



Chapter 1: What is Economics? Section 1

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ECONOMICS

PEARSON

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Objectives

1. **Explain** why scarcity and choice are the basis of economics.
2. **Describe** what entrepreneurs do.
3. **Define** the three factors of production and the differences between physical and human capital.
4. **Explain** how scarcity affects the factors of production.



Key Terms

- **need:** something essential for survival
- **want:** something that people desire but that is not necessary for survival
- **goods:** the physical objects that someone produces
- **services:** the actions or activities that one person performs for another
- **scarcity:** the principle that limited amounts of goods and services are available to meet unlimited wants



Key Terms, cont.

- **economics**: the study of how people seek to satisfy their needs and wants by making choices
- **shortage**: a situation in which consumers want more of a good or service than producers are willing to make available at particular prices
- **entrepreneur**: a person who decides how to combine resources to create goods and services
- **factors of production**: the resources that are used to make goods and services



Key Terms, cont.

- **land:** all natural resources used to produce goods and services
- **labor:** the effort people devote to tasks for which they are paid
- **capital:** any human-made resource that is used to produce other goods and services
- **physical capital:** the human-made objects used to create other goods and services
- **human capital:** the knowledge and skills a worker gains through education and experience



- How does scarcity force people to make economic choices?
 - Scarcity forces all of us to make choices by making us decide which options are most important to us.
 - The principle of scarcity states that there are limited goods and services for unlimited wants. Thus, people need to make choices in order to satisfy the wants that are most important to them.



Scarcity and Choice

- People satisfy their needs and wants with goods and services.
 - People's needs and wants are unlimited, yet goods and services are limited.



Scarcity and Choice, cont.

- Economics begins with the idea that people cannot have everything they need and want.
 - The fact that limited amounts of goods and services are available to meet unlimited wants is called scarcity.
 - Scarcity forces people to make choices but it is not the same as a shortage.
 - Shortages are temporary while scarcity always exists.



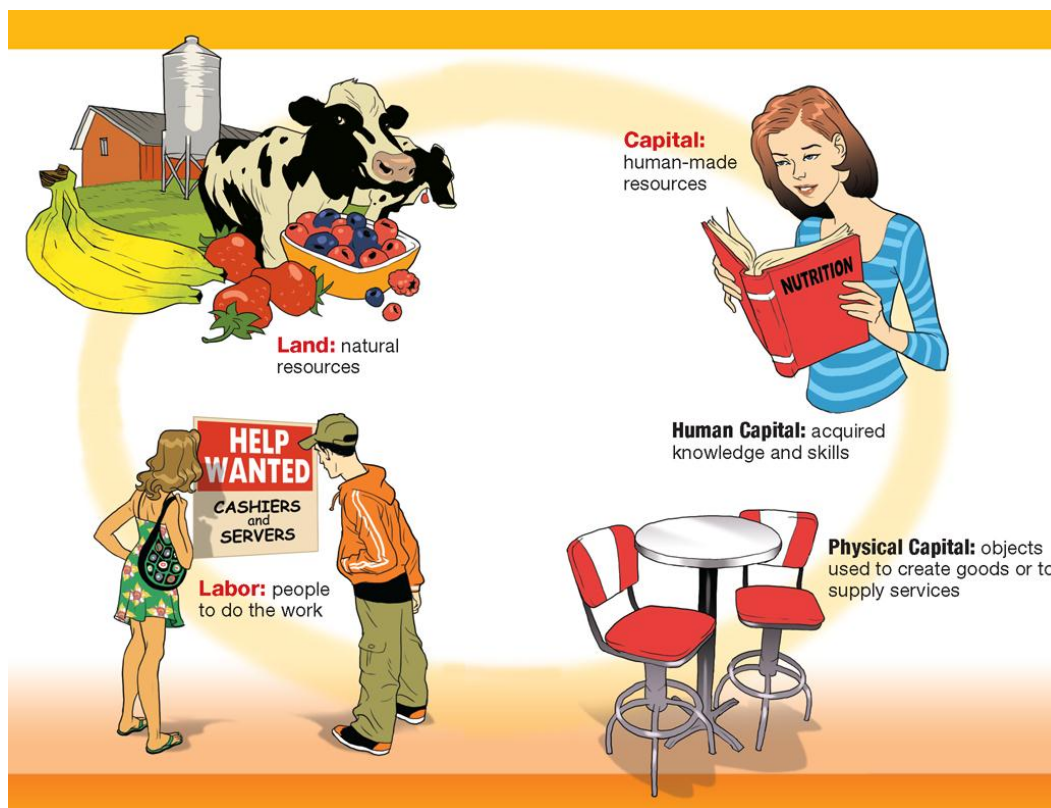
Entrepreneurs

- Entrepreneurs play a key role in turning scarce resources into goods and services.
- Entrepreneurs are willing to take risks in order to make a profit. They:
 - Develop original ideas
 - Start businesses
 - Create new industries
 - Fuel economic growth



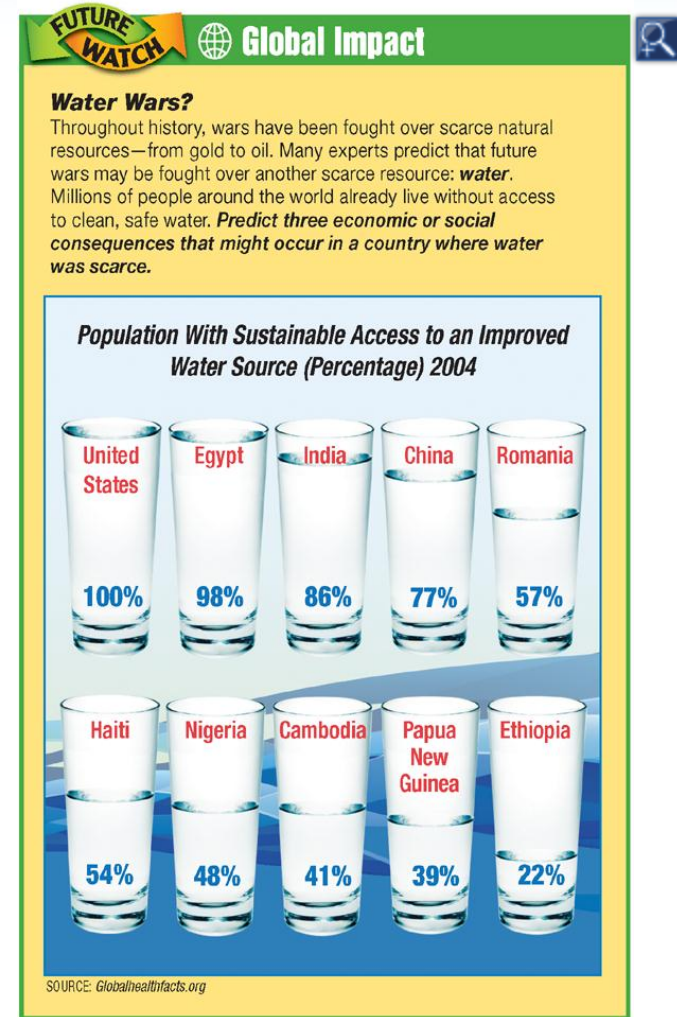
Entrepreneurs, cont

- An entrepreneur's first task is to assemble the factors of production: land, labor, and capital.



Factors of Production: Land

- Land refers to all natural resources used to produce goods and services.
- These resources include:
 - Fertile land for farming
 - Oil
 - Coal
 - Iron
 - Water
 - Forests



Factors of Production: Labor

- Labor is the effort people devote to tasks for which they are paid.
- Labor includes:
 - The medical care provided by a doctor
 - The classroom instruction provided by a teacher
 - The tightening of a bolt by an assembly-line worker
 - The creation of a painting by an artist
 - The repair of a television by a technician



Factors of Production: Capital

- Capital refers to any human-made resource that is used to produce other goods and services.
- An economy requires both physical and human capital to produce goods and services.
 - Physical capital includes:
 - Buildings
 - Equipment
 - Tools
 - Human capital includes:
 - A college education
 - Training
 - Job experience



Benefits of Capital

- Capital is a key factor of production because people and companies can use it to save a great deal of time and money.
- The benefits of capital include:
 - Increased efficiency
 - Increased knowledge
 - Better time management
 - Increased productivity



Scarce Resources

- Checkpoint: Why are goods and services scarce?
 - All goods and services are scarce because the resources used to produce them are scarce.
 - There are only so many natural resources available to produce particular goods.



Scarce Resources, cont.

- The amount of labor available to produce goods and services can be limited.
- Physical capital is also limited for many industries.
- Each resource may also have alternative uses. Individuals, businesses, and governments have to choose which alternative they want most.



Review

- Now that you have learned how scarcity forces people to make economic choices, go back and answer the Chapter Essential Question.
 - How can we make the best economic choices?

