variety of factors, including:

- **Productivity**
  Productive resources usually earn more than less productive ones. For instance, fast computers are typically more highly valued (and, therefore, more expensive) than slow ones. In the same vein, all-star baseball players are generally paid more than ones who sit on the bench most games.
- **Demand**
  As people's desires or demand for resources, goods, and services increases, so does the amount of money they are willing to spend. Consider Kobe Bryant memorabilia. In the months following the basketball star's death, demand for Bryant collectibles increased. As a result, the monetary value of these mementos went up considerably.
- **Availability or supply**
  Resources, goods, and services that are abundant are usually less highly valued than scarce ones. Remember our orange grove and the freezing temperatures? When unseasonably cold weather damages Florida's citrus crops, the price of oranges increases because citrus fruit is scarce. When the weather is mild and the fruit is plentiful, though, the price goes down.

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Summary

The desire for goods, services, and resources has made members of societies dependent upon each other. As a result, goods, services, and resources must move from one individual to another. This movement is possible because of consumption, production, exchange, and distribution. The monetary values attached to these goods, services, and resources depend on productivity, demand, and availability or supply.

TOTAL RECALL

1. What is consumption?
2. Explain the relationship between production and consumption.
3. Why does exchange take place?
4. What is distribution?
5. Explain three factors that impact the values attached to money payments.

Make It Pay!

Every person, every business, every government, and even every school participates in economic activities. Think about the goods and services that your school consumes. On the flip side, what does the school produce? Consider the resources that the school uses to create these goods and services. Where do these resources come from? Finally, how does the school take part in exchange and distribution activities? How do *you* participate in economic activities at your school?

