

Needs, Wants, and Opportunity Cost

| | |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Need | A need is a good or service essential for living. |
| Want | 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 are unlimited wants but limited resources to produce the goods and services to satisfy those wants. This creates scarcity. Unlimited wants + Limited resources = Scarcity |
| Scarcity | The lack of sufficient products to fulfill the total wants of the population. |

Opportunity Cost

Opportunity cost is the next best alternative given up by choosing another item.

Specialisation

Occurs when people concentrate on what they are best at.

Specialisation

Specialisation is now very common because:

- Specialised machinery and technologies are now widely available.
- Increasing competition means that business have to keep costs low
- Most people recognise that higher living standards can result from being specialised

Division of Labor

Is when the production process is split into different tasks and each worker performs one of these tasks. It is a form of specialisation.

Division of Labor

| | |
|-------------------------------------|-----------------------------------------------------|
| Advantages: | Disadvantages: |
| - Increase in efficiency and output | - Bored workers |
| - Saves time | - Drop in efficiency |
| - Specialises training | - Production may stop due to absences of one worker |

Business

Combine factors of production to make products (goods and services) which satisfy people's wants.

Classification of products

| | |
|---------------------------------------------|--------------|
| Goods | Services |
| - physical items which we can touch and see | - Intangible |
| - tangible | |

Factors Of Production

| | |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Factors of production | Factors of production are those resources needed to produce goods or services. There are four factors of production and they are in limited supply. |
| Land | Used to cover all of the natural resources provided by nature. |
| Labour | This is the number of people available to make products. |
| Capital | This is the finance, machinery and equipment needed for the manufacture of goods. |
| Enterprise | This is the skill and risk-taking ability of the person who brings the other resources or factors of production together to produce a good or service. |

Added Value

This is the difference between selling price of a product and the cost of bought-in materials and components.
Selling Price - Cost of materials = Value added

Added Value

WARNING

Do not confuse added value with profit as they are not the same.

Aims of business activity

Combines scarce factors of production to produce goods and services

Produce goods and services which are needed to satisfy the needs and wants of the population

Employs people as workers and pay them wages to allow them to consume products made by other people

Why is added value important?

- Can pay other costs such as labor costs, management expenses and costs including advertising and power.
- May be able to make a profit if these other costs come to a total that is less than the added value.

How could a business increase added value?

Building a brand:

A reputation for quality, value, etc. that customers are prepared to pay for.

Delivering Excellent Service:

High quality, attentive personal service can make the difference between achieving a high price or a medium one

Product Features and Benefits:

Additional functionality of different versions of software can enable a software seller to charge higher prices.

Offering Convenience:

Customers will often pay a little more for a product that they can have a shortcut, or which saves them time.



By **Angeline**
cheatography.com/angeline/

Not published yet.
Last updated 18th October, 2022.
Page 2 of 2.

Sponsored by **CrosswordCheats.com**
Learn to solve cryptic crosswords!
<http://crosswordcheats.com>