

# 2.1

## **Three Key Economic Questions**



## **As a Young Economist, I will be able to...**

- Identify the three basic economic questions that all societies must answer.
- Describe the economic goals that determine how a society answers the three economic questions.
- Define the characteristics of a traditional economy.

# \*\*\*What are they?

1. **WHAT** goods and services should be produced?

2. **HOW** should these goods & services be produced?

2. **WHO** consumes these goods & services?



**Economic system-** Structure of methods & principles a society uses to produce & distribute goods & services

# The WHAT Question

**Remember, resources are limited! So you must grapple with the needs of people**

**How much resources should go to education?**

**What about national defense?**

**How about some “nifty” consumer goods?**



# The HOW Question

**How do we deliver & produce the goods?**

**Consider fuel, for example, or the delivery method of information**

**Sometimes you need to work around trade-offs!**



# The WHO Question

**How can people meet their needs & how do you determine those needs?**

**Factor Payments-** income people receive in return for supplying factors of production

**Profit-** Amount of money a business receives in excess of its expenses

**How much should people earn?**



# Economic Goals of Society

**Efficiency-** Maximizing productivity & reducing waste. Better ways to deliver goods!

**Freedom-** Limits on how to run your business & how you can pay for it!

**Security-** People want to know they are safe & receiving a paycheck to pay bills

**Safety Net-** Set of programs to protect people who face unfavorable economic conditions such as layoffs





# Economic Goals of Society

**Equity-** Fairness in the economy, but can mean different things for different countries

**Growth-** How a nations economy grows with its population & help them grow

**Standard of Living-** level of economic prosperity within a society

**Innovation-** Process of bringing new methods, products, or ideas into use



# Economic Goals of Society

**Conflicting Economic Goals-** Goals where you weigh the options of importance

**Traditional Economy-** relies on habit, custom, or ritual to answer 3 economic questions

**Traditional economies will revolve around family units or divided between genders**

**Societies who meet their own needs are successful in traditional settings**

