

Chapter 1 :: The Economic Environment

Section 1.2~ Make Decisions

Jump Start

Brianna and Brittney love to bake cookies, and they have developed their own special recipe. They also have learned how to make cookies in a variety of special shapes and sizes. Their friends rave about their cookies, so they decided to start their own business: Busy B's Bakery. When they started planning their business, they were surprised by the many decisions they had to make: where to locate, what equipment to buy, how to get out the word about their new cookies, to name a few. They gathered information and made decisions as a team. They could not afford all the new equipment they wanted, so they bought used equipment that met their needs. Have there been times when you settled for something that satisfied your needs rather than your wants?

Providing Needs and Wants

The needs and wants of a society are met through the production of goods and services. This production requires the use of economic resources. Those who participate in the economy must go through an economic decision making process to help choose among the many alternatives available to meet their needs and wants.

Needs and Wants

Needs are things required in order to live. Food, water, clothing, and housing are basic things that people need. **Wants** are things that are not necessary for survival, but add comfort and pleasure to your life. You may want a Blu-ray player, a smart phone, or a new athletic jacket—but you can get along without them. It is important for you to be able to distinguish between your needs and your wants.

Economic Resources

Goods cannot be produced by magic or created out of nothing. Services must be produced through the efforts of people or equipment. The means through which goods and services are produced are called **economic resources** or *factors of production*. There are three kinds of economic resources: natural, human, and capital. Each of these is necessary to produce goods and services that meet needs and wants.

Natural Resources Raw materials supplied by nature are called *natural resources*. These come from the earth, water, or the air. Iron ore and oil are mined or pumped from the earth to use in making many goods. Vegetables grown in the soil and fish taken from the waters satisfy our need for food. Hospitals use oxygen extracted from the air to help aid patients. The goods we use today begin with at least one natural resource.

Human Resources Important as they are, natural resources cannot satisfy needs and wants by themselves. It takes people to turn them into goods and services and make them available. *Human resources* are the people who work to produce goods and services. *Labor* is another term used in referring to human resources. Human resources include people who operate farms and factories, manage banks, design machines, process food, forecast the weather, and police the streets.

Capital Resources The tools, equipment, supplies, and buildings that are used to supply goods and services are called *capital resources*. Factories, offices, road building equipment, computers, cash registers, smart phones, and display cases are examples of capital resources. Cars and trucks used to deliver newspapers are capital equipment. So are grills used to prepare hamburgers and other foods.

Money is a type of capital resource and is sometimes referred to as *capital*. Capital is used to start, operate, or expand a business. Obtaining sufficient capital is one of the first major steps in starting a business. A business firm may try to raise \$1 million to expand its operation, or an individual may need \$15,000 to start a small business. Sufficient capital is important to success in business.

All three economic resources— natural, human, and capital—are needed to produce goods and services to satisfy needs and wants. These resources are not unlimited. Natural resources, if not properly managed, can be used up. Capital may be difficult to raise, and needed equipment may be unavailable. Qualified workers may be unavailable or in short supply. These limitations are important in an economy and can cause individuals, businesses, and countries to compete for access and ownership of economic resources.



What economic resources are represented in this photo?

Economic Decision Making

Because you cannot have everything you need and want, you must make choices that enable you to have the things that you want most and can afford. For instance, say you have \$35 to spend. If you spend that money going to a movie and then having a pizza, you may not have enough money to go to a sporting event you also want to attend. If you buy a new shirt that you like, you may not be able to buy a new video game that a friend recommended. These are examples of economic decisions that you could make and the alternatives that could be affected.

Economic decision making is the process of deciding among several alternative wants to determine the one most desired. There is a process involved, and once you learn it, decision making becomes easier and the decisions are better. Whether the decision is major or minor, the decision-making model that follows will help you to make wise economic decisions.

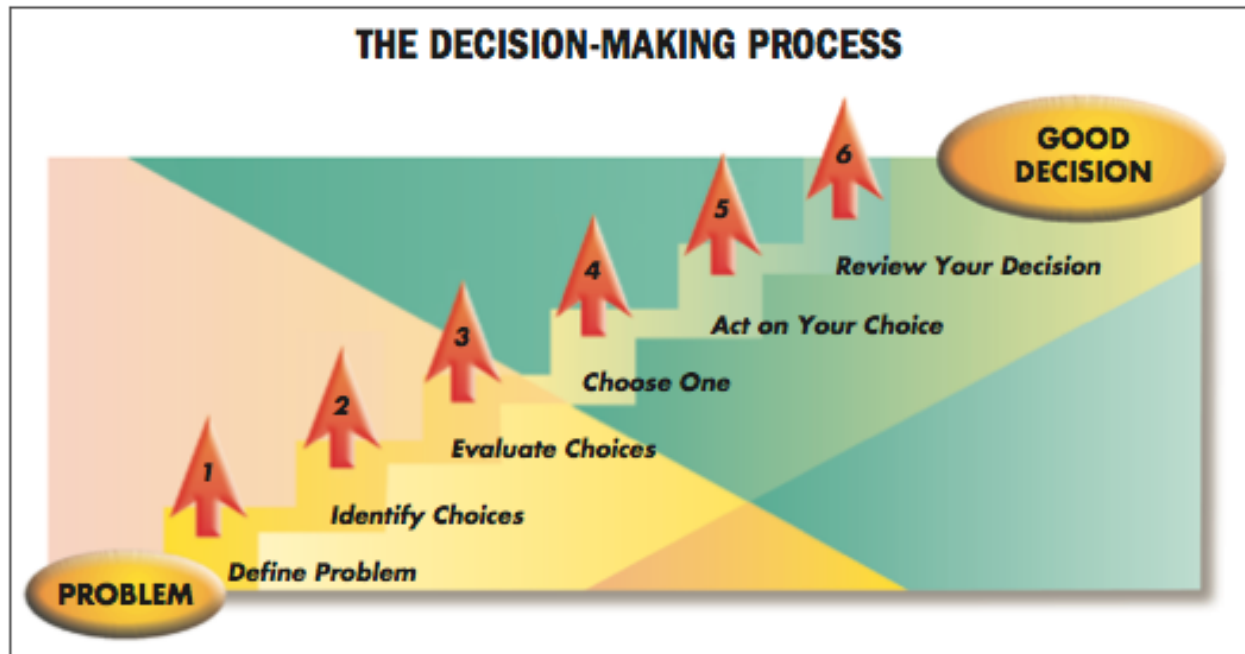
Decision-Making Process

The process of decision making is illustrated in the following six-step decision-making model used by many businesses and individuals. It involves defining the problem, identifying choices, exploring choices, making a choice, acting on the choice, and reviewing the decision after acting on it.

Step 1 :: Define the Problem

This is the most important step. If you don't clearly define what you want to achieve, you may end up starting over. Suppose you say that your problem is that you have to decide what you will do this weekend. This seems specific enough, but questions remain. How much money do you have to spend? What activities are available this weekend?

A more clearly defined problem would be whether to go to a movie or to a concert with friends. A clear definition of the problem helps you focus your attention.



Step 2 :: Identify the Choices

Before you can make a choice, you must research what choices are available to you. For the example in step one, you would want to find out what movies of interest are offered and what concerts are scheduled for the weekend. You would want to ask your friends if they want to go to a movie or a concert, and if so, which they would prefer. You would also consider the costs associated with each choice.

Step 3 :: Evaluate Each Choice

At this point, you have quite a bit of information. You would then evaluate the advantages and disadvantages of each choice. Suppose some of your friends want to go to a movie that was just released. If you go to an afternoon matinee, it would cost less than if you go in the evening. What you buy for snacks while in the theater also adds to the cost. Concerts usually cost more than a movie, but the live performance may mean something very special to you.

You can see that there are a number of factors to consider, including price and personal satisfaction, when making an evaluation of the choices in the decision-making process. Writing down your choices and then listing the advantages and disadvantages of each choice is a technique many decision-makers find to be helpful.

Step 4 :: Choose One

This is the step in which you make a choice based on all of the information you have gathered. You now have a good idea of what options you may choose from, and you know how much each item costs. You know that choosing either the concert or the movie would keep you within your budget.

Suppose most of your friends want to go to the concert. You might plan to see the new movie next weekend. Your choice is to go to the concert, and you hope to see the new movie when it is shown again at a later date.

Step 5 :: Act on Your Choice

In this step, you take action and follow up on your choice. This may require a number of tasks and some planning. For example, you would have to determine how many friends want to go to the concert. Someone would have to order and possibly pick up the tickets. More than one driver may be needed to get all of you to the concert. You may also have to decide when and where you would meet to get to the concert. Acting on your choice to go to the concert with your friends requires some more planning.

Step 6 :: Review Your Decision

Whenever you make a decision, it is important to review your decision. Sometimes you will be happy with your decision and sometimes you won't. Using the decision-making process is no guarantee that every decision you make will make you happy. A decision to go to an outdoor concert might be spoiled when an unexpected rainstorm develops and the concert is cancelled at the last minute.

Using the decision-making process cannot prevent unexpected events. The next time the group considers going to an outdoor concert they might consider an alternative and have a backup plan. Reviewing past decisions can help you better understand how to make a good decision in the future.

Think Critically

1. Why are there so many wants in our society? Why aren't people content with just meeting their needs?
2. You are, or will be, among the most important economic resources—human resources, a worker in the U.S. economy. What are some of the things that you and others should do to help assure that U.S. human resources are the best that they can be?
3. Many people make careless and uninformed decisions, refusing to take the time they need to make good decisions. What do you think are some reasons why people do this?
4. There is no such thing as a perfect decision, only a very good decision based on information available at the time of the decision. What kind of attitude is best to have toward a decision once it is made?