NO PREP

Understanding Scarcity and Choice

Why Resources Are Limited

Includes: Student reading, case study, differentiated questions, teacher key

Name: Period: Date:

Understanding Scarcity and Choice: Why Resources Are Limited

What is Scarcity?

Scarcity is a fundamental concept in economics that explains why resources are limited, but our wants and needs are not. Essentially, scarcity exists because we cannot have everything we want, so we are forced to make choices. Every economy—whether a small community, a large country, or the world as a whole—faces scarcity, impacting decisions on every level. Scarcity applies not only to physical resources like food, water, and raw materials but also to time, labor, and money. Because these resources are finite, scarcity requires us to prioritize our needs and make tough decisions about what to produce, how to produce it, and for whom it should be produced.

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Why Does Scarcity Lead to Choices?

Scarcity compels individuals, businesses, and governments to make choices about how best to use limited resources. When we decide to allocate resources to one purpose, we give up the opportunity to use them for something else. This is known as a trade-off. For example, if a city uses land to build a park, that land cannot simultaneously be used for housing or retail. The act of choosing how to use a resource means that other potential uses are sacrificed. In economics, these trade-offs are studied carefully to understand how best to meet needs within a society. Choices driven by scarcity are everywhere, from what a family buys at the grocery store to the decision of a government to invest in health care over transportation. In each scenario, scarcity is at the core of these decisions.

The Impact of Scarcity on Society

Scarcity affects more than just personal or government choices; it shapes the broader society. Countries with limited resources must be strategic, trading with

others or investing in technology to make resources stretch further. For instance, many nations import resources like oil or grain, trading what they have in abundance for what they lack. Societies must balance needs and wants, often asking citizens to conserve resources or pay higher prices for scarce items. Scarcity also affects prices in an economy. When a resource is scarce, its price tends to increase. This principle is evident in situations like droughts, which lead to higher prices for water or agricultural products. When demand remains high and supply is low, scarcity leads to increased costs, making it more expensive to obtain essential goods.

How Individuals and Businesses Cope with Scarcity

Individuals and businesses have strategies to cope with scarcity. For individuals, budgeting is a critical response to limited financial resources. People assess their priorities, deciding how much to spend on essentials like food, housing, and utilities, and how much to save or spend on wants, such as entertainment. Businesses, on the other hand, may focus on efficiency—finding ways to produce goods with fewer resources or developing alternative products. For example, if a particular raw material becomes scarce, companies may look for substitute materials to continue production without raising costs. Such strategies not only help businesses remain competitive but also conserve resources for other uses.

Scarcity in the Global Economy

On a global scale, scarcity drives international trade. Countries often lack certain resources and rely on others to fill these gaps. For instance, Japan imports much of its oil because it lacks significant natural reserves, while countries with abundant resources, like Saudi Arabia, export oil. This trade system allows nations to benefit from resources they do not have, supporting economic stability and development. However, this reliance on global trade can also make economies vulnerable to international events, such as wars, natural disasters, or pandemics. During the COVID-19 pandemic, for instance, supply chain disruptions led to shortages of various goods worldwide, from medical supplies to consumer electronics. Global scarcity forced countries to reconsider their dependence on foreign goods and seek ways to increase domestic production.

Case Study: The 1970s Oil Crisis

In the 1970s, a significant oil shortage rocked the United States and other parts of the world. Due to political tensions in the Middle East, oil supplies were restricted, creating scarcity. As a result, gasoline prices soared, and many Americans experienced long lines at gas stations, with some stations running out of fuel entirely. This scarcity led to government intervention and rationing programs, where citizens were only allowed to purchase a limited amount of fuel. The oil crisis influenced many aspects of American life, sparking interest in fuel-efficient vehicles and alternative energy sources. Automakers began designing cars that used less gasoline, and citizens became more aware of energy conservation. The oil crisis also highlighted the vulnerability of relying heavily on a single resource, prompting investments in domestic energy sources. The 1970s oil crisis remains a classic example of how scarcity impacts society and drives innovation. It illustrates how economies adjust when faced with limited resources and the importance of diversifying energy sources to prevent future crises.

1. What role did the government play in addressing the scarcity of oil during the crisis?

2. How did the oil crisis change public behavior and attitudes toward energy use?

Multiple Choice

1. What is scarcity?

    a) The abundance of resources

    b) Unlimited resources and limited wants

    c) A type of trade-off

    d) Limited resources and unlimited wants

2. Which of the following is a common result of scarcity?

    a) Fewer trade-offs

    b) Higher demand and higher prices

    c) Lower prices

    d) Increased resources and availability

3. During the 1970s oil crisis, what was one impact of the scarcity of oil?

    a) Decreased interest in energy conservation

    b) Lower prices for gasoline

    c) Long lines at gas stations

    d) Increased demand for fuel-inefficient cars

Matching

Write the letter of the correct definition on the line next to each term.

Term	Definition
1. ___ Scarcity	A) Rationing
2. ___ Trade-off	B) Reduced resources
3. ___ Oil crisis	C) Prioritizing spending on needs and wants with limited money
4. ___ Budgeting	D) Allocation of resources
5. ___ Efficiency in production	E) Limited resources

Fill-in-the-Blank

1. Scarcity forces people to make _____ about how to use limited resources.

2. A major outcome of scarcity in a market is an increase in _____.

3. The oil crisis in the 1970s led to the rationing of _____.

Short Answer

Answer each question in 2-4 complete sentences.

1. Explain how scarcity affects personal financial decisions.

_____

_____

_____

2. Describe one way that businesses can adapt to resource scarcity.

_____

_____

_____

3. How does scarcity contribute to the need for budgeting in everyday life?

_____

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