

## SECTION 2.1 THE THREE ECONOMIC QUESTIONS EVERY SOCIETY FACES

- Because of scarcity, certain economic questions must be answered regardless of the level of affluence of the society or its political structure. Three fundamental questions that inevitably must be faced in a world of scarcity are (1) What is to be produced? (2) How are the goods and services to be produced? (3) Who will get the goods and services?
- In market-oriented economies, people “vote” on economic affairs with their money. **Consumer sovereignty** explains how individual consumers in market economies determine what and how much is to be produced.
- Economies are organized in different ways to answer the question of what is to be produced. The dispute over what is the best way has inflamed passions for centuries.
- **Command economies** rely on central planning, where decisions about production are largely determined by a government official or committee associated with the central planning organization.
- A **market economy** largely relies on a decentralized decision-making process, in which literally millions of individual producers and consumers of goods and services determine what goods, and how many of them, will be produced.
- Most countries, including Canada, have a **mixed economy**, in which the government and private sector together determine the allocation of resources.
- All economies, regardless of political structure, must decide how, from several possible ways, to produce the goods and services that they want. When digging a ditch, a contractor must decide between many workers using their hands, a few workers with shovels, or one person with a backhoe. A decision must be made as to which method is appropriate. The best method is the least-cost method.
- The best or “optimal” form of production will vary from one economy to the next. Each nation tends to use the production processes that conserve its relatively scarce (and thus relatively more expensive) resources and use more of its relatively abundant resources. **Labor intensive** methods will be used where capital is relatively scarce and **capital intensive** methods will be used where labor is relatively scarce.

### **Business Connection** – *The Three Economic Questions Every Entrepreneur Faces*

- In every society, some mechanism must exist to determine how goods and services are to be distributed among the population. Who gets what? The distribution of income is an issue that always arouses strong emotional responses.

- In a market economy, with private ownership and control of the means of production, the amount of output one is able to obtain depends on one's income, which in turn, depends on the quantity and quality of the scarce resources that the individual controls. For example, Sidney Crosby makes a lot of money because he has unique and very marketable skills as a hockey player.
- The view of whether this is "fair" is at the centre of the efficient versus equity dilemma in economics. As an economy, do you focus on getting the most you can from your resources (efficiency) or should the emphasis be on equally distributing those resources to all (equity)?