Chapter 18, Section 1

The Fundamental Economic Problem

**KEY TERMS**

- **economics** the study of how people make decisions in a world where resources are limited (page 406)
- **needs** things that are required for survival, such as food, clothing, and shelter (page 407)
- **wants** things that people would like to have that make life more enjoyable (page 407)
- **scarcity** the condition in which wants are greater than the resources available to satisfy those wants (page 407)
- **economic models** simplified representations of the real world that are used to explain how the economy works or to predict economic changes (page 408)

**DRAWING FROM EXPERIENCE**

Think of all the choices you have to make when deciding to make a purchase. Why do you have to make these choices?

In this section, you will learn what scarcity is. You will also learn about the choices that need to be made when making economic decisions.

**ORGANIZING YOUR THOUGHTS**

Use the diagram to help you take notes. When making economic decisions, a society has to make choices. List these choices in the diagram.

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**Choices to Make in Economic Decisions**

1. 
2. 
3. 

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Study Guide

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READ TO LEARN

• Economic Choices (page 406)

Well-informed citizens make economic choices every day. People make choices because there are not enough resources to satisfy all their wants and needs. Economics is the study of how people make decisions in a world where resources are limited. It is sometimes called the science of decision making.

People have many needs. These are things such as food, clothing, and shelter that are required for survival. People also have a large number of wants. These are things that they would like to have, such as entertainment, vacations, and other things that make life more comfortable and enjoyable. The basic economic problem is scarcity. This occurs when there are not enough resources to produce all of the things that people would like to have. Even rich countries, such as the United States, do not have enough resources to produce all the goods and services that people would like to have. Because of scarcity, people make choices among alternatives. For example, rational consumers compare prices and makes choices based on their limited resources.

One of the choices that society has to make is that of what to produce. For example, a community may have to decide whether to improve the roads or build an athletic stadium.

A second choice that society has to make is that of how to produce. For example, to get oil to satisfy energy needs, the United States has to decide whether to drill in an Alaskan wildlife sanctuary or drill in more traditional areas. Everyone who produces goods or services has to decide how to produce them.

After goods are produced, a society has to decide how they will be distributed among its members. For example, a car manufacturer has to figure out who should receive the new cars. The questions “what,” “how,” and “for whom” to produce have to be answered because there are not enough resources to satisfy people’s unlimited wants.

4. Why do consumers have to make choices in what they buy?
• Using Economic Models  (page 408)

Economists describe the economy as all the activity in a nation that affects how goods and services are produced, distributed, and used. When economists study a certain part of the economy, such as unemployment, they form theories and collect data. The theories that economists use in their work are called economic models. These are simplified representations of the real world. An economist uses a model to answer a question for which there is no obvious answer. The solutions that result from testing a model often become the basis for decisions by private businesses or agencies. A model is based on assumptions, or things that people take for granted as true. People use assumptions as facts even though they cannot be sure that they are facts. As a result, the quality of a model is no better than the assumptions that model is based on. Also, models can be revised. For example, if an economic model results in a prediction that turns out to be right, the model can be used again. If it results in a prediction that is wrong, the model might be changed to make better predictions.

5. What are economic models based on?