Economics studies how people make decisions regarding the use of scarce resources

**Resources?**

**What’s meant by scarcity?**

Society is assumed better off with increased production/consumption of goods and services

Who/what determines how resources are used? What goods/services are produced?

Decisions on using resources could be individual (market) choices or collective (government) choices

It is assumed that every individual market exchange is mutually satisfactory

For both exchanging parties, the benefits of the transaction are at least as large as the costs for the individual participants

This does not mean that every market transaction increases society’s net benefits

Examples for production / consumption – positive/negative effects

There is an economic rationale for collective decision-making in determining resource use

[Trends in the Size of Government](http://milesfinney.net/433/lecture/trends.pptx)

Many goods and services are produced from a combination of market and collective decisions.

**Example of an auto**

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| Market Decision | Collective (government) Decision |
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