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**Econ 200 Application Paper**

**Economic Principle: SCARCITY & OPPORTUNITY COST**

**How they shape our choices and reflect our normative perspectives.**

Scarcity exists in society because our resources are limited while our wants are not. Even if every person in the United States wanted to own a thousand acres and live in a mansion, our resources are limited to the extent that this would not be possible. Humans have been dealing with scarcity since the beginning of time and everyone is affected by it whether they are filthy rich or dirt poor. We are forced to make choices continuously throughout our lives and pick some things over others.

There are four main economic resource categories: land, labor, physical capital, and entrepreneurship. Land is a blanket term for naturally occurring resources. We only have so much of any resource that occurs naturally. For example, if we have a large back yard we would have to decide what to put in it. You could plant a garden covering half of the yard and grow your own vegetables, put in a pond, or set up a pergola. Either way, you must make a choice of how the resource is to be used despite the fact that you have infinite ideas and wants for how it should be used. Labor is the human physical activity required for the production of goods or the providing of services. When we have a higher amount of labor than jobs available, we have a high unemployment rate. With a growing population and more and more jobs being able to be done by machines, jobs are becoming scarce. Physical capital is any resource that is manufactured. An example could be the machines that are replacing people. Even if a company wants to do away with manpower altogether, it must have the resources to do so. Entrepreneurship is the skills necessary to produce a product or provide a service. These skills

must be taught through schooling or experience. Since not everyone goes to college or has these skills, they are considered scarce.

Opportunity cost is the value of the choice that you gave up to proceed with another. We only have so much time in our lives to do what we want and it is impossible to fulfill every desire. For example, if I decided to work next weekend instead of flying to Washington D.C to see my fiancé, the opportunity cost is the enjoyment I would have received from getting to see my future husband. On the other hand, if I flew down to see him I would have an unhappy boss because I would be requesting yet another weekend off. The opportunity cost could be the comfort of knowing I would be receiving a pay raise and having a boss that doesn't want to fire me. Opportunity costs relates to scarcity because opportunity costs are what you give up when you make choices. People are considered to be rational beings in the fun-filled world of economics and make choices based of which opportunity cost is more important to them. We cannot have nor do everything we desire, so we make choices based on this.

Positive and normative economics are directly related to the decision-making process we proceed with in choosing opportunity costs. Positive economics would be facts such as the sky is blue. Normative economics is the opinions that individuals make. For example, someone saying that the sky is beautiful would be an opinion. People employ both of these when making decisions and deciding between opportunity costs. If someone has three children, yet wants a sports car, the fact that they have three children to tote around affects their decision. If they decide to purchase a Hummer instead because they will then have the room for their children and think that Hummers are cool vehicles, they are employing both types of economics.

In summary, scarcity affects each of us in our everyday lives. Whether the resource is land, labor, physical capital, entrepreneurship, or any combination; we must employ positive and normative economics in decision making to weigh the opportunity cost of one decision over the other. Decisions can be made for different reasons and priorities vary according to the individual's income level, living situation, cultural background, and personal values. We operate under the assumption that human beings are rational creatures and will make choices based on available options and existing knowledge that will best benefit them.