

Needs, Wants and Opportunity Cost

Needs and Wants

People's needs are essential for living, these needs are likely to change over time and differ for different cultures and countries. Economists describe the basic needs as food, warmth shelter and clothing. In developed countries you can probably add to these free education, healthcare, a civil society, and a good quality infrastructure.

Above needs we have wants. Wants are what people would like to have, but which are not essential. So you may want a new mobile phone, a bigger house, a swimming pool, a private nurse for your ill grandmother and so on. People's wants are unlimited, but there are limited resources and money to provide for these wants. Because of the situation of unlimited wants and limited resources we have what is known as the basic economic problem.

The Basic Economic Problem - Scarcity.

The basic economic problem:

Unlimited wants + limited resources = scarcity.

Scarcity means not everyone can have what they want, This scarcity leads to choices being made. Shall I go to the movies or stay in and have a pizza? If I buy a new car I will have less money for holidays. So do I want a new car more than better hols?

From the governments point of view decisions need to be made like increasing pensions or

building new hospitals, supplying the army with new equipment or the navy with new nuclear subs.

Opportunity Cost

Economists have a name for the outcome of these decisions—they call it opportunity cost

Opportunity cost is the cost of not choosing the next best alternative—it is what you give up when making the choice. So the opportunity cost of going to the cinema is giving up on your next choice of how to spend the money—in the above example, perhaps buying a pizza, and the pleasure that would have been gained from eating the pizza. In the other example the opportunity cost of buying a new car would be the lost pleasure which would have been gained from better holidays; which cannot now be afforded.

If the government were to go ahead and commission the new nuclear subs, the opportunity cost is likely to be the loss of improved and new equipment for the army, and the benefit these would have brought.

Notes