

The basic economic problem and opportunity cost

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The basic economic problem is that resources are scarce relative to the purposes to which they could be put. As a result choices have to be made about how to use resources. The basic economic problem is thus frequently referred to as 'scarcity and choice'. A resource is a means of support. A resource from the point of view of business studies can be regarded as any feature of our environment that helps to support our well-being.

There are two main types of resource:

1. Physical or natural resources - such as oil, climate, water, minerals, forests and fisheries.
2. Human resources - people and their various skills.

If we were to take stock of the world's existing bundle of resources we would find that there are severe limitations to its ability to meet our infinite wants.

Scarcity

Scarce resources can be broken down into four key ingredients: land, labour, capital and enterprise. Land includes all natural resources; labour includes all physical and mental effort; capital includes machinery and other items that go into further production; and enterprise is the art of combining the other three factors in the production process.

Scarcity can be seen as resulting from the lack of availability in resources, from people's insatiable wants, or from a combination of the two.

Most large multinationals have cut down the range of brands they produce in recent years. For example, BIC the producer of pens, lighters, and razors has consolidated around 150 lines from a much larger range. This is so that it doesn't spread its resources too thinly in competing in global markets.

Because resources are scarce and most of our wants are extensive, a choice has to be made about how to use scarce resources in the best way. This rule applies to organisations, society as a whole, and to individuals.