

Summary

The central problem of economics is scarcity - limited resources versus unlimited wants. Because resources are scarce, people and societies face opportunity costs, meaning every choice involves giving up the next best alternative. Economics addresses three basic questions:

1. what to produce? societies must decide which goods and services to prioritize.

2. How to produce? choices involve methods of production - labor vs. machines, natural vs. private production.

3. for whom to produce? distribution can be equal, based on ability to pay, or through special privileges.

Economics is divided into two branches:

- microeconomics: studies individual decisions, prices and markets (sometimes called price theory)
- macroeconomics: studies overall performance, unemployment, inflation, and national growth.

Economic analysis is also of two types:

- positive analysis: explains cause-and-effect relationships and predicts outcomes (fact-based, "if... then" statements).

• normative analysis : evaluates outcomes based on value judgments and recommends what should be done.