Revision checklist

1 The nature of the basic economic problem

As you revise each topic in Chapter 1, complete this checklist. If, after testing yourself, you find that you don’t know a particular topic very well, or only some of it well, go back and revisit that topic.

|  | Revision | | Knowledge check | | |
| --- | --- | --- | --- | --- | --- |
| Concept/topic | Revised | Tested | I know this well | I know some of this | I don’t know this |
| Economics is the study of how resources are allocated to satisfy the unlimited needs and wants of individuals, governments and firms in an economy. |  |  |  |  |  |
| The basic economic problem is concerned with how best to allocate scarce resources in order to satisfy people’s unlimited needs and wants. |  |  |  |  |  |
| Three fundamental questions arise from the basic economic problem: what to produce, how to produce it and for whom to produce it. |  |  |  |  |  |
| Economic agents comprise consumers (individuals and households), businesses (firms) and the government. |  |  |  |  |  |
| Firms and individuals produce goods and services in the private sector, whereas the government operates in the public sector. |  |  |  |  |  |
| Goods are physical items that can be produced, bought and sold. Services are non-physical items that can be provided by firms and governments and are usually paid for by customers. |  |  |  |  |  |
| Needs are the essential goods and services required for human survival. |  |  |  |  |  |
| Wants are goods and services that are not necessary for survival but are human desires. These are infinite due to human nature. |  |  |  |  |  |
| Economic goods are limited in supply, whereas free goods are unlimited in supply and so have no opportunity cost in terms of output and consumption. |  |  |  |  |  |