scarcity, choice, opportunity cost, and utility

foundations of economics

brad cartwright

scarcity

- scarcity is a simple concept!
- scarcity simply means that there is not enough of something to satisfy everyone who wants it....and therefore you must pay a price for it
- any item that costs something is scarce
- once you pay a price for it, that item becomes an economic good, which is defined as any good or service that has a price, and is thus being rationed
- if it were not scarce, it would be free or a free good, and you could have as much as you wanted w/o paying for it

source: jocelyn blink

choice

- understanding that people make choices is key to understanding and studying economics
- since people do not have infinite incomes, they make choices whenever they purchase goods and services
- they have to make decide how to allocate their limited financial resources and so always need to chose between alternatives
- this leads to one of the core concepts in economics: opportunity cost

source: jocelyn blink

opportunity cost

- this might sound complicated but it's not
- *opportunity cost* is simply what you give up in order to have something else
  - if you buy an empanada instead of a chicken wrap, the opportunity cost of your empanada is the chicken wrap
- other ideas…
  - if a good or service has an opportunity cost then it must be relatively scarce, so it will have a price and be classified as an "economic good"
  - "free goods" do not have an opportunity cost, they're not scarce, so they have no price, so they are free

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source: jocelyn blink

utility

- *utility* is a measure of usefulness and pleasure a consumer receives when they consume a product
- two basic kinds of utility
  – *total utility:* total satisfaction gained from consuming a certain quantity of a product
  – *marginal utility:* the extra utility gained from consuming one more unit of a product
    - it is believed that, in the majority of cases, the marginal utility gained from extra units of a product falls as consumption increases

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source: jocelyn blink