

PRINCIPLES OF ECONOMICS I

AEM 102/ AGRIC ECONS AND FARM MGT.

DR A. E. OBAYELU



Course Descriptions

Economic Problems (PART A)

- This module talks about:
- Some of the ways Economics have been defined
- Types of economic resources
- Fundamental economic problem

SUNNYWISE

LEARNING OBJECTIVES

At the end of this module, students should be able to:

1. Identify the various types of economic resources
2. Explain the basic economic problem
3. Explain the basic questions in economics due to the problem of scarcity

Recall some of the various definitions of Economics

- **Economics** is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses – Robbins
- **Economics** as the study of man in the ordinary business of life. Alfred Marshall
- **Economics** is a [social science](#) that seeks to analyze and describe the production, distribution, and [consumption](#) of wealth.
- **Economics** is not just about money but making different choices or alternatives
- **Economics** is the study of scarcity.
- Economics is the study of allocation of scarce resources to satisfy human wants.



What are Economic Resources?

- Economic resources also called the factors of production.
- Economic resources consist of:
 - (i) natural resources such as: minerals, forests, rivers and agricultural land. This we often call **land**
 - (ii) **Labor** : is human resource which consists of human beings who possess a wide array of skills needed to produce goods and services **[or]** all physical and mental talents of individuals or

What are Economic Resources? Conts

(iii) **Capital**: are human-made resources which consist of tools, equipment, machinery, buildings, financial instruments and transportation networks to facilitate production

Or all manufactured aids/tools/equipment used in producing goods and services, and cash

(iv) **Entrepreneurial ability**: This is a special labour skill. It includes: initiator, innovator, strategic decision maker, risk taker.

All these are used in the production of goods and services.

- They are **economic resources** because they are scarce (limited in supply and desired).

Rewards to Economic Resources

The respective returns to these resources is often described as

- **rent** for land;
- **wages** for labor;
- **interest** for capital; and
- **profit** for the entrepreneur.

That is, the owner of land is entitled to receive rent, the worker is entitled to receive a wage, the owner of capital is entitled to an interest payment, and the entrepreneur retains any profit.

FUNDAMENTAL ECONOMIC PROBLEMS

The basic economic problem is the issue of

- (i) Scarcity
 - (ii) How best to produce and
 - (iii) distribute these **scare resources**.
-
- Scarcity means there is a **finite** supply of goods and raw materials.
 - Finite resources mean they are limited and can run out.

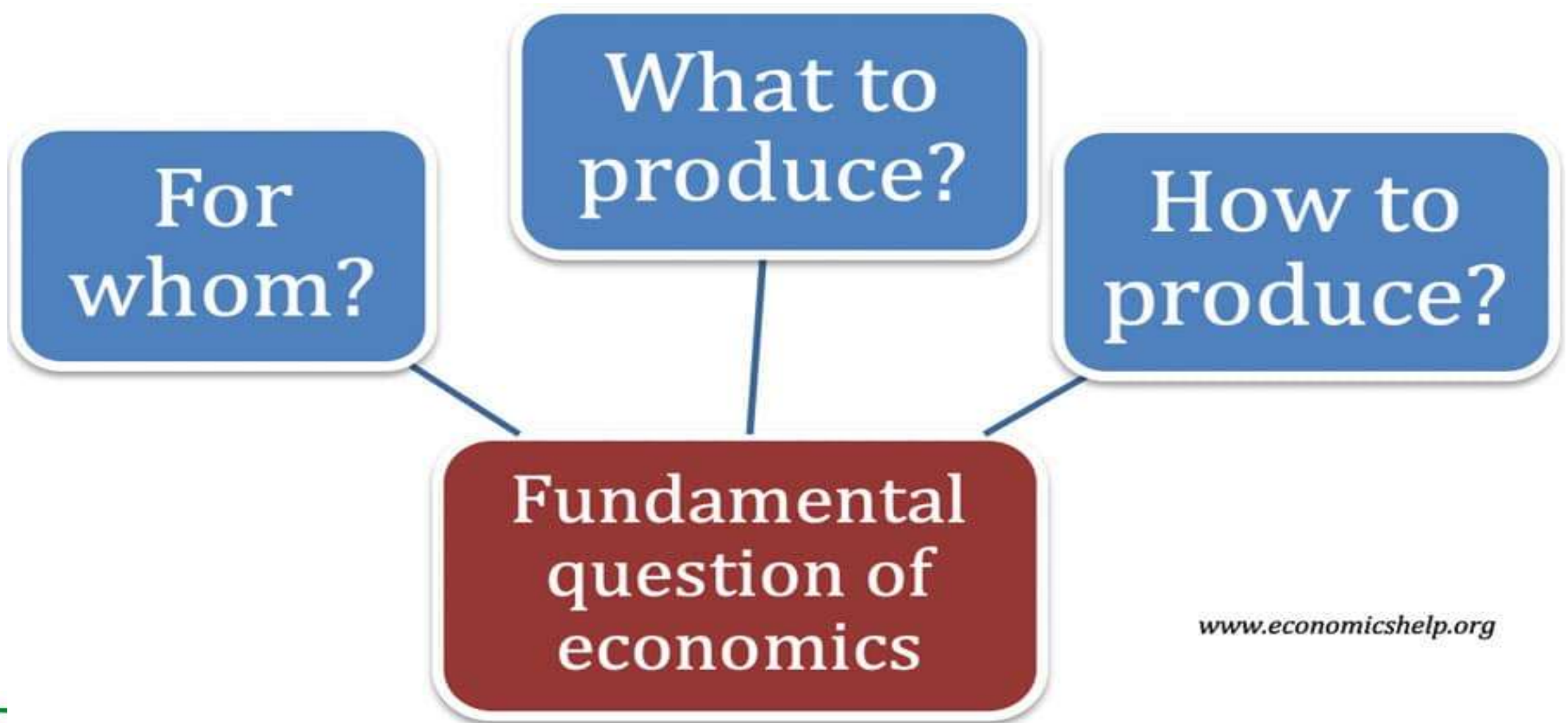
UNLIMITED WANTS

- **Unlimited wants** mean that there is no end to the quantity of goods and services people would like to consume.
- Because of unlimited wants – People would like to consume more than it is possible to produce (scarcity)
- Output is limited by the state of technology and the quantity and quality of the economy's resources, ie the quantity and quality of human, capital and natural resources

Why Cost/Price on Goods and Services?

- Because economic resources and output of goods and services are limited, the production of each good and services involves cost.
- Each good and service produced is supplied at a price greater than zero.
- Decisions must be made regarding
 - (i) What to produce
 - (ii) How to produce and
 - (iii) for whom to produce?

Fundamental Economic Questions

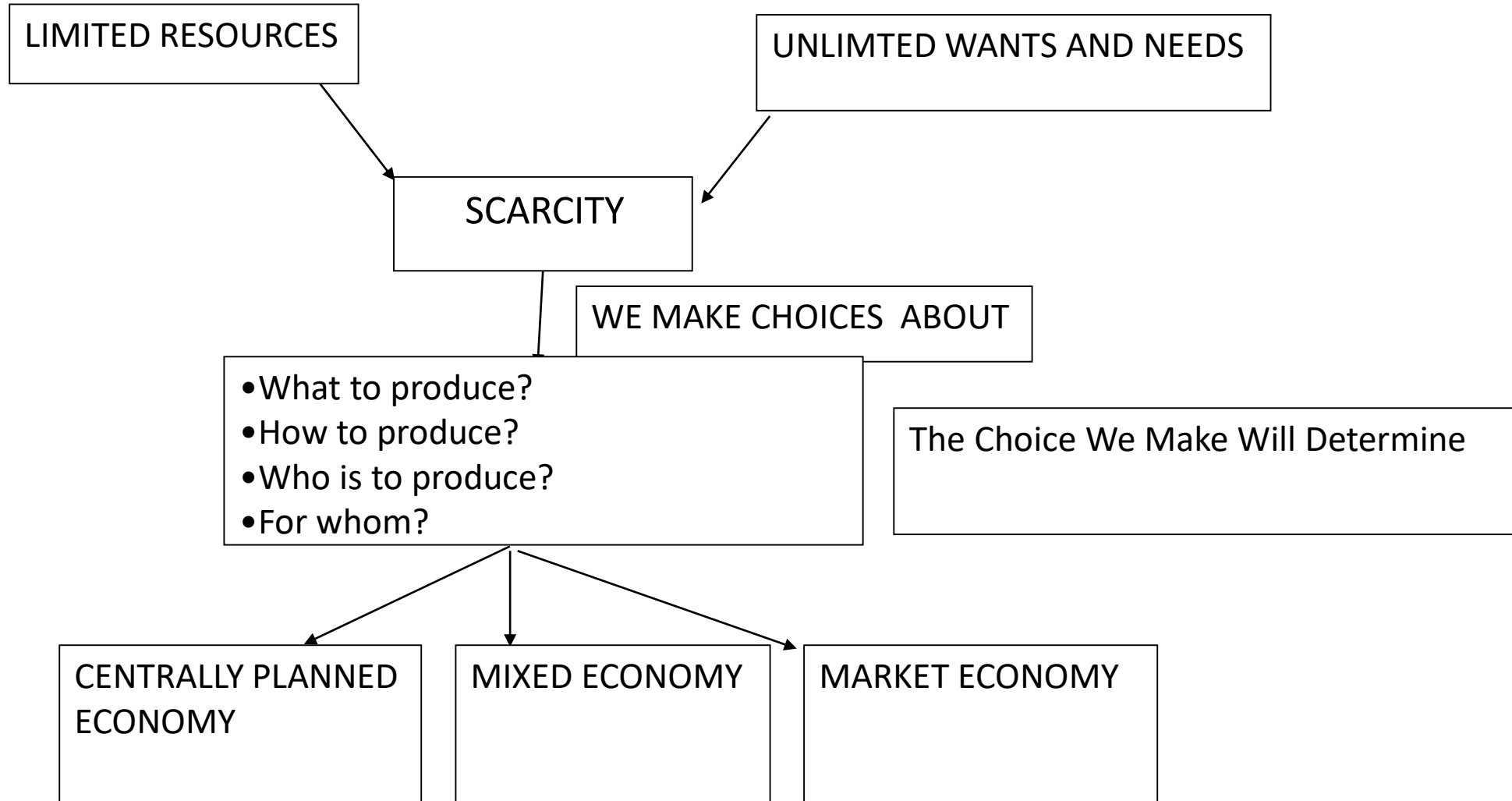


www.economicshelp.org

SCARCITY

- **Scarcity** is when the **means** to fulfill **ends** are limited and costly.
- We can say the central problem of all economies is scarcity
- Without scarcity, there is no economics
- Limited resources + Unlimited wants = Scarcity
- Scarcity is the basis of many economic concepts because it constrains or limits our behavior
- Scarcity exists worldwide because people want more goods and services than can be produced by each economy's limited supply of economic resources
- Scarcity is a fundamental problem for every society.

SCARCITY



What does scarcity do?

Scarcity forces individuals, firms governments and societies to make choices

SUNNYWISE

Examples of Economic Problem

By Consumers/ Households

Households have limited income and they need to decide how to spend their finite income.

By Workers

Householders will also face decisions on how much to work. For example, working overtime at the weekend will give them extra income to spend, but less leisure time to enjoy it.

By Producers

A producer needs to remain profitable (revenue higher than costs). So it will need to produce the goods which are in high demand and respond to changing demands and buying habits of consumers

Examples of Economic Problem Conts

By Firms

Firms may also need to make long-term investment decisions to invest in new products and new means of production.

Government

The government has finite resources and its spending power is limited by the amount of tax that they can collect. The government needs to decide how they collect tax and then they need to decide whom they spend money on.

For example, the government may wish to cut benefits to those on low income to increase incentives to work.

However, cutting benefits will increase inequality and relative poverty.

WHAT TO PRODUCE?

- What to produce involves decisions about the **kind and quantities of goods and services to produce**
- Every society must decide how many mansions and low cost houses to construct
- How many schools and teachers to train
- How much food and medical service to supply
- How many civilian and defence goods and services to supply

HOW TO PRODUCE?

- How to produce involves decisions about techniques to use and how economic resources of labour capital and land are to be combined in producing an output.
- Labour, capital and land are resources or factors of production
- Do you use capital intensive or labour intensive production technique?

WHOM TO PRODUCE?

- For whom to produce involves decisions on the distribution of output.
- It is how what has been produced is to be distributed among members of the society
- Payment of income to individuals in the society, the price of each good and services, and the personal preferences of each individual will determine the distribution of goods and services among members of the society

OPPORTUNITY COST

- Decision on what to produce and how to produce involve opportunity costs.
- An opportunity cost is what is sacrificed to implement an alternative action.
- It is what is given up to obtain or produce a particular good or service
- For example what is given up to expand a country's military arsenal in a full employment economy is the decreased production of non-military goods and services

OPPORTUNITY COST **Conts**

- Opportunity costs are found in every situation in which scarcity necessitates decision making
- Opportunity cost exists for society as a whole
- The greater the number of people trained to provide medical services, the fewer are available to be teachers, lawyers, accountants, engineers.
- Therefore, the opportunity cost of training more people to provide medical service is the amount of legal, educational, accounting staff and engineers that will not exist

OPPORTUNITY COST **Conts**

- As more of a society's capital equipment is used to produce cars, less capital is available for production of washing machines, boats and bicycles.
- When more land is used to produce maize less is available for production of yams
- The opportunity cost of expanding maize production is the decreased amount of yam produced

OPPORTUNITY COST **Conts**

- Opportunity cost also exists for an individual.
- Time is a scarce resource
- The more time you spend studying, the less time is available for leisure activities such as sports, TV, and socializing.
- There is opportunity cost in last minute cramming for examination, it is the time you would otherwise have allocated to sleeping the night before

Summary: Basic Economic Decisions as a Result of Problem of Scarcity

➤ **What to produce** – This involves decisions about the kinds and quantities of goods and services to produce

➤ **How to produce** – This requires decisions about what techniques to use and how the economic resources are to be combined in producing output

SUNNYWISE

➤ **For whom to produce** – this involves decisions on the distribution of output among the members of a society