

# Chapter1 Topics

- ▶ The purpose of the economic activity:
- ▶ Individuals as consumers .
- ▶ :Scarcity
- ▶ a scale of preferences
- ▶ A choice
- ▶ Opportunity cost
- ▶ How to calculate Opportunity Cost
- ▶ The relation between scarcity, scale of preferences, choice, and opportunity cost
- ▶ Needs Vs Wants
- ▶ Goods Vs services
- ▶ Types of goods
- ▶ Production
- ▶ Stages of Production
- ▶ Factors of Production
- ▶ Consumption, Savings, and Investment in an economy.

**Dr. Ahmed I. Hamed**





- ▶ The purpose of the economic activity : is to narrow down the gap between poor and rich people & to cover the unlimited human needs with the limited resources.
- ▶ Individuals as consumers w/n an economy: require too many goods & service, however most individuals' incomes restrict them in what they can buy, while others who are richer can spend part of their income to buy even more luxury goods.
- ▶ Scarcity : means that resources are not enough to meet the unlimited human needs and wants.
- ▶ A choice : is the process of selecting one option from among different alternatives. It must be done as some needs can be satisfied while others cannot. )





- ▶ **A scale of preferences** : In making a choice a person will have to mentally arrange priorities of needs and or wants in his/her head.. This is known as a scale of preferences.
- ▶ All the choices made by people (Whether they are individuals, businesses or governments), involve opportunity cost.
- ▶ **Opportunity Cost**: It is the next best alternative forgone (have had to do without).
- ▶ Opportunity cost represents the potential benefits that a business, an investor, or an individual consumer misses out on when choosing one alternative over another.



Dr. Ahmed Hamed





## The relation between scarcity, scale of preferences, choice, and opportunity cost in very simple equation

1. **Scarcity** forces individuals to make choices because resources are limited.
2. **Scale of preferences** refers to the ranking of wants or needs based on importance.
3. **Choice** is the decision made based on these preferences.
4. **Opportunity cost** is the value of the next best alternative foregone when a choice is made.
  - ▶ The relation can be captured in this simple equation:
  - ▶ **Scarcity→Scale of Preferences→Choice→Opportunity Cost** \ Whereas:
  - ▶ **Scarcity** forces the need to make choices.
  - **Choices** are made based on the ranking (scale of preferences).
  - The **Opportunity Cost** is the value of the option not chosen.



# Satisfying needs and wants

- ▶ Our needs and wants depend on what we already have and what we would like to have in the future.
- ▶ Some people may see their needs as being food, water, clothing, shelter and safety.
- ▶ While others who have their basic needs met, may want even more luxury items such as cars, holidays and meals out.
- ▶ This may show the difference between a need and a want.

**Dr. Ahmed Ibrahim Hamed**



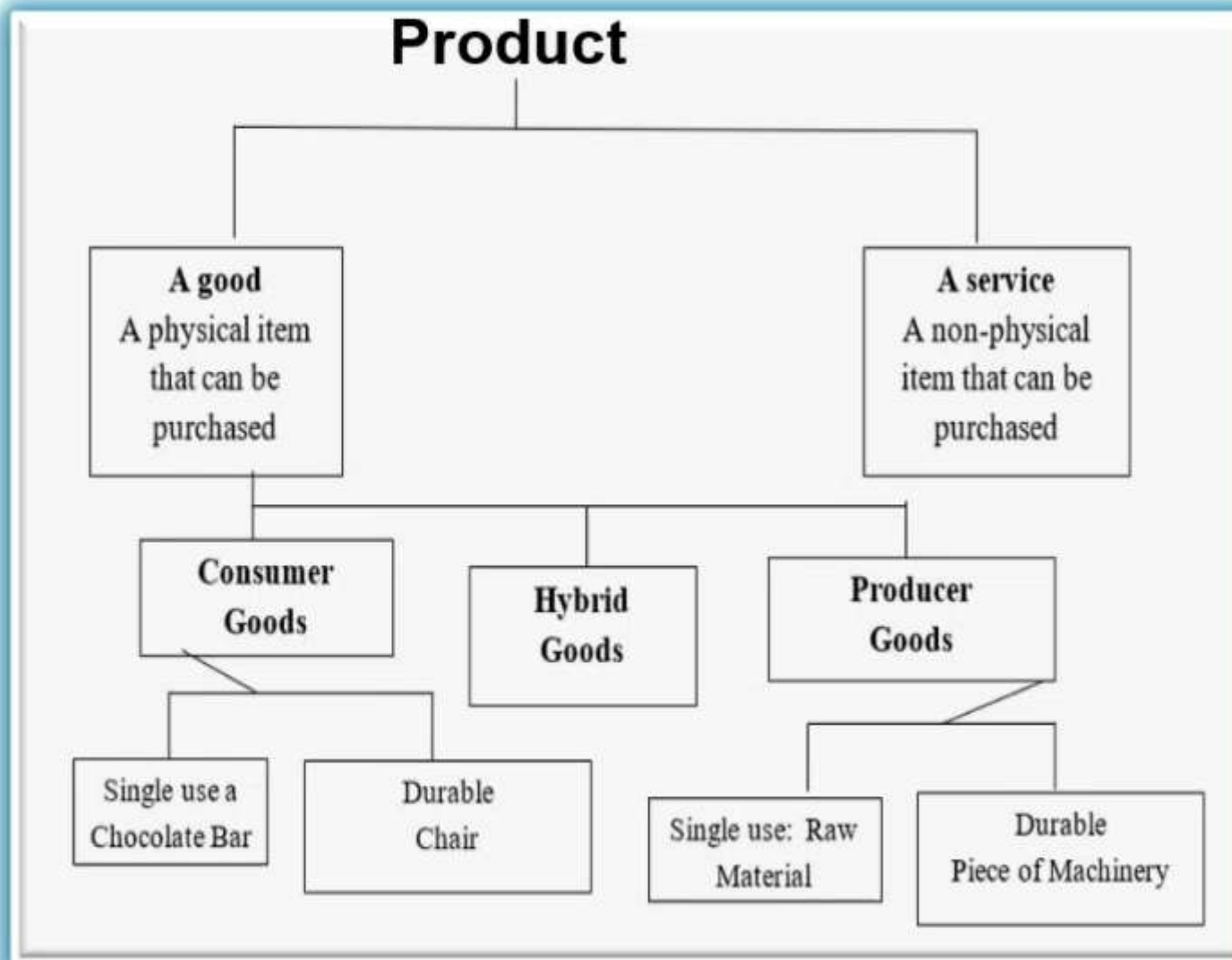


- ▶ A need is an essential item for survival, one cannot do w/o.
- ▶ A want is non-essential item, however, brings happiness when you get it.
- ▶ Business exists to meet these needs and wants by producing goods and services.

Dr. Ahmed Ibrahim Hamed

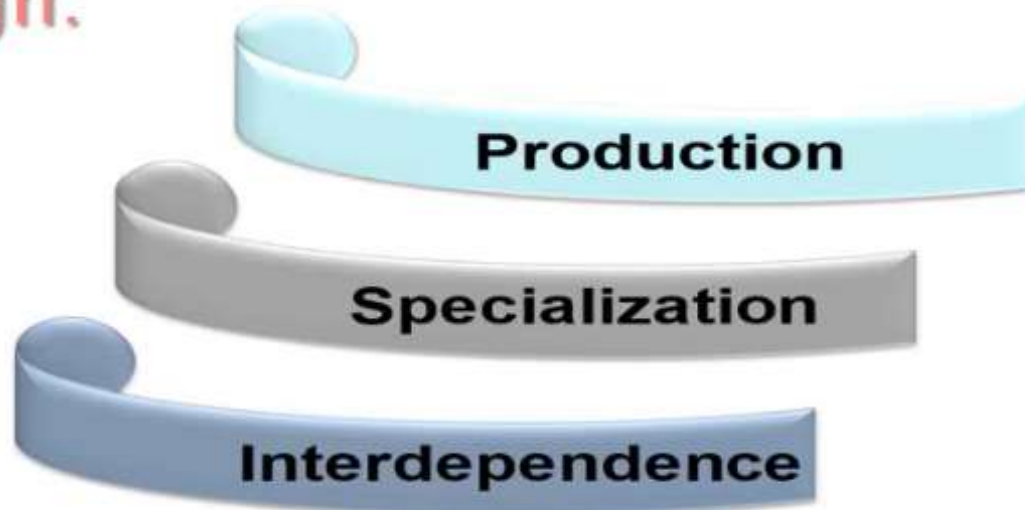


# Classification of goods and services





- ▶ Satisfying needs and wants of human being can be done through:



- **Production** is the manufacturing of goods and the provision of services to satisfy people's needs and wants





# Stages of production

(Types of Business activities)

- ▶ Primary production: Extraction Stage
- ▶ Is the first stage of production, where raw materials and natural resources are extracted from both land and sea
- ▶ Includes mining, fishing, farming.





## Stages of production

- ▶ Secondary production:  
Manufacturing stage
- ▶ Is the second stage of the production process
- ▶ Whereas the raw materials of the primary stage are processed and turned into manufactured goods.
- ▶ This stage includes manufacturing or construction processes.





## Stages of production

- ▶ Tertiary production: Distribution stage
- ❑ Is the third stage of production that involves the provision of services rather than goods.
- ❑ Tertiary production helps with the distribution and exchange of both primary and secondary production.
- ❑ It is divided into commerce and direct services



TERTIARY SECTOR



# Tertiary production

