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Introduction (page 12)

The effects of the choices people make about how to use their limited resources can be long-lasting.

Trade-Offs (page 12)

When people make economic choices, they exchange one good or service for another. In making a purchase, the good they are exchanging is money. Exchanging one thing to get the use of another is called a trade-off. You make trade-offs every time you use a resource in one way instead of another. The result of a trade-off is what you give up in order to get or do something else. The cost of getting or doing one thing instead of another is known as opportunity cost. You figure opportunity cost by considering what your second choice for using a resource would be if you were not using the resource in the way you have chosen.

For example, time is a scarce resource. There are a limited number of hours in a day and you must choose how to use them. If you use one-hour to study a school assignment, the trade-offs are all the other things you could have done during that hour. The opportunity cost is what you would have done for that hour had you chosen not to study. In other words, it is the opportunity that you gave up in order to study.

Knowing about trade-offs and opportunity costs can help you make decisions at all levels. You will be able to make wiser use of your resources if you are aware of the trade-offs and opportunity costs of your decisions. Businesses must also consider these factors when they make choices about investing money or producing one good rather than another.

1. What is the difference between a trade-off and an opportunity cost?

Production Possibilities Curve (page 14)

Many businesses produce more than one type of product. However, even these companies make trade-offs and have opportunity costs. This is because of the choices they make about what combination of goods to produce. Economists use a graph called a production possibilities curve to show how much goods and services can be produced from a set amount of resources in a specific period of time. This curve helps businesses decide how much of each item to produce. It reveals the trade-offs and opportunity costs involved in each decision.

For governments, a classic example of trade-offs is how much of a nation’s resources to devote to military production and how much to civilian goods. The amount of military goods given up is the opportunity cost for increasing civilian production. A production possibilities curve shows how to make the most efficient use of resources. It is useful in locating the opportunity cost of following a certain course of action.

2. How is a production possibilities curve useful to business and government planners?