

Introduction

The Economic Way of Thinking

You've probably seen offers like the ones below in a store or in the mail. If companies are really willing to give products away for free, why do economists say "there is no such thing as a free lunch?" To answer this question, you have to understand that every choice involves a cost.

Because time, space, and money are limited, and human wants are unlimited, people cannot have everything they want. When people cannot have everything they want, they have to make choices, and when they make a choice, they must give something up. The next best alternative that is given up when a choice is made is the opportunity cost.

That's why there's no free lunch—or free CDs. There is always an opportunity cost.

When you make decisions, you need to consider, in a logical way, the opportunity cost of your choices. By using the economic way of thinking and by developing a good decision-making plan, you'll be able to evaluate your options and make better choices.

Buy One;
Get One
Free!

Ten **Free** CDs
When You Join
Our Club

Free
Trial Offer

Resources Are Scarce

Introduction

What would you get if you won a \$1 million lottery? Would that be more money than you could possibly ever spend? If you don't have \$1 million, that might seem like a lot of money, and it is! However, it seems the common affliction among some lottery winners is that they burn through the money they have won nearly as fast as they obtained it. And that doesn't go only for the winners of a measly \$1 million.

A quick look at the Internet will provide you with lots of examples of people who won big lottery prizes, just to be left in debt in a matter of a few years. The reasons are as numerous as there are things to buy. No matter how much you have, it's never enough.

Limited natural, human
and capital resources

+

Unlimited wants

=

People cannot have
everything they want

Think of the wealthiest people among us. According to Forbes.com, Bill Gates generally places in the top two of wealthiest Americans. In 2008, his net worth was reported to be \$57 billion. You might think that Bill Gates and his family could have everything they want. However, you would be wrong. Even Mr. Gates can't have everything he wants. Take a look at his foundation's website, www.gatesfoundation.org, and read the annual reports. You will find that Mr. Gates wants to provide a clean and sanitary environment in areas of the world where people have no clean water and no sewage system. He wants to eradicate HIV and malaria. He wants all public libraries to have the resources to provide computers and Internet access. He wants to provide job training for young people, and he wants to fund programs that will aid and support victims of domestic violence. The Bill and Melinda Gates Foundation has assisted programs that have made tremendous progress, but there are simply not enough resources in the world to meet all of the organization's wants.

Vocabulary

Capital resources: Man-made goods that are produced for the purpose of producing more goods and services.

Entrepreneur: A person who takes risk and gathers the resources to provide a new or improved good or service to the marketplace.

Human resources: People performing mental and physical work to produce goods and services.

Natural resources: Resources that occur naturally in and on the earth; these resources are used to make goods and services.

Productive resources: Basic resources used to produce goods and services: natural resources, human resources, capital resources, and entrepreneurial abilities.



NAME: _____ CLASS PERIOD: _____

Who Gets the Resources?

Your teacher will assign groups to portray the companies described below.

<p>You own the Maple Wooden Hat Company. The hat is simply a bowl and a bill, similar to a baseball cap – only wooden. Unlike a baseball cap, your wooden hat is waterproof. It won't wear out like a baseball cap, and it can't be stained by sweat. And that's a good thing, because this hat is really hot. It doesn't fit most heads because, well, it's a bowl with a bill. These hats are expensive to produce, so you charge \$35 per hat. Sales aren't very good. However, you're confident that these hats will gain in popularity. You want to build your inventory. You can buy wood for up to \$10 per unit.</p>	<p>You own Triple A Baseball Bat Company. You noticed that high school leagues are returning to using wooden bats, so you got to work making the best wooden bats in the \$30 price range. You anticipated there would be a market for wooden bats as kids moved into high school. Having used aluminum bats up until high school, they would now want to practice with wooden bats in preparation for their high school games. You have gained a strong market among individual players and among high school teams. You must replenish your dwindling inventory before January. You can buy wood for up to \$30 per unit.</p>
<p>You own the Fanciful Furniture Company. You noticed that several makers of sofas and chairs were using upholstery fabrics in bright hues – oranges, yellows, blues, greens, even purples. You decided that this was an opportunity to make complementary tables in similar colors, so your coffee and lamp tables are painted various tints of orange, yellow, blue, green and purple. Sales are slow, so you would like to build more conventional tables. You can buy wood for up to \$15 per unit.</p>	<p>Your company is Buckingham Furnishings. You make several very popular brands of furniture for sale in high-end and moderately-priced furniture markets. Your furniture is regularly featured in <i>Beautiful Home</i>, <i>Gorgeous Home</i>, and <i>Fantastic Home</i> magazines. With each new magazine issue, your sales skyrocket. You can't keep up with the demand for your furniture, so you are increasing the size of two of your plants to increase your production. You can buy wood for up to \$30 per unit.</p>
<p>You own the Premier Ashtray Company. You got the idea when you were rummaging through your grandfather's attic and came across this intricately carved wooden tray. Although it was darkened with age, you could tell it had been beautiful. You've been producing similar pieces for the last year. Even though they are delicately carved and quite beautiful, your sales have been dismal. It seems that ashtrays aren't as popular as they were in your grandfather's day. You can buy more wood for up to \$5 per unit.</p>	<p>You own the Fold 'n Go Chair Company. You make wooden folding chairs for outdoor use. You market your chairs as sturdy and strong. You've sold some, but it seems that people who take folding chairs to games and picnics prefer them to be light and easy to carry. Your chairs are heavy and cumbersome. You can buy more wood for up to \$10 per unit.</p>

NAME: _____ CLASS PERIOD: _____

What Can Be Made Using...?

All resources are scarce and have competing uses, that is, any given resource might have several different uses. You've seen how wood can be used to produce many goods, which contributes to its scarcity. How about other natural resources, say water or land?

Your teacher will assign you and your group one natural resource from the list below.

Water Oil One city block of land Ten city blocks of land Sand

Write down as many uses for the resource as you can. Look around your classroom, think about the goods in your house, and think about the goods and services for sale in your neighborhood. Can you name 10 uses for your resource?

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