Glossary

1 The nature of the basic economic problem

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| **Term** | **Definition** |
| **Basic economic problem** | The basic economic problem is concerned with how best to allocate scarce resources in order to satisfy people’s unlimited needs and wants. |
| **Economic agents** | Households (private individuals in society), firms that operate in the private sector of an economy and the government (the public sector of an economy). |
| **Economic goods** | Goods which are limited in supply. |
| **Free goods** | Goods which are unlimited in supply. Hence, there is no opportunity cost in terms of their output. |
| **Goods** | Physical items such as tables, cars, toothpaste and pencils. |
| **Needs** | Goods and services that are essential for survival. |
| **Opportunity cost** | The cost of the next best opportunity forgone when making a decision. |
| **Private sector** | Refers to the economic activity of private individuals and firms. The private sector’s main aim is to earn profit for its owners. |
| **Public sector** | Refers to economic activity directly involving the government, such as the provision of state education and healthcare services. The public sector’s main aim is to provide a service. |
| **Services** | Non-physical items such as haircuts, bus journeys, telephone calls and internet access. |
| **Wants** | Goods and services that are not necessary for survival but are demanded by economic agents to fulfil their desires. |