



OCR Economics AS-level **Microeconomics**

Topic 1: Scarcity and Choice 1.1 The basic economic problem




Notes








Economic and free goods

-  **Economic goods** benefit society, have the problem of scarcity and have an opportunity cost. Since they are scarce, they have some value, so consumers will pay for them, and they can be traded.
-  **Free goods** have no opportunity cost, because there is no scarcity of the good. For example, air and water are free goods. These goods are not traded because they are freely available.

Scarcity

-  The basic economic problem is scarcity. Wants are unlimited and resources are finite, so choices have to be made. Resources have to be used and distributed optimally.
-  Scarcity refers to the shortage of resources in relation to the quantity of human wants.
-  For example, if you only have £1 and you go to a shop, you can buy either the chocolate bar or the packet of crisps. The scarcity of the resource (the money) means a choice has to be made between the chocolate and the crisps.

Positive and normative statements

-  Positive statements are **objective**. They can be tested with factual evidence, and can consequently be rejected or accepted.
-  Look for words such as 'will', 'is'.
-  For example, "Raising the tax on alcohol will lead to a fall in the demand of alcohol and a fall in the profits of pub landlords" is a positive statement. "Higher temperatures will lead to an increase in the demand for sun cream" is also a positive statement.
-  The key thing here is that these statements can be tested, the results can be examined and the statement can then be rejected or accepted.
-  Normative statements are based on **value judgements**. These are subjective and based on opinion rather than factual evidence.



- 📖 Look for words such as ‘should’, and if the statement is suggesting one action is more credible than another.
- 📖 For example, “The free market is the best way to allocate resources” is a normative statement, because it is based on opinion and suggests one method of resource allocation is better than another. “The government should increase the tax on alcohol” is another normative statement.
- 📖 Value judgements can influence economic decision making and policy. Different economists may make different judgements from the same statistic. For example, the rate of inflation can give rise to different conclusions.
- 📖 People’s views concerning the best option are influenced by the positive consequences of different decisions and by moral and political judgements.






📖 **The Factors of Production**

- 📖 Economic resources are the factors of production. These are land, labour, capital and enterprise.
- 📖 The factors of production (CELL):




Factor	Description	Reward/Incentive
Capital	Physical: goods which can be used in the production process Fixed: Machines; buildings Working: finished or semi-finished consumer goods	Interest from the investment
Entrepreneurship	Managerial ability. The entrepreneur is someone who takes risks, innovates, and uses the factors of production. Resources are drawn together into the production process.	Profit- an incentive to take risks
Land	Natural resources such as oil, coal, wheat, water. It can also be the physical space for fixed capital.	Rent
Labour	Human capital, which is the workforce of the economy.	Wages




Renewable and non-renewable resources

-  The environment is a scarce resource. There are only a limited amount of resources on the planet. These are made up of renewable and non-renewable resources.
-  Renewable resources can be replenished, so the stock level of the resources can be maintained over a period of time. For example, commodities such as oxygen, fish, or solar power are renewable assuming the rate of consumption of the resource is less than the rate of replenishment. If the resource is consumed faster than it is renewed, the stock of the resource will decline over time.
-  This is important in environmental economics, and can be managed by preventing or limiting deforestation, or imposing fishing quotas. Renewable resources are **sustainable**. However, currently, resources are being consumed faster than the planet can replace them. The Worldwide Fund for Nature claims that two planets will be required to meet global demand by 2050 if this continues.
-  Non-renewable resources cannot be renewed. There are only finite resources, and this scarcity means the resource is unsustainable. Choices have to be made for where these scarce resources are best used. For example, things produced from fossil fuels such as coal, oil and natural gas are non-renewable. The stock level decreases over time as it is consumed.
-  Methods such as recycling and finding substitutes, such as wind farms, can reduce the rate of decline of the resource.

Economic Agents

-  Economic agents play a role in the economy.
-  **Government:** Governments are assumed to act on behalf of consumers. Governments intervene in the economy to different extents. For example, some might provide healthcare and education, whilst others might leave healthcare to the free market. In the UK, healthcare is provided by the government, whilst in the US, healthcare is provided by the private sector.
-  **Firms:** It is generally assumed that firms aim to maximise their profits. This is the reward entrepreneurs receive for taking risks and making investments. Some firms might have different objectives, which might involve maximising social welfare or helping the environment.



 **Households:** Households have to make decisions about how to spend their limited resources. Usually, consumers choose the option with maximises their utility. Workers demand wages and good working conditions.

