



Name: _____

Section 1: Understanding Business Activity

Unit 1: Business Activity

Grade 7

The economics problem: needs and wants.

- All humans have **needs** and **wants**.
 - Needs are things we **can't** live without,
 - Wants are simply our desires that we **can** live without.
 - We all have **unlimited wants**, which is true, since all of us want a new PC, a car, new graphics card, etc. that we actually do not need to live.
 - Businesses produce **goods** and **services** to satisfy needs and wants.
- **Need**: a need is a good or service essential for living.
- **Wants**: a want is a good or service which people would like to have, but which is not essential for living. People's wants are unlimited.
- **Economic Problem**: There exist unlimited wants but limited resources to produce the good and services to satisfy those wants. This creates scarcity.
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The economic problem – the real cause

- **Factors of production**: are those resources needed to produce goods or services. There are four factors production and they are in limited supply.
- **Scarcity**: is the lack of sufficient products to fulfil the total wants of the population.

Although we have unlimited wants, there are not enough **resources** for everyone. Resources can be split into 4 **factors of production**, which are:

- **Land**: All natural resources used to make a product or service.
- **Labour**: The effort of workers required to make a product or service.
- **Capital**: Finance, machinery and equipment required to make a product or service.
- **Enterprise**: Skill and risk-taking ability of the **entrepreneur**.

The economic problem results from **limited resources** and **unlimited wants**.

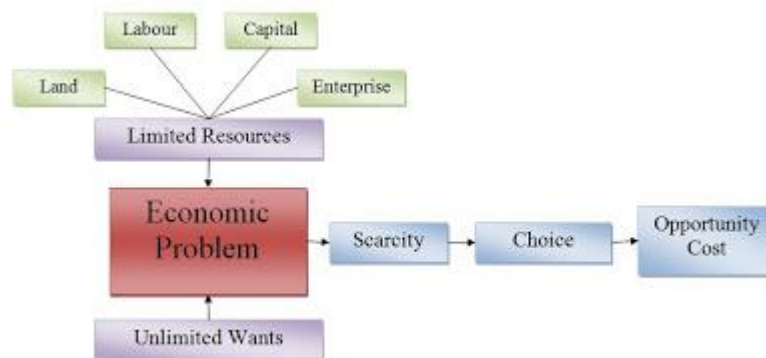
This situation causes **scarcity**, when there are not enough goods to satisfy the wants for everybody.

Because of this, we will have to **choose** which wants we will satisfy (that will be of more benefit to us) and which we will not when buying things.

Example: you would have got a book if you didn't buy the pen, or you would have a burger if you didn't buy the chips. Basically, item that you didn't buy is the **opportunity cost**. Make sure that the opportunity cost isn't higher than what you bought!

- **Opportunity cost**: the next best alternative given up by choosing another item.

Here is a diagram showing the whole economic problem:



Specialisation: the best use of limited resources:

Specialisation: occurs when people and businesses concentrate on what they are best at.

- In all societies the factors of production are in limited supply.
- It is important to use these resources in the most efficient ways.
- Nearly all workers specialise in one skill and most businesses specialise on one product.

Specialisation is now very common because:

1. Specialised machinery and technology are now widely available.
2. Increasing competition means that businesses have to keep costs low.
3. Most people recognise that higher living standards can result from being specialised.

Specialisation and division of labour:

Division of labour: is when the production process is split up into different tasks and each specialized worker/ machine performs one of these tasks.

Advantages of specialisation:

- Specialized workers are good at one task and increases efficiency and output.

- Less time is wasted switching jobs by the individual.
- Machinery also helps all jobs and can be operated 24/7.

Disadvantages of specialisation:

- Boredom from doing the same job lowers efficiency.
- No flexibility because workers can only do one job and cannot do others well if needed.
- If one worker is absent and no-one can replace him, the production process stops.

Why is business activity needed? (summary)

1. People have unlimited wants.
2. The four factors of production, the resources needed to make goods, are in limited supply.
3. Scarcity results from limited resources and unlimited wants.
4. Choice is necessary when resources are scarce. This leads to opportunity cost.
5. Specialisation improves the efficient use of resources.