

Topic 1.1: Scarcity

LO: MOD-1.A | Skill: 1.A | Portfolio: Advisor Memo 1

I. The Fundamental Economic Problem

Scarcity is the condition in which human wants are **unlimited** but the resources to satisfy them are **limited**.

- Because resources are limited, individuals and societies are forced to make **choices**.
- **Economics** is the study of how people make choices under scarcity.

II. The Four Economic Resources (Factors of Production)

Every good or service is produced using some mix of four inputs:

- **Land** — all natural resources (soil, water, minerals, oil, forests).
- **Labor** — human physical and mental effort used in production.
- **Capital** — manufactured aids to production (tools, machines, buildings). Note: capital is NOT money.
- **Entrepreneurship** — the initiative that organizes the other three and takes the **risk** of producing.

III. Scarcity vs. Shortage

These terms are often confused. They are not the same.

- Scarcity is **permanent** and universal — it never goes away.
- A shortage is **temporary** and specific — quantity demanded exceeds quantity supplied at the current price.
- A good that is scarce and carries a price is an **economic good**; a good available in unlimited amounts at zero price is a **free good**.

IV. Scarcity Forces Choices

Because resources are scarce, every choice means giving something up.

- A **trade-off** is what you sacrifice when you pick one option over another.
- The **opportunity cost** is the value of the next-best alternative given up.
- There is no such thing as a **free lunch** — every choice has a cost.

- Scarcity scales up: individuals, businesses, and **governments** all face it — which is why macroeconomic policy is choice under scarcity.