1 The Meaning of Economics

OVERVIEW

1. Economics is a social science that studies how society chooses to allocate its scarce resources, which have alternative uses, to provide goods and services for present and future consumption.

2. Goods, including services, are anything that satisfies wants.

3. Resources, the factors of production, are classified as land, labor, capital, and entrepreneurship. Capital is man-made inputs to production.

4. Because human wants and needs are nearly unlimited, and resources limited, scarcity results. Scarcity is the economic problem.

5. Scarce resources require choosing how to use the resources.

6. When resources are used to produce one good, they cannot also be used to produce another. The good not produced is the opportunity cost of the good produced. All choices impose opportunity cost.

7. Some choices are between consumption of one good or another good today. Other choices are between consumption today and consumption tomorrow.

8. A social science studies aspects of human behavior through the application of the scientific method. Models are the major tool of the economist.
MATCHING

Match the following terms with their meanings.

_____ 1. economics    a. a social science studying the allocation of scarce resources

_____ 2. goods and services    b. what you give up to get something

_____ 3. resources    c. describes the world

_____ 4. land    d. what should be, values

_____ 5. labor    e. anything that satisfies a want

_____ 6. capital    f. factors of production

_____ 7. entrepreneurship    g. the earth, what grows on it, or can be taken from it

_____ 8. free good    h. human effort both physical and mental

_____ 9. scarcity    i. the creative skill of putting resources together

_____ 10. allocate    j. a good without an opportunity cost

_____ 11. opportunity cost    k. not having enough for all needs

_____ 12. social science    l. to distribute or spread around

_____ 13. positive    m. scientific ways of thinking applied to human behavior

_____ 14. normative    n. a simplification of reality

_____ 15. model    o. a man-made tool of production
TRUE-FALSE
Mark the following statements as T (for true) or F (for false).

____   1. Economics is primarily about making money.

____   2. Economists think that if china plates are scarce, then there is an opportunity cost associated with obtaining more china plates.

____   3. Resources is just another name for goods and services.

____   4. Most goods are free.

____   5. Capital is a resources that deals with money.

IN THE NEWS

1. A frequent complaint among homeowners is the lack of closet space. Yet many homes devote more space to closets than to bathrooms. However, homes with relatively more closet space are hard to sell. The complaint is then that the rooms are too small.

   a. This reading indicates that floor space is a scarce good. Why is this good scarce? _____

   b. What are the alternatives with floor space?________________________________________

   c. What is the opportunity cost of closets?________________________________________

2. The Norton Simon Museum in Pasadena, California has a problem. It has collected more art than it has display space. The museum has a permanent collection which is always on display. Part of the remaining collection is shown and the rest stored until it can be rotated. The museum may eventually expand, but for now it displays only a part of its collection.

   a. What is the scarce good?____________________________________________________

   b. What choice must the museum make with its collection_________________________

   c. What is the opportunity cost of that choice?___________________________________

3. The common complaint among patients about their doctors is the time spent waiting in the doctor's office. Patients claim that doctors overbook appointments. Doctors claim that a significant number of patients do not show or are late for their appointments. Doctors also note that as professionals they must tend to anyone who has need of their service. The medical profession is also uncertain; doctors never know when an emergency will arise.

   a. What is the scarce good for the patient?________________________________________

   b. What choice does the patient have?____________________________________________
4. Football fans frequently argue over the strategies professional football teams use in drafting players. Some teams are looking for a player for a particular position, and when their turn comes, they draft the best available player at the desired position. Other teams simply draft the best player available regardless of position. These teams argue that by selecting the best possible player regardless of position, they can trade the player they draft for a better player than they could draft for the desired position.

a. What is the scarce good? ____________________________
b. What choice does the football team have? ____________________________
c. What is the opportunity cost of that choice? ____________________________

5. Some wearers of blue jeans have noticed pain in the groin area and numbness in the thighs. The medical profession traces this condition, named meralgia paresthetica, to fashionable jeans that are too tight. The cure is relatively simple: throw out the jeans or lose weight!

a. What are the scarce goods? ____________________________
b. What choice does the jeans wearer have? ____________________________
c. What is the opportunity cost of that choice? ____________________________

PRACTICE TEST

Circle the correct answer.

1. The basic economic problem facing society is:
   a. the scarcity of resources.
   b. too little money.
   c. prices are too high.
   d. too little employment.

2. Raymond is asked by an economist to name something that is scarce. Which should he name?
   a. Luxury yachts
   b. Pots and pans
   c. Candy bars
   d. All of the above
3. Bob uses a shovel as part of his employment as a landscape gardener. Joan uses her rake to tend her own flower garden. Choose the correct combination.
   a. The shovel is a capital good while the rake is a consumer good.
   b. The shovel is a consumer good while the rake is a capital good.
   c. Both are capital goods.
   d. Both are consumer goods.

4. A restaurant serves a shrimp dinner and a steak and shrimp combination for the same price. There are 9 shrimp with the dinner and 4 shrimp with the steak combination. What is the opportunity cost of the steak in terms of shrimp?
   a. 4 shrimp
   b. 5 shrimp
   c. 9 shrimp
   d. Cannot be determined.

5. “Students pay too much for their books” is a ____________ statement. “Every student has at least two classes every day” is a _______________ statement.
   a. Positive, positive
   b. positive, normative
   c. normative, positive
   d. normative, normative

ANSWERS

Matching

   1. a
   2. e
   3. f
   4. g
   5. h
   6. o
   7. i
   8. j
   9. k
   10. l
   11. b
   12. m
   13. c
   14. d
   15. n

True-False

   1. F
   2. T
   3. F
   4. F
   5. F
In the News

1. a. Floor space is scarce because we cannot get as much of it as we want, and we must allocate existing floor space among competing uses.
   b. Whether to allocate floor space to closets or rooms.
   c. The opportunity cost of more or bigger closets is smaller rooms. The more scarce floor space allocated to closets, the less floor space allocated to rooms.

2. a. The scarce good is display space.
   b. What art to display and for how long.
   c. By showing some art, it cannot display other art.

3. a. The scarce good is time.
   b. The patient can wait, try to find a doctor with a shorter wait, or do without medical care.
   c. The patient that chooses not to wait gives up the medical care. The patient that chooses to wait gives up the best alternative use of his or her time.
   d. The doctor can give up patients, or give even less time to each patient, or continue the current policy.
   e. The cost to the doctor of giving up patients is income as well as professional responsibility. If the doctor gives less time to each patient, the doctor may end up giving lower quality care (and be more subject to malpractice suits). To continue the current policy would cost the doctor the good will of the patient.

4. a. The scarce good is talented players.
   b. Drafting the best player or the best player at the desired position.
   c. If the team drafts the best player, the player may not be able to play the position the team needs. If it drafts the best player at the position it needs, it may give up the opportunity to trade for a better player at that position.

5. a. The scarce goods are health and fashionable jeans that fit.
   b. The jeans wearer can be fashionable and sore, or healthy and not so fashionable.
   c. If the jeans wearer chooses fashion, the sacrifice is health. If the jeans wearer chooses health, the sacrifice is fashion.

Practice Test

1.a., 2.d., 3.a., 4.b., 5.c.