

Chapter 4



INTRODUCTION

Every economy faces one problem or the other in an attempt to satisfy the numerous wants of the society. These problems arise from the scarcity of resources to satisfy the wants. However, before any practical solution can be found, the problems have to be identified, their causes understood and the goals of the society ascertained. This chapter therefore deals with the definition of the economic system, origin of the economic system, what to produce, how to produce, efficiency of resource use, underutilization of resources, and economic organization to meet basic economic needs.

OBJECTIVES

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

- ◆ State and explain the basic economic problems of the society;
- ◆ Suggest ways of efficient allocation of resources in the society;
- ◆ Explain how scarce resources are efficiently used.

4.1 The Origin of Economic Problems

Scarcity and choice are the cardinal problems faced by the society at large. The study of economics is necessitated by scarcity and the problem created by scarcity has led to choice. Choice involves decision-making and it is within the control of man to decide on how the available resources should be used. The need for choice is to ensure that the available resources are efficiently used or allocated so as to satisfy human wants as much as possible. In order to ensure the efficient use of resources we need to take certain economic decisions which are loosely referred to as the basic problems of the society. Every society irrespective of the type of economic system – whether capitalism or socialism – is faced with the following basic fundamental economic problems or decisions.

4.1.1 What to Produce

Every society has to decide what to produce and the quantity to be produced. This depends largely on the factor endowment of the society as well as its level of technological development. Because of limited resources, the more it produces one good or service, the less it can produce others. This is the problem of resource allocation. What should be produced depends also upon the needs and wants of the people.

4.1.2 How to Produce

The society has to decide how goods are to be produced – whether through labour-intensive or capital-intensive techniques. It has to solve such questions like who produces what and at what scale of production? How to produce also depends on the amount of each factor of production that is available.

4.1.3 For Whom to Produce

“For whom shall goods be produced” is a problem of distribution, and it is a fundamental problem of every society. The question is “How will the goods produced be distributed?” Should everyone have equal share of the national income or should inequality prevail. In a free enterprise economy “for whom to produce, what to produce and how to produce” are largely determined by the price

system (forces of demand and supply).

4.1.4 Efficiency of Resource Use

Since the resources available in the society are limited relative to the demand for them, limited resources available must be efficiently used; the problem then is to use these limited available resources efficiently in order to ensure maximum outputs. If maximum output is obtained from limited available resources, we say that resources are efficiently utilised. If resources are efficiently used production of goods will be on the increase and everyone in the country is made better off. When resources are efficiently put in use, economists refer to it as *pareto optimal*.

4.1.5 Quantity to Consume and Save

One basic question which has to be answered by the society is, should less goods and services be consumed at present so that future consumption will be higher? If less is consumed now, more would be available for investment. Investment would increase the productive capacity of the economy. This will in effect lead to economic growth and development. The secular increase might have been brought about by an increase in the capacity to produce more goods and services. If more resources are being consumed at present less would be available for saving and investment in future. Most third world countries including Nigeria have problems in achieving sustained secular increase in their national income. This is largely because their economies are oriented towards current consumption rather than investment. Most of these economies are characterized by extremely low investment in capital goods and, hence, poor productive bases.

4.1.6 Underutilisation of Resources

This is another basic problem and the question is “Are the available productive resources being fully utilised, or are there some which are not being used, or not even used to full capacity?” There are so many people who are unemployed, despite their capability and willingness to work. Land, factories, raw materials and machinery are found to be idle. Such unemployment reaches its peak during the periods of trade depression when demand is usually low. Every society, whether capitalist or socialist, tries to reduce the level of unemployment of its resources.

4.2 Ways in Which Economic Organisations Meet Basic Economic Needs

(a) Capitalist or market system: First, the society can organise itself into a pure capitalist or market economic system. This is a free enterprise system built on private ownership and use of property (productive resources plus goods and services). Individual economic units (households and business firms) take decisions on what, where, how and when to produce. Their decisions would be based on alternatives

available to them as reflected by the market prices of goods, services and means of production which they cannot influence. The role of the government in a capitalist economy is to regulate the activities of the operators (household and business). It is to ensure adherence to law and order.

(b) Socialist economy: Under this economic system the means of production of goods and services are publicly owned and distributed through a central planning authority. The market price mechanism is replaced by the central planning of all economic activities. All important production and distribution decisions are made by a central planning commission at the top. The decisions are then passed to the entire public. The economy is under the full control of the government.

(c) Mixed economic system: This third category combines elements of both capitalist and socialist systems. The basic feature is that there are private and public ownerships of goods and services. Production and distribution decisions are jointly taken by the public and private sectors and each sector's activities complement the other. The price mechanism plays a very important role in supplying information about the major economic decisions taken by either the private sector or the public sector.

Summary

(a) The origin of economic problems: The study of economics is necessitated by the scarcity in comparison with our unlimited wants.

(b) Basic economic problems

◆ What to produce

This is the problem of deciding what goods can be produced and in what quantities. This is the problem of resource allocation.

◆ How to produce

The society has to decide how goods are to be produced, that is the method of production and

whether labour or capital intensive.

◆ For whom to produce

This is the problem of distribution. How will the goods produced be distributed to the concerned consumers?

(c) **Economic systems**

◆ Capitalist economy: The main feature is private ownership of the means of production and property.

◆ Socialist economy: There is public ownership of both the means of production and property.

◆ Mixed economy: There is both public and private ownership of the means of production and property.

Class Activities

(a) Students should discuss with the teacher how the Nigerian economy is organised and the means of providing the needs of the people.

(b) The students should list the various economic activities they know. Indicate what they produce, where and how they are produced, in what quantities and for whom they are produced.

Revision Questions

Objective Questions

1. The concept of economic efficiency primarily implies:

- (a) Obtaining the maximum output from available resources at the lowest possible cost
- (b) Conserving our petroleum resources
- (c) Equity in the distribution of the nation's wealth
- (d) Producing without waste
- (e) The limited wants unlimited resources dilemma

2. The decision on what to produce is a problem in:

- (a) All economic systems
- (b) A mixed economic system only
- (c) A democratic socialist economy only
- (d) A free enterprise system only
- (e) A planned economic system only **(SSCE 1995)**

3. Economic problems arise mainly as a result of:

- (a) Inaccurate statistical data in West Africa
- (b) Excessive wastage of available resources
- (c) Lack of foresight on the part of resource users
- (d) Limitations in availability of resources **(SSCE 2000)**

4. Most of the problems of economics arise as a result of

- (a) Competing demands for scarce resources
- (b) Increase in the demand for more goods and services
- (c) The desire of producers to supply more goods and services
- (d) The need to reduce the level of poverty **(SSCE 2006)**

5. and are the cardinal problems facing the societies at large

- (a) Scarcity and wants
- (b) Choice and opportunity cost
- (c) Scarcity and choice
- (d) Choice and wants

Essay Questions

1. What is economics and what are the basic economic problems of societies?

2. Economic problems arise because a country's resources are limited in relation to unlimited wants.

3. (a) Identify and explain the economic problems of the society.

(b) How is it related to the concept of opportunity cost?

4. What are the suggested ways by which the basic economic problems of society can be solved?

Glossary

Resources: Factors of production

Under-utilised: Not fully used

Public ownership: Collective ownership

Production technique: Production method