

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the left and right sides of the frame, creating a modern, dynamic feel. The central area is white, providing a clean space for the text.

# Economic Decision Making

Fundamental Economic Concepts and Reasoning

Imagine that it is Friday night. Your only chunk of free time all weekend is tonight from 6:00 to 11:00.

Before deciding how you will spend this time, consider these factors:

- You have \$40 to spend.
- You have an economics test on Monday.
- This is the last football game of the season.
- It is your mother's birthday.
- Someone you like has asked you out on a date.
- Your favorite band is in town tonight.

Imagine that it is Friday night. Your only chunk of free time all weekend is tonight from 6:00 to 11:00.

Complete the table in your notes of how you will use this time.

Time	Activity	Price
6:00		
7:00		
8:00		
9:00		
10:00		

# Reflection Questions

1. What decisions did you have to make in this exercise?
2. What constraints did you face when making these decisions?
3. For each decision you made about how to spend your time, what did you have to give up?

# What is Economics?

- ▶ The study of how individuals and societies satisfy their unlimited wants with limited resources.
  - ▶ Scarcity exists because wants are unlimited and resources are limited.

# What is scarcity?

- ▶ Wants are desires that can be satisfied by consuming a good or service.
- ▶ Needs are things, such as food, clothing, and shelter, that are necessary for survival.
- ▶ There are not enough resources available to satisfy our wants.
  - ▶ Scarcity affects everyone: individuals, businesses, governments, and societies

# Making choices

- ▶ People make choice because they can't have everything they want and need.
- ▶ Therefore, scarcity affects which goods are made and which services are provided.
  - ▶ Goods: physical objects that can be purchased
  - ▶ Services: work that one person performs for another for payment
- ▶ Scarcity affects the choices of consumers who buy goods and services, and producers who make goods and provide services.

# Examples of Goods and Services

Complete the chart in your notes.

<b>Examples of goods in this classroom</b>	<b>Examples of services in this school</b>



# Scarcity vs. Shortages

- ▶ A shortage is a lack of something that is desired. Shortages can occur for many reasons...
  - ▶ Fads/trends
  - ▶ Wars
  - ▶ Natural disasters
- ▶ The key difference between scarcity and shortages are that shortages are usually a temporary condition until production is resumed or new supply sources are found. Scarcity is forever.
  - ▶ No matter how well people use their limited resources, there will never be enough of everything to satisfy all of their wants.

# Factors of Production

Definition: the economic resources needed to produce goods and services

## ▶ Land

- ▶ All the natural resources, including energy, found on or under the ground that are used to produce goods and services.
- ▶ **Perpetual resources:** a natural resource that is widely available and in no danger of being used up; examples include sunlight and wind
- ▶ **Renewable resources:** a natural resource that, with careful planning, can be replaced as it is used; examples include forests and fresh water
- ▶ **Nonrenewable resources:** a natural resource that cannot be replaced once it is used; examples include oil, coal, and natural gas

## Factors of Production



forest

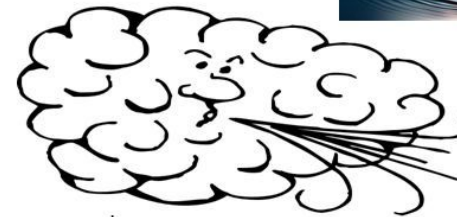
land



minerals



water



air



sunlight

# Factors of Production

Definition: the economic resources needed to produce goods and services

## ▶ Labor

- ▶ All the human time, effort, and talent that go into the production of goods and services in exchange for wages
  - ▶ **Physical labor:** planting crops and building houses
  - ▶ **Mental labor:** writing legal briefs and programming video games
- ▶ Quantity of labor available in a country depends on the size of its population and people's willingness to work.

## Factors of Production



labor



Mental or physical activity in production



# Factors of Production

Definition: the economic resources needed to produce goods and services

## ▶ Labor

- ▶ Quality of labor depends on how skilled the workers are (**human capital**: the knowledge and skill that people gain from education, on-the-job training, and other experiences)
  - ▶ Workers with high human capital are more productive and earn more money than those with few skills.
  - ▶ There is a strong correlation between a country's level of human capital and its standard of living (however, the correlation between human capital and natural resources is weak).
    - ▶ A country like Japan, which is poor in resources but rich in human capital is among the wealthiest nations, while Nigeria, which is rich in oil but poor in human capital, is among the poorest.



# The Human Capital Index

*“The key for the future of any country and any institution lies in the talent, skills and capabilities of its people.”*

- Klaus Schwab

## How does the index measure Human Capital?

Covers **122** Countries  
Contains **51** Indicators  
Distributed into **4** Pillars  
Accounting for **97%** of World GDP

## The 4 Pillars of Human Capital



Education  
(12 indicators)



Health and Wellness  
(14 indicators)



Workforce Employment  
(16 indicators)



Enabling Environment  
(9 indicators)

## Top 10 Countries for Human Capital development

- |                |                   |            |
|----------------|-------------------|------------|
| 1  Switzerland | 5  Sweden         | 9  Denmark |
| 2  Finland     | 6  Germany        | 10  Canada |
| 3  Singapore   | 7  Norway         |            |
| 4  Netherlands | 8  United Kingdom |            |



# Factors of Production

Definition: the economic resources needed to produce goods and services

## ▶ Capital

- ▶ All the physical resources made and used by people to produce and distribute goods and services.
  - ▶ **Financial capital:** money used for investment or production
  - ▶ **Physical capital:** the manmade objects - tools, machines, and factories - used in production (also called capital goods)
  - ▶ **Venture capital:** financial resources invested in businesses considered too risky for mainstream investing (many tech companies getting funding from venture capitalists)

**Physical capital**



# Factors of Production



Definition: the economic resources needed to produce goods and services

## ▶ Entrepreneurship

- ▶ The combination of vision, skill, ingenuity, and willingness to take risks that is needed to create and run new businesses.
- ▶ Involves the combining of land, labor, and capital in new ways to produce goods and services.
- ▶ Entrepreneurs are...
  - ▶ Innovators
  - ▶ Strategists
  - ▶ Risk-takers
  - ▶ Sparkplugs

*The critical ingredient is getting off your butt and doing something. It's as simple as that. A lot of people have ideas, but there are few who decide to do something about them now. Not tomorrow. Not next week. But today. The true entrepreneur is a doer, not a dreamer.*

- Nolan Bushnell, founder of Atari and Chuck E. Cheese



# Productivity

- ▶ A measure of the efficiency with which goods and services are produced, stated as a ratio of output per unit of input
- ▶ Productivity can be increased by...
  - ▶ getting more output from the same inputs (increasing efficiency)
  - ▶ getting the same output with fewer inputs (decreasing resources like labor)

# What is Productivity?

