Economic resources are scarce. Faced with this scarcity, we must choose how to allocate our resources. Economics is the study of how societies choose to do that. Microeconomics focuses on how individuals, households, and firms make those decisions.

Key terms

Term	Definition
Scarcity	The fact that there is a limited amount of resources to satisfy unlimited wants
Economic resources	Things that are inputs to production of goods and services. There are four economic resources: land, labor, capital, and technology. Technology is sometimes referred to as entrepreneurship.
Land	Natural resources that are used in the production of goods and services. Some examples of *land* are lumber, raw materials, fish, soil, minerals, and energy resources.
Labor	Work effort used in the production of goods and services. Some examples are the number of workers and number of hours worked.
Capital	Physical goods that are produced and used to produce other goods. Examples of *capital* would be machinery, technology, and tools such as computers; hammers; factories; robots; trucks, and trains used

Term	Definition
	to transport goods; and other equipment employed in the production of a good or service.
Technology	(sometimes called **entrepreneurship**) The ability to combine the other productive resources into goods and services.
Occam's razor	the logical principle that states you should make no more assumptions than the minimum amount needed to perform analysis; in economics, we use the concept of Occam's razor when we invoke the *ceteris paribus* assumption.
ceteris paribus	A Latin phrase essentially meaning "all else equal", which is used in economics to emphasize the idea that the only changes you should be thinking about are the ones that are explicitly described; for example, if we are talking about how someone reacts to a change in the price of a good, you should assume the only thing changing is price and not preferences, income, or anything else.
normative statements	statements that describe opinions or how things ought to be.
positive statements	statements of fact or description of how something actually *is*.

Key Takeaways

Scarcity and Choice

Scarcity is why economics exist: we wouldn't have to worry about how scarce resources are allocated if those resources were unlimited. It should be emphasized that economics is primarily concerned with the scarcity of **resources**.

Positive vs. normative analysis

Economic analysis tends to focus mostly on **positive analysis**, that is, the description of phenomena, facts, and concepts. It can be tempting to analyze things using **normative analysis**, that is, describing things as they ought to be.

However, you shouldn't interpret that to mean that normative thinking is completely absent in economics and especially in policy-making: both are important for well-formed policy.

Economic models

A **model** is a simplification of a concept or process that is used to better understand that process by cutting away as much as possible to focus on key aspects. For example, a map is a model of how roads are laid out and where they intersect. Maybe there is other useful or interesting information, like the location of an interesting mural or the world's best taco stand, but if we are just interested in getting to the store, we don't need that, we just need to know how to get there.

Economists rely on models because it's impossible to capture the full complexity of human interaction, let alone try to do it in a straightforward and easy to read way!

Common errors

- Not all costs are monetary costs. Opportunity costs are usually expressed in terms of how much of another good, service, or activity must be given up in order to pursue or produce another activity or good.
- You might hear the fourth economic resource referred to as either entrepreneurship or technology. The terms are used interchangeably but mean the same thing: the ability to make things happen. Take the example of computers—a computer itself would be considered a good, but our ability to make computers would be considered technology.
- The word capital is used in everyday language to mean what economists would call *financial capital*. If you see the word capital on its own in an economics context, it refers to *physical capital*—equipment, machinery, or tools used to produce goods and services. Physical capital is tangible, but financial capital isn't always so.