

PRINCIPLES OF ECONOMICS

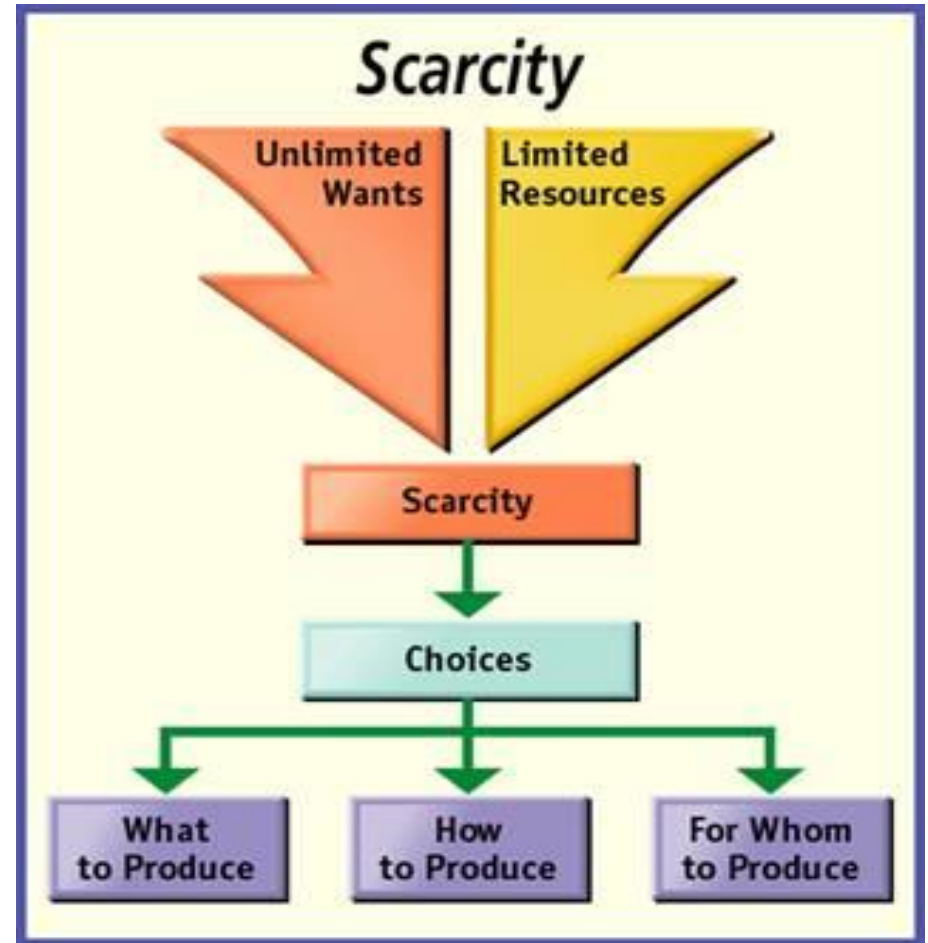
Lecture 4 BASIC QUESTIONS IN ECONOMICS

July, 2015



THREE BASIC ECONOMIC QUESTIONS

- Every society must answer three basic economic questions because of scarcity.
- Societies answer these questions differently, leading to a variety of economic systems.



THREE BASIC ECONOMICS QUESTIONS

Question 1: What to Produce?

- Societies must decide on mix of goods to produce
 - depends on their natural resources
- Must also decide how much to produce; choice depends on societies' wants



Consumer Goods



Durable Goods

THREE BASIC ECONOMICS QUESTIONS

Question 2:

How to Produce?

- Production decisions involve using resources efficiently
 - Influenced natural resources
- Societies adopt different approaches
 - labor-intensive methods versus capital-intensive methods depends on availability



labor-intensive method



capital-intensive method

THREE BASIC ECONOMICS QUESTIONS

Question 3:

For Whom to Produce?

- How goods and services are distributed involves two questions
 - how should each person's share be determined?
 - how will goods and services be delivered to people?



FACTORS OF PRODUCTION

Resources needed to produce goods and services

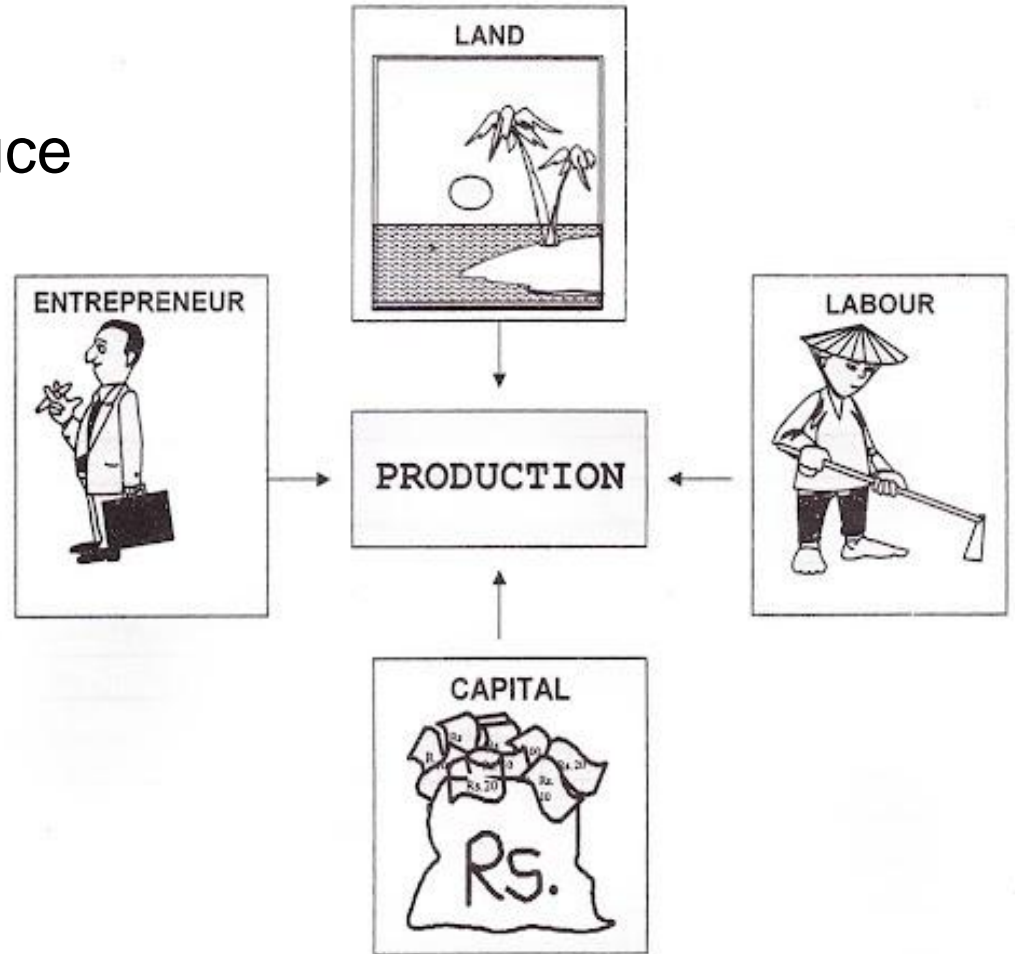
land

labor

Capital

Entrepreneurship

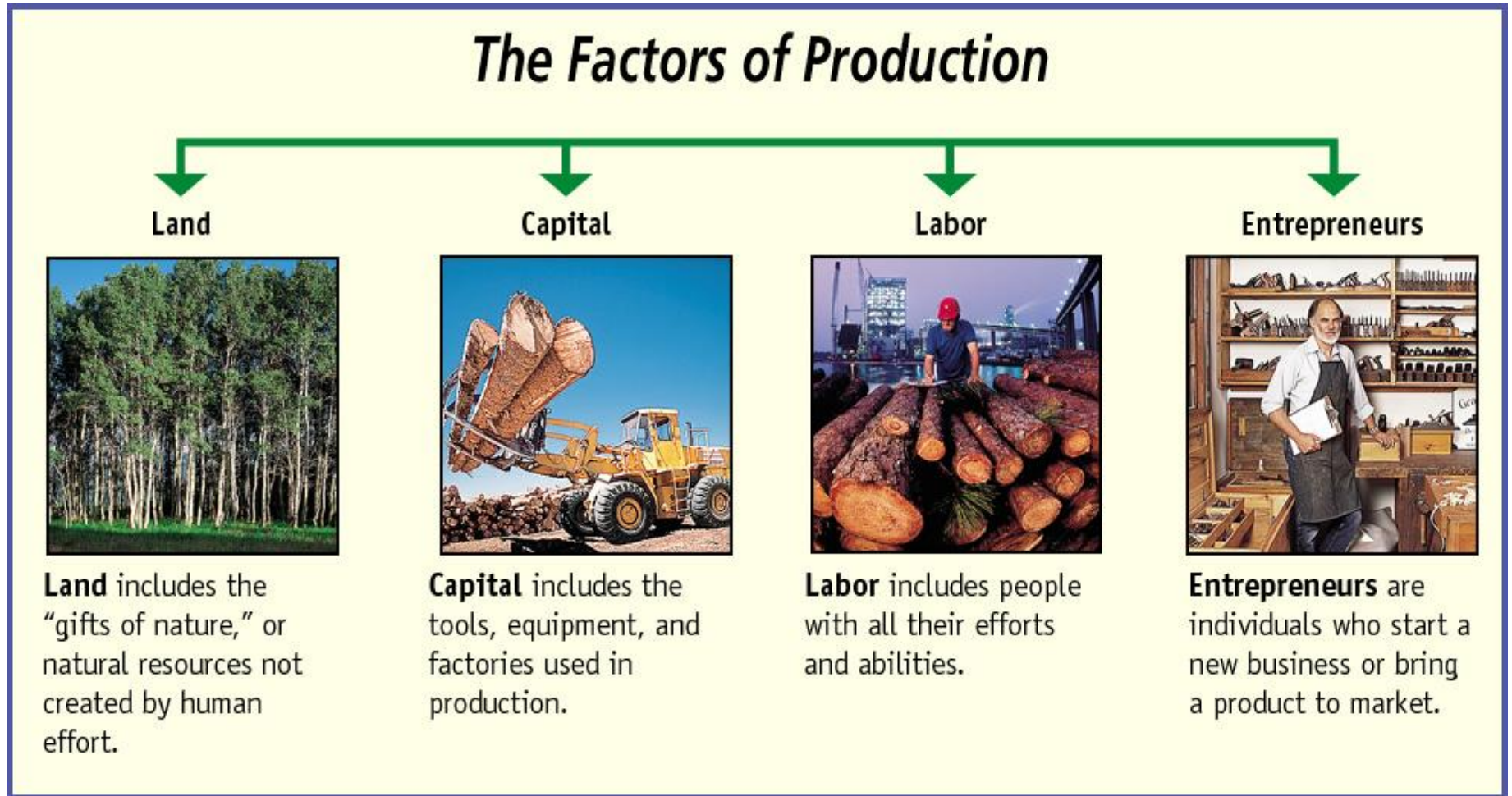
Supply is limited



Production is a co-operative process and not a job of any single factor.

FACTORS OF PRODUCTION

Figure 1.2



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THANK YOU 😊