



Choices, choices everywhere. How do you make decisions about what to buy? Do you like to get the latest technology? The newest fashions? Or are you the type of person that likes to research all your options before you decide anything? Perhaps you might even decide tomorrow that you really don't need what you think you can't live without today.

Making good choices about what to buy comes from having a good method for making those decisions. While it might be OK once in a while to buy a pair of shoes that you really want just because they look good on you, you can't make all of your decisions that way. All of your choices have consequences -- some bigger than others.

Let's look at some methods you can use to help you make good choices.

Wants vs. Needs?



Are you thinking that you *need* to have a new pair of jeans right now? Do you think you *need* to hang out at Starbucks for a Frappucino™?

One of the most basic economic concepts is wants vs. needs. People decide what they *need* in order to live versus what they merely *want* or would like to have.

The Frappucino or the new pair of jeans are *wants*. Yes, you would really like to have them; however, they are not necessary for survival.

Here are some things to consider when debating whether something is a want vs. a need:

- How about my clothes? Do I need shoes, socks, pants, and a sweater?
- Are there things I need for school? Books? Backpack? Binders? Pencils?
- How about things to help me study? Do I need a desk, chair, and/or a computer?
- I need a new coat for winter, but is it necessary for me to have the designer version that costs fifty dollars more than another brand - even though both will keep me warm?

Economics

The study of the choices that people make to satisfy their wants and needs



Your wants and needs are the basis of economics. Economics is the study of the choices that people and organizations make to satisfy their wants and needs. This could be the study of the daily choices you make, such as whether to buy steak or hamburger. It can also be the study of the choices that a large corporation, such as Google or Apple, makes in order to figure out what products to sell.

Let's see how well you can classify different things you might buy as either wants or needs.

Want or need?

Question 1 of 1

Point Value: 0

The items below are either wants, or needs.
Select all of the items that are wants. The rest are all considered needs.

- Water
- Childcare
- Iced coffee
- Winter Clothes
- Aeropostle Jeans
- Computer
- Food
- Shelter
- Skateboard
- Electricity

PROPERTIES

On passing, 'Finish' button:

On failing, 'Finish' button:

Allow user to leave quiz:

User may view slides after quiz:

User may attempt quiz:

[Goes to Next Slide](#)

[Goes to Next Slide](#)

[After user has completed quiz](#)

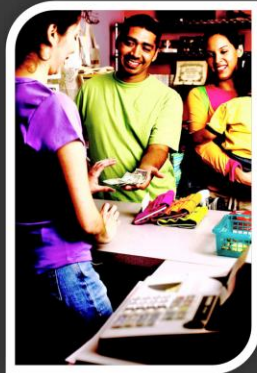
[At any time](#)

[Unlimited times](#)

 Properties...

 Edit in Quizmaker

Who Makes the Decisions?



In economics, there are two basic groups of decision makers: consumers and producers.

Consumers are the people or groups who decide to buy things. They could be individuals and small groups like you or your family, or large entities like a major company or a government.

Producers are the people or companies who make the things that consumers buy to satisfy their wants and needs. They could be small producers like a single farmer who grows corn or an artist who blows glass, or they can be large like Verizon that provides telephone and broadband service.

Neither consumers nor producers can exist without the other. As consumers, we have to have other people create things for us because we can't produce it all ourselves. Producers can't make money without the consumers to buy the goods they make.

How and Why Do We Make Decisions?

- First-come, First-served
- Lottery
- Majority Rule
- Prices
- Command (someone decides who gets what)
- Voting



If you think about how many things you actually want, your list would probably be long and getting longer every day. However, it's not the same with resources, especially the money you have to buy these things. Our resources are limited or scarce. Our list of resources probably does not grow as easily as our list of wants. We call this problem or condition scarcity, which happens when you have limited economic resources, or money, but you have unlimited wants. Scarcity forces you to choose. Though you might think that you can easily fulfill all of your wants and needs, we often take for granted the resources, such as money, that we use to fulfill these wants and needs. These resources can be scarce.

Then, how do we actually ration scarce goods and services? Here are some methods that are probably very common to you:

- First-come, First-served
- Lottery
- Majority Rule
- Prices
- Command (someone decides who gets what)
- Voting

Suppose someone came into your classroom with only one candy bar to give away. Everyone in the class could not have the entire candy bar, although everyone in the class wants it. How would you decide to satisfy the class' wants? Your class or instructor would have to decide whether one person or a group of people received it. How would you decide? Would you do it by voting, drawing straws, or giving it to the oldest person? Would you give it to one person or give equal portions to a group of people? Would you give one tiny piece to everyone in the class?

It's easy to see how scarcity can affect many of the decisions we make on a daily basis, and how it's important to have a system for making those decisions.

What Does this Mean to You as a Consumer?



Only you can decide what is important to you. Do you really need the Frappuccino or can you settle for making hot chocolate at home? Do you really need a new gaming system or is the old model you have good enough?

You must also make choices. The cost of a choice is the value of the next best alternative that you eliminate. You measure costs in time, money, or some other alternate activity that you gave up in order to make the choice. Opportunity cost is the best alternative that you gave up to get what you wanted. It may include the time you spent to get the item, such as driving a long distance, waiting in line, or missing work. For example, what is the opportunity cost of camping out for twenty-four hours to get free Chick-fil-A meals at a grand opening? Among other things, you are giving up time you could have worked or spent with friends.

To identify the opportunity cost, consider the following:

- What are the alternatives? Could you buy a cheaper item? Could you get an older one for free?
- Prioritize the alternatives – What is the next best thing to the item you want?

Here's another example. You would like to go to a football game and the movies, but only have money for one; therefore, you must make a trade-off. If you decide to go to the movie instead of the football game, you give up the football game, the opportunity cost, in order to go to the movies.

In other words, the opportunity cost is what you give up when you decide to pick one thing over another.

Summary



Choices are an important part of our lives and how the economy functions. The choices that you make are similar to those that large companies make every day. We all make these choices based on whether they are essential to our survival (wants versus needs), scarcity of resources, and the opportunity cost of those choices.

Understanding these concepts is key to understanding how the economy functions, and how you can make sound decisions that are best for you.