Economic Key Concepts

Key concept	Understanding in relation to the course
Scarcity	The central concept in economics, scarcity refers to the limited availability of economic resources relative to society's unlimited demand for goods and services. Thus, economics is the study of how to make the best possible use of scarce or limited resources to satisfy unlimited human needs and wants.
Choice	Since resources are scarce, economics is a study of choices. It is clear that not all needs and wants can be satisfied; this necessitates choice and gives rise to the idea of opportunity cost. Economic decision-makers continually make choices between competing alternatives, and economics studies the consequences of these choices, both present and future.
Efficiency	Efficiency is a quantifiable concept, determined by the ratio of useful output to total input. Allocative efficiency refers to making the best possible use of scarce resources to produce the combinations of goods and services that are optimum for society, thus minimizing resource waste.
Equity	In contrast to equality, which describes situations where economic outcomes are similar for different people or different social groups, equity refers to the concept or idea of fairness. Fairness is a normative concept, as it means different things to different people. In economics, inequity is often interpreted to refer to inequality, which may apply to the distribution of income, wealth or human opportunity. Irrespective of economic system, inequity or inequality remain significant issues both within and between societies. The degree to which markets versus governments should, or are able to, create greater equity or equality in an economy is an area of much debate.
Economic well-being	Economic well-being is a multidimensional concept relating to the level of prosperity and quality of living standards enjoyed by members of an economy. It includes: • present and future financial security • the ability to meet basic needs • the ability to make economic choices permitting achievement of personal satisfaction • the ability to maintain adequate income levels over the long term. There are broad disparities in economic well-being both within and across nations.
Sustainability	Sustainability in economics refers to the ability of the present generation to meet its needs without compromising the ability of future generations to meet their own needs. It refers to limiting the degree to which the current generation's economic activities create harmful environmental outcomes involving resource depletion or degradation that will negatively affect future generations. Sustainability is proving increasingly important in all economic analysis as planetary boundaries are pushed to the limit.

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Change	An understanding of the concept of change is essential in economics. The economic world is in a continual state of flux and economists must be aware of this and adapt their thinking accordingly. The concept of change is important both in economic theory and the empirical world that economics studies. In economic theory, economics focuses not on the level of the variables it investigates, but on their change from one situation to another. Empirically, the world that is studied by economists is always subject to continuous and profound change at institutional, structural, technological, economic and social levels.
Interdependence	Individuals, communities and nations are not self-sufficient. Consumers, companies, households, workers, and governments, all economic actors, interact with each other within and, increasingly, across nations in order to achieve economic goals. The greater the level of interaction, the greater will be the degree of interdependence. In a highly interdependent economic world, decisions by certain economic actors are likely to generate many, and often unintended, economic consequences for other actors. A consideration of possible economic consequences of interdependence is essential when conducting economic analysis.
Intervention	Intervention in economics usually refers to government involvement in the workings of markets. While markets are considered the most efficient mechanism to organize economic activity, it is recognized that they may fail to achieve certain societal goals, such as equity, economic well-being, or sustainability. Failure to achieve such goals may be considered sufficient reason for government intervention. In the real world, there is often disagreement among economists and policymakers on the need for, and extent of, government intervention. There is a considerable debate about the merits of intervention versus the free market.