


 A graphic for Exercise 3.1 featuring the text 'EXERCISE 3.1' in a bold, sans-serif font. The text is white and set against a dark blue, slightly textured rectangular background that has a folded or layered appearance.
 

EXERCISE  
3.1

# Decision Making

**A** fundamental law of economics states that there is no such thing as a free lunch. There is no such thing as a free lunch because individuals, businesses, governments, and economic systems all face scarcity. Therefore, we must make decisions at the personal, business, and government levels. A wise decision involves weighing the benefits and costs of the alternatives. There is a cost to every decision.

**Scarcity** occurs because our resources are limited and our wants are unlimited. Scarcity exists because human wants always outstrip the limited resources available to satisfy them.

People's **wants** are never satisfied. No matter what we already have, we would like to have more. The United States is one of the richest nations in the world, but poverty still exists. Even wealthy individuals desire more. Few of us are satisfied with our education, health care, and standard of living. Many people would also like to have more income. Our wants are limited only by our imagination. Wants also change over time. Twenty years ago, few Americans had CD players, DVD players, cell phones, or computers. No one wanted a faster Internet connection.

Unfortunately, our **resources** are limited. We have only so many human resources, natural resources, and capital resources. **Human resources** are the physical, intellectual, and creative talents of people. When you get a better education, you improve your human resources. When a nation is better educated, it has more human resources—and a higher standard of living.

**Natural resources** are gifts of nature. Natural resources include water, forests, natural gas, oil, and climate. Natural resources are not the only resources a nation needs to become rich.

**Capital resources** include all the resources made and used by people to produce and distribute goods and services. Tools, factories, and office buildings are examples of capital resources. In economics, capital refers to items used to produce something else, not money. Money is just a medium of exchange used to make the buying and selling of goods and services easier. People like more money because they can use it to buy more stuff. It's the stuff that is important.

Because of scarcity, we must make choices. Every choice involves an **opportunity cost**. The opportunity cost of a decision is the next best alternative that is not chosen. It is the value of what you give up in order to get what you want.

# Questions

**1. Why is there no such thing as a free lunch?**

**2. Give some examples of natural resources, human resources, and capital resources.**

**A. Natural resources**

**B. Human resources**

**C. Capital resources**

**3. What is capital?**

**4. Why do economists NOT view capital as money?**

**5. What is an opportunity cost?**


 A graphic for Exercise 3.2, featuring the word "EXERCISE" in a small, bold, sans-serif font above the large, bold number "3.2". The graphic is set against a light blue background with a subtle pattern.
 **EXERCISE  
3.2**

# Personal Decision Making

**T**his exercise focuses on personal decision making. Our personal resources include time, money, and skills that we use to satisfy our wants. We use our personal resources to purchase goods and services. Goods are things we can touch, such as cars, houses, computers, and cell phones. Services are activities such as rock concerts, educa-

tion, movies, insurance, loans, vacations, and health care. Of course, we cannot have all the goods and services we want because of scarcity. But we can have more goods and services if we choose wisely. By carefully considering the costs and benefits of our decisions, we can improve our lives.


 A large, light blue graphic of a graduation cap (mortarboard) with a tassel, positioned behind the title "A College for Maria".
 

## A College for Maria

**M**aria Delgado will graduate from high school this spring. She plans to attend college, but she does not know which college to attend. She is using a decision-making model in order to make a better choice. Let's work through Maria's decision using the five-step decision-making model.

### STEP 1: *Define the Problem*

Maria must recognize the problem. She knows all colleges and universities are not alike, and she must choose the one that is right for her. She plans to major in marketing.

### STEP 2: *List the Alternatives*

Maria has found three main alternatives. State U is a big university with 30,000 students, and it offers both undergraduate and graduate programs. Many undergraduate classes are very large; some have more than 300 students. The tuition is reasonable. The business school and the marketing program are highly ranked nationally. State U is located 150 miles from Maria's hometown.

Local Community College is a two-year college only a few miles away from Maria's house. Its classes are smaller than State U's, averaging about 40 students. There are marketing classes. While some faculty members are outstanding, Maria has heard that most do not have Ph.D.s like they do at State U. The tuition for LCC is low, and if she decides on LCC, Maria could keep her part-time job.

Private College, which has only 3,000 students, is located 200 miles from Maria's hometown in a neighboring state. The classes are small, and the students get a lot of individual attention and help. The college offers marketing courses. Its admission standards are high, but Maria is an outstanding student and thinks she has a good chance of being accepted. Tuition is expensive. Private College gives scholarships and loans, but the cost would still be higher than at State U.

### **STEP 3:** *Identify Your Criteria*

Your criteria are personal goals you feel are important. Every person has different criteria. Maria's most important criteria are these:

- Low-cost tuition because her family is not wealthy.
- High quality education, particularly in marketing.
- Small class size and personal attention.
- Close location to home because she feels she would miss her friends.

### **STEP 4:** *Evaluate Your Alternatives*

Maria must now evaluate her alternatives against her criteria. She has decided to use the decision-making grid shown on page 14. She will use a "+" and "-" system to evaluate each alternative. One plus sign is positive and two plus signs are even better—very positive. A minus sign is negative. Complete the grid before going to Step 5.

### **STEP 5:** *Make a Decision*

Maria decided to attend Local Community College for two years. Cost is very important to her. By attending the community college while working part-time, she might even be able to save some money. She felt the private college had the best program for her, but it is too expensive and too far from home. The community college had the most pluses. Low cost and closeness to home were very important to her, and the community college did best on these criteria.



## Maria's Decision-Making Grid

Based on the information in this exercise, use the grid to help Maria make a decision. Then answer the questions that follow.

What is the problem? \_\_\_\_\_

Fill in the boxes with +, ++, or -, as you think Maria might have decided.

ALTERNATIVES	CRITERIA			
	Low Cost	Quality Program	Personal Attention	Close to Home
State U				
Local Community College				
Private College				

What choice do you recommend for Maria based on her criteria?

## Questions

**1.** Why is the decision-making model important?

**2.** Are there any additional criteria that Maria did not consider that you feel are important in choosing a college?

**3.** Do you agree with Maria? Why or why not?

**EXERCISE**  
**3.3**

# Buying a New PC

**Y**ou can use the decision-making model and grid for any consumer decision. Assume you want to buy a personal computer. Fill out the decision-making grid that follows and decide which PC to buy. Find the alternative models at electronics superstores, computer stores, or online computer

services. Develop your criteria, which could include memory, hard disk capacity, modem speed, audio and video capabilities, and processing speed. Choose the criteria that are most important to you; fill out the grid; make a choice; and justify it.

## PC Decision-Making Grid

**The Problem:** \_\_\_\_\_

CRITERIA ▲				
▼ ALTERNATIVES				

**The Decision:** \_\_\_\_\_