

# Decision Making and Scarcity

Why do we need to make decisions? Scarcity is a fundamental condition of all economic systems. Because of scarcity, we must make choices. Every choice involves an opportunity cost. The opportunity cost of a decision is the next-best alternative that is given up. It is the value of what you give up in order to get what you want.

A fundamental lesson in life is that there is no such thing as a free lunch. Individuals, businesses, governments, and economic systems all face scarcity. Because of scarcity, we must make choices, and the consequence of every choice is that something else is not chosen. This means that for every personal, workplace, and governmental decision there is a cost—the something else not chosen. A wise decision involves weighing the benefits and costs of the alternatives from which individuals must choose.

There is no getting around the condition of scarcity, or the choices and costs it creates. We face scarcity because our resources are limited and our economic wants are unlimited. We only have so many human resources (the physical, intellectual and creative talents of people), natural resources (gifts of nature such as water and natural gas) and capital resources (man-made goods such as tools and factories) in this world. Wants always outstrip the limited resources available to satisfy them. Without scarcity, it would be a different world; everything you wanted would be freely available.

More money does not eliminate or even reduce scarcity. Printing more money does not mean that more stuff has been produced, nor does it mean that we are all better off. Imagine how easy it would be to improve our living standards if all we had to do was print more money. (None of us would have to go to work if this was all it took to be better off!)

However, this is not the case and we face scarcity every day. People's wants are never fully satisfied. No matter what we already have, we would like to have more. The United States is one of the richest nations in the world, but poverty still exists. Even wealthy individuals desire more. Few of us are ever fully satisfied with our education, health care, and standard of living. Most everyone would like to have a higher income. Our wants are limited only by our imagination. Wants also change over time. Twenty years ago, few, if any, Americans had cellphones with hi-definition cameras and video, touch-screen tablets, car navigation systems, or 4K televisions. Who knows what the next twenty years will look like?

We need to make sure we are equipped with the information needed to make the best choices given scarcity. By analyzing and weighing the benefits and costs of choices, individuals can make informed decisions that maximize their satisfaction.

# EXERCISE 3.1

## Lesson 3: Decision Making

### Questions

- a. Why is there no such thing as a free lunch?
  
  
  
  
  
  
  
  
  
  
  
  
  
  
  
- b. Give some examples of natural resources, human resources, and capital resources.
  
  
  
  
  
  
  
  
  
  
  
  
  
  
  
- c. Why do economists NOT view money as capital?
  
  
  
  
  
  
  
  
  
  
  
  
  
  
  
- d. What is an opportunity cost?

# A College for Maria

Maria Delgado will graduate from high school this spring. She plans to attend college, but she does not know which college to attend. She is using a decision making model in order to make a better choice. Let's work through Maria's decision, using the five-step decision-making model.

## Step 1: Define the Problem

Maria must recognize the problem. She knows that all colleges and universities are not alike, and she must choose the one that is right for her. She plans to major in marketing, a business field that focuses on promoting and selling products or services.

## Step 2: List the Alternatives

Maria has found three main alternatives. State U. is a big university with 30,000 students, and it offers both undergraduate and graduate programs. Many undergraduate classes are very large; some have more than 300 students. The tuition is reasonable. The business school and the marketing program are highly ranked nationally. State U is located 150 miles from Maria's hometown.

Local Community College is a two-year college only a few miles away from Maria's house. Its classes are smaller than State U's, averaging about 40 students. There are marketing classes. While some faculty members are outstanding, Maria has heard that most faculty member at Local Community College do not have Ph.D. degrees, the highest academic degree awarded at most colleges. Most faculty members at State U. have Ph.D. degrees. The tuition for LCC is low, and if she decides on LCC, Maria could keep her part-time job.

Private College, which has only 3,000 students, is located 200 miles from Maria's hometown in a neighboring state. The classes are small, and the students get a lot of individual attention and help. The college offers marketing courses. Its admission standards are high, but Maria is an outstanding student and thinks she has a good chance of being accepted. Tuition is expensive. Private College gives scholarships and loans, but the cost would still be higher than the cost at State U.

## Step 3: Identify Your Criteria

For any choice, your criteria are important characteristics by which the alternative possibilities may be judged. People often differ in the criteria they consider important in making choices.

Maria's most important criteria are these:

- Low-cost tuition, because her family is not wealthy.
- High-quality education, particularly in marketing.
- Small class size and personal attention.
- Close location to home, because she feels she would miss her friends if she were far away.

**Step 4: Evaluate Your Alternatives**

Maria must now evaluate her alternatives against her criteria. She has decided to use the decision-making grid shown at the end of this exercise. She will use a "+" and "-" system to evaluate each alternative. One plus sign is positive and two plus signs are even better—very positive. A minus sign is negative. Two minus signs are very negative. Complete the grid before going to Step 5.

**Step 5: Make a Decision**

Maria decided to attend Local Community College for two years. Cost is very important to her. By attending the community college while working part-time, she might even be able to save some money. She felt the private college had the best program for her, but it is too expensive and too far from home. The community college had the most pluses. Low cost and closeness to home were very important to Maria, and the community college ranked highest on these criteria.

A longer-term option for Maria may be to save money and apply for scholarships during the two years that she attends the community college. If she does this, she may be able to attend the private school for her final two years of college.

### Maria's Decision-Making Grid

Based on the information in this exercise, use the grid to help Maria make a decision. Then answer the questions that follow.

What is the problem?

Fill in the boxes with "+", "++", or "-", "--", as you think Maria might have decided.

	CRITERIA			
ALTERNATIVES	<i>Low Cost</i>	<i>Quality Programs</i>	<i>Personal Attention</i>	<i>Close to Home</i>
<i>State U.</i>				
<i>Local Community College</i>				
<i>Private College</i>				

**Maria's Decision** \_\_\_\_\_



#### Questions

- Why is the decision-making model important?
- Are there any additional criteria that Maria did not consider that you feel are important in choosing a college?
- Do you agree with Maria's choice? Why or why not?

# Buying a New Tablet or Phone

You can use the decision-making model and grid for any consumer decision. Assume you want to buy a tablet or a phone. Fill out the decision-making grid that follows and decide which tablet or phone to buy. Find the alternative models at electronics superstores, computer stores or online stores. Develop your criteria, which could include size, cost, memory, disk capacity, speed, audio and video capabilities, etc. Choose the criteria that are most important to you; then fill out the grid; make a choice; and justify it.

**The Problem:**

<b>Criteria</b>   <b>Alternatives</b>					

**Your Decision and Justification:**