

COMMONWEALTH OF AUSTRALIA

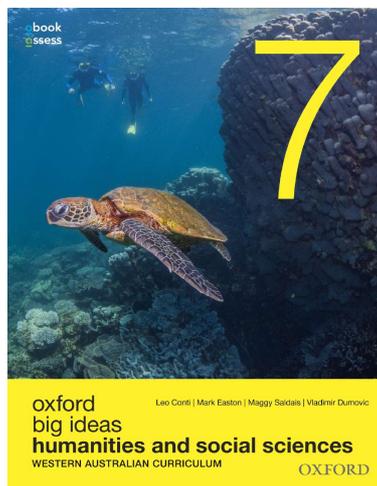
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14.1 Making rational decisions

As economists, we look at how to make the right choices in a logical and thought-out way. While going with our gut feeling can be a more exciting way of doing things, a more carefully considered approach can help us make informed decisions. This means that we need to consider all of the factors involved. Although individuals and businesses should both take the same logical approach to making decisions, they have different motives and will have to consider a different range of factors.

Our needs and wants

Making economic choices is quite tricky when it comes to consumers. This is because we have a wide range of **needs** and **wants**. Generally speaking, a rational person aims to make choices that will fulfil their basic needs for survival, such as food, water and shelter. They also consider what will bring them the most satisfaction, such as owning a new smartphone. These desires that are not necessary for survival are called wants (see Source 1). While this may seem rather simple, distinguishing between the two can be a very important part of making economic decisions.

Distinguishing needs from wants

While you may feel like you need a mobile phone, it is not something that is necessary for your survival. In our society, there are many pressures that make people feel that items they want are actually items they need.

This kind of pressure can come from businesses. The goal of a business is to make a **profit** for its owners. Businesses make profit by producing goods or services for consumers to buy and will find clever ways of persuading you that you need their products. They develop flashy advertisements to display on billboards, TV and radio. They also pay celebrities to promote their products in movies and magazines. Even without realising it, the average Australian sees thousands of advertisements a day, all of which are trying to influence them to buy a product.

Sometimes we feel pressure from our peers to buy a product. If everybody else has the latest smartphone and we don't, we might feel like a **social outcast**. Without these pressures, we would be less likely to buy the product. This would allow us to consider spending our money on something else that may bring us more satisfaction. For example, we could have saved our money for a rainy day, or even donated it to those in need. Whatever you decide to do with your money, make sure that it is a rational decision that is most likely to give you the greatest satisfaction in the long run.



Source 1 While many people feel that they need a smartphone or tablet, in economic terms, a smartphone or tablet is considered a want.

Relative scarcity

Another problem caused by our wants is known as **relative scarcity**. Relative scarcity happens because our wants are unlimited, but the **resources** required to fulfil them are limited. This causes damage to the natural environment, which is certainly essential to our survival.



Source 2 Our unlimited wants not only use up the world's limited natural resources, they often damage the environment through pollution and waste.

Our wants are unlimited in the sense that as soon as one want is satisfied, another appears. For example, a person who has already acquired a house, food, water, basic clothing, and has money left over will buy an item that will make their life easier, such as a car. That person may later decide to buy a bag, designer jeans, a new car, a new smartphone – and the list goes on. People's wants can never be completely satisfied because as soon as we buy one of these items, we desire another. Before you know it, you have just spent \$35 million on a 1962 Ferrari 250 GTO race car.



Source 3 Luxury items such as this private yacht are products that we use to satisfy our wants.

Here are some other wants:

- diamond-covered smartphone: \$9.4 million
- private yacht: \$590 million
- bottle of wine: \$160 000
- slippers covered with diamonds and rubies: \$3 million
- a 27-storey skyscraper for a couple and their three children to call home: \$2 billion
- a diamond watch: \$25 million
- a dog house for a pet Chihuahua: \$325 000.

Check your learning 14.1

Remember and understand

- 1 What is the difference between a 'need' and a 'want'?
- 2 What is the goal of a business?
- 3 Describe two things that make us feel as if we need things that are actually just wants.
- 4 What is the problem of relative scarcity?

Apply and analyse

- 5 Identify each of the following items as a need or a want:
 - a car
 - b hairdryer

- c clean drinking water
- d pens and pencils
- e designer jeans
- f computer
- g house
- h mansion
- i basic food
- j ice cream
- k basic clothes
- l mobile phone.

- 6 Why do you think it is important to be able to recognise the difference between needs and wants?