

# STUDY GUIDE Chapter 1, Section 1

For use with textbook pages 3–8

## THE BASIC PROBLEM IN ECONOMICS

### KEY TERMS

- economics** The study of how people make choices about ways to use limited resources to satisfy their wants (page 3)
- scarcity** The condition that occurs when wants are greater than the resources to satisfy them (page 5)
- factors of production** The resources of land, labor, capital, and entrepreneurship that are used to produce goods and services (page 6)
- land** The economic term for surface land and water and the natural resources that each contains (page 6)
- labor** The human effort that is required to produce goods and services (page 6)
- goods** Material objects that satisfy people's wants or needs (page 6)
- services** Actions or activities that satisfy people's wants or needs (page 6)
- capital** Manufactured goods that are used to produce other goods or services (page 6)
- productivity** The amount of goods and services that results from the use of a set amount of land, labor, capital, and entrepreneurship (page 7)
- entrepreneurship** Ability of risk-taking individuals to start new businesses or develop new products and processes in hopes of making profits (page 7)
- technology** Advances in knowledge that lead to new and improved goods and services and better ways of producing them (page 8)

### DRAWING FROM EXPERIENCE

At one time or another, you have probably been required to do a project for your science, social studies, or art class. What materials did you use? Who did the work? Did you use tools in making your project? All these questions are basic to the study of economics.

This section focuses on how people and societies make choices in their use of resources. The study of these choices and how people make them forms the basis of **economics**.

### ORGANIZING YOUR THOUGHTS

Use the cause-and-effect diagram below to help you take notes as you read the summaries that follow. Think about why people make choices in the things that they buy.



**STUDY GUIDE** (continued) **Chapter 1, Section 1**

**READ TO LEARN**

● **Introduction** (page 3)

Economics is the study of how societies use limited resources to fulfill their wants and needs.

● **Wants Versus Needs** (page 4)

People sometimes have difficulty recognizing the difference between what they want and what they need. In the study of economics, however, “needs” are only the basic things that a person must have in order to survive. Everything else is a “want,” or luxury.

1. What is the difference between a want and a need?

---

---

● **Choices** (page 5)

Because resources are limited, not everyone can have everything he or she wants. People make choices about how to spend the money they have. Businesses make choices about what to produce and when to produce it. Societies make choices about how to use their resources. In the United States, for example, elected representatives decide how much money to spend on defense and how much on education. How people and societies make these choices is the focus of economics.

2. What basic economic choice must people and societies make?

---

---

● **The Problem of Scarcity** (page 5)

Choices are necessary because everything that exists is limited. Even if a resource is plentiful, there still are limits to what is available. At the same time, people have competing uses for these limited resources. The result is **scarcity**. Scarcity means that people do not have and cannot have enough resources to satisfy their every want. Scarcity is the basic problem of economics.

3. What is scarcity and why does it exist?

---

---

● **Factors of Production** (page 6)

When economists talk about scarcity, they are talking about the **factors of production**—that is, the resources needed to produce goods and services. Economists recognize the following basic types of resources as factors of production:

**STUDY GUIDE** (continued) **Chapter 1, Section 1**

- A. **Land.** To economists, this term means all the natural resources present on Earth. It includes actual land surface and the plants and animals that live on the land, as well as mineral deposits within it. "Land" also includes water and everything found in water.
- B. **Labor.** This factor of production includes everyone who produces **goods** and **services**. Goods are items that people buy. Services are activities done for others for a fee.
- C. **Capital.** This is manufactured goods that are used to make other goods and services. It includes machines, buildings, and tools. Capital combines with labor to increase **productivity**—the ability to produce more goods and services in better and faster ways.
- D. **Entrepreneurship.** This refers to the ability of people to start new businesses, introduce new products or processes, or improve management techniques. It involves people’s willingness to take risks in the hopes of making a profit.
- E. **Technology.** Technology describes the use of science to develop new products and new methods for producing and distributing goods and services.

4. How does technology differ from capital as a factor of production?

---

---