

SATPREP

Production, Consumption and Opportunity Cost

Production –

Production is the process of creating goods and services from raw materials in an economy.

Consumption –

Consumption is the process by which consumers satisfy their wants. *Consumer Durables* are things that satisfy wants for longer period like refrigerator, vehicles etc.

Unlimited Wants –

Basic necessities include food clothing and shelter. Other than that everything is luxury. However, wants continually expand, develop or change so does the priorities of individual.

Eg. Income of individuals increases as time passes. So, what was luxury once may become necessity. Car may be luxury for low income group but it becomes necessity if the individual's income level grows.

Scale of Preference –

A scale of preference can be defined as the list of wants or needs that a person comes up with in order of importance. What is luxury for one can be a necessity for another. Scale of preference can be influenced by income, culture, upbringing and life's experiences. It is different for every individual.

Eg. TV, Refrigerator etc are luxury for low income groups but for higher income level, these are necessities.

Choice and Opportunity Cost –

With given resources and unlimited wants, one has to choose which want to satisfy first. The next best alternative forgone in process of choosing is called Opportunity Cost.

Eg. Suppose we have \$15 and we can purchase either educational books or educational DVDs. If we purchase DVDs then books will become opportunity cost.