FOUNDATIONS OF ECONOMICS UNIT

SCARCITY, CHOICE, OPPORTUNITY COST, AND UTILITY

IB CORE CONCEPTS AND NOTES SPECIFICALLY RELATED TO THIS VIDEO

IB Core Concept	Standard Level and High Level Concept
Foundations of IB Economics	• Explain the definition of economics as a social science • Define, give examples of, and distinguish between, goods and services, needs and wants, economic goods and free goods • Define opportunity cost and understand its link to relative scarcity and choice • Explain the basic economic question: *What to produce*? *How to produce it*? and *For whom to produce*? Source: IB Economics Subject Guide

The Big Picture

- *Economics is a social science—which is the study of how people interact with each other.*
- *Key concept: People think! We are not robots so our individual behavior is not always predictable, but large group behavior is actually quite predictable and therefore "studyable".*
- *This is what economists use to study our behavior.*
- *Logic of economics…*
    - *Earth has limited resources.*
    - *Resources are used to produce goods and services.*
    - *People have infinite wants and needs.*
    - *There is a conflict between finite resources and infinite needs and wants.*
    - *People can't have everything they want so resources must be rationed in some way.*
    - *This is where economics comes in.*
- *Economics is the study of how scarce resources are allocated to fulfill infinite wants of consumers*

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.

Choice

- Understanding that people make choices is key to understanding & 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 choose between alternatives.
- This leads to one of the core concepts in economics: opportunity cost.

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.

Utility

- *Definition: 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.

Source: Jocelyn Blink and Ian Dorton. IB Economics: Course Companion, Second Edition.