

Topic 1.1: Scarcity

LO: MKT-1.A | Skill: 1.A | Portfolio: Analysis 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 firms are forced to make **choices**.
- Economic **trade-offs** arise directly from scarcity — they are the result of not having enough resources.

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, timber).
- **Labor** — human physical and mental effort used in production.
- **Capital** — manufactured aids to production (tools, machines, equipment). Note: capital is NOT **money**.
- **Entrepreneurship** — the initiative that organizes the other three and takes the **risk** of producing.

III. What Is Scarce — and What Is Not

Most resources are scarce, but not every input is.

- A **rival** resource is used up when one user takes it — one firm's use leaves less for everyone else (land, labor, capital).
- A **non-rival** resource is not used up by being used — for example, established **knowledge** or an idea, which many firms can apply at once.
- This is why most factors of production are scarce, but some — such as a known method or recipe — may **not** be scarce.

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.

- A good that is scarce and carries a price is an **economic good**; a temporary gap where quantity demanded exceeds quantity supplied at the current price is a **shortage** — not the same as scarcity.
- Scarcity scales down as well as up: a single consumer, a single **firm**, and a single market all face it.