

## Basic Economic Terms-Vocabulary Work Sheet #1

In your own words define the following terms:

<b>COST</b>	Cost is the:
	Cost is the foregone alternative. Cost and price are not the same, in economics terms.
<b>NEED</b>	Need is a:
	Often thought of as a physiological or biological requirement for maintaining life, such as the need for air, water, food, shelter, and sleep. Satisfaction is achieved by fulfilling needs.
<b>PRICE</b>	Price is a:
	The monetary price of a good or resource is simply the actual dollar price paid. Prices reflect opportunity costs and help buyers make decisions. The relative price measures the price of the good or resource relative to prices of other goods and resources. Prices in a market economy have some additional functions. For example, the price of a good or resource conveys information about the availability of the good and, often, its quality. Prices also serve as an incentive to individuals in their decision making. Higher prices give people an incentive to ration scarce goods and resources.
<b>SCARCITY</b>	Scarcity is the:
	Scarcity is simply the concept that human wants (not human needs) exceed the resources available that are necessary to produce the goods used to satisfy those wants.
<b>WANT</b>	Want is the:
	Often thought of as a psychological desire which makes life just a little more enjoyable, but which is not physiological necessary to life. You need oxygen, but you want a hot fudge sundae. Satisfaction is achieved by fulfilling wants. Physiological needs should be contrasted with psychological wants that make life more enjoyable but are not necessary to stay alive. It matters very little to markets if people need goods or want goods, so long as they are motivated to satisfy them. This motivation is what drives economic activity.