**Scarcity and Opportunity Costs**

* What is **scarcity**?

Limited quantities or resources to meet unlimited wants

* Explain the difference between scarcity and shortages.
* Explain the effects of scarcity upon the factors of production.

**Opportunity Costs and Tradeoffs**

* **Tradeoffs** – the alternatives we give up whenever we choose one course of action over another
* Provide an example of a tradeoff you have made, a tradeoff a business has made and a tradeoff the government has made (guns or butter) in your notes\*
* Whenever a tradeoff is made the most desirable alternative that is sacrificed is referred to as the **opportunity cost**
* This then causes businesses to **think at the margin**. What will the effect of paying my workers 50 cents more? What if we increase production by 1 unit per day?

**Production Possibilities Curves**

* As discussed earlier we are faced with countless choices as an individual, a business or the government. How do we make the right choices?
* One of the methods is through a production possibilities curve
* You will use this to decide what the best use of resources would be – do I make watches or clocks?

**See whiteboard for graphing examples**

* Each point in the production possibilities curve represents a trade-off – explain
* A production possibilities frontier represents an economy working at its most efficient level of production
* They may become inefficient, however, through layoffs, shortages, ect.
* Any point inside of the curve represents underutilization of resources
* The production possibilities curve may also illustrate growth through the curve shifting to the right – this is simply showing that the quantity of land, labor or capital is constantly changing leading to different production possibilities outcomes. This curve may also shift to the left as an economy ages, becomes less educated, goes to war, etc.
* What is cost to an economist??
* Don’t think of simply money – to an economist cost is the alternative we give up when we choose one option over the other. So, to an economist cost is always opportunity cost
* What is the opportunity cost of producing fifteen thousand computers according to the graph on the board?
* This leads to what is known as the law of increasing costs – as production switches from one item to another, more and more resources are necessary to increase production of the second item. You have a finite number of resources (that are probably getting smaller over time) that you can choose to use on one product or multiple products, but costs will rise due to less resources making decisions on how to use those resources extremely important (see energy issues)
* Advances in technology may cut in to the law of increasing costs – you rely on oil as your primary mode of energy for production and got slammed as oil prices neared $140 per barrel. A new form of obtaining oil (mineral fracking) is developed and your production costs drop significantly as oil prices crater to $40 per barrel.