Chapter 1

The Infinite Hunger versus Limited Pizza

Imagine you are sitting in your room with a giant wish list. You want a brand new smartphone. You want designer shoes. You want to travel the world. You want an infinite supply of hot pizza delivered to your door every single day. Your desires are absolutely endless.

Now reach into your pocket. Pull out your wallet. You probably only have a few coins or a couple of bills.

That specific feeling right there is the entire foundation of economics. You have an infinite hunger for things but you live in a world with limited stuff. We have limited money. We have limited land. We have limited water. We have limited hours in the day.

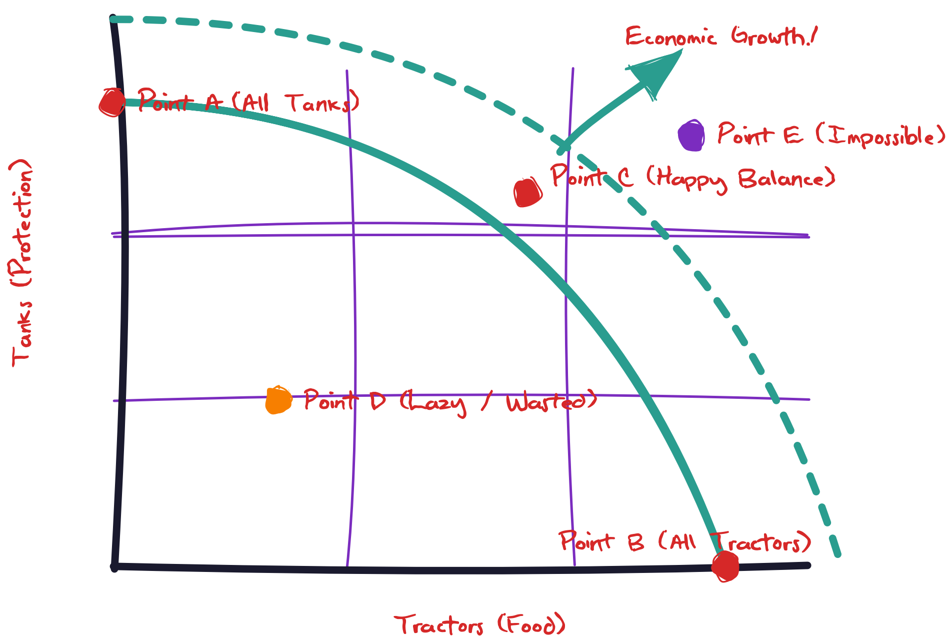
Because we have limited stuff we are forced to make choices. You cannot buy the smartphone and the shoes. You have to pick one. When you choose to buy the shoes you are giving up the smartphone. The thing you leave behind is your true cost. We call this the Opportunity Cost. Every choice you make in life costs you the opportunity to do something else.

This does not just happen to you. It happens to giant companies. It happens to entire countries. A country has to decide if it wants to build more schools or build more hospitals. They cannot build everything.

To understand how countries make these massive decisions we use a brilliant visual map. We call this map the Production Possibilities Curve. It sounds like a big fancy title but it is actually just a story about a factory.

Let us look at the visual story right now.

The Story Behind The Curve



Here is the map of our country. I want you to imagine a nation that only makes two things. They make Tractors to feed their people and they make Tanks to protect their people.

Translating the Map

Please look at the graph above. I do not want you to see this as math. I want you to see this as a battlefield of choices.

Look at the bottom line spreading out to the right. That represents the Tractors. The further you walk down that bottom line the more food the country is growing.

Now look at the side line reaching up to the sky. That represents the Tanks. The higher you climb up that side line the more military protection the country has.

Now look at the big solid green curve. That green line is a magical boundary. It is the absolute maximum limit of what this country can build. If every single worker wakes up early, if every single machine is running at full power, and if absolutely nothing goes to waste, they will land exactly on that green line.

Let us visit the red dots living on that green boundary line.

Look at Point A. At Point A the country has pushed all of its workers into the weapons factories. They are building a massive army of Tanks. But look straight down to the bottom line. They are building zero Tractors. They have total protection but the people are going to starve.

Now look down at the bottom corner at Point B. The country has decided to become totally peaceful. Every worker is building Tractors. They have mountains of food. But look straight across to the side line. They have zero Tanks. They have full bellies but they are completely defenseless.

This is the exact meaning of Opportunity Cost. You cannot have maximum Tanks and maximum Tractors. To get more of one thing you must give up the other.

So the leader of the country decides to be smart. The leader chooses Point C. Look at Point C resting perfectly in the middle of the green curve. At Point C the country is building a healthy amount of Tanks to stay safe and a healthy amount of Tractors to stay fed. It is a happy balance.

But what about the other dots?

Look deep inside the curve. See the brown dot labeled Point D? Point D is a tragedy. At Point D the factories are shut down. The workers are sleeping at home. The metal is rusting in the junkyard. The country is completely capable of reaching the blue boundary but they are being lazy and inefficient. Any time you see a dot inside the curve it means the country is wasting its potential.

Now look way out into the top right corner. Do you see the purple dot labeled Point E? Point E is the ultimate dream. The country wants to build massive amounts of Tanks and massive amounts of Tractors at the same time. But they cannot. They do not have enough metal. They do not have enough workers. With the resources they have right now Point E is completely impossible.

The Miracle of Growth

Is Point E going to be impossible forever? Absolutely not.

Look at the dashed green line reaching out further than the blue line. How did the country push their boundary outward?

Imagine the country discovers a massive new iron mine hidden in the mountains. Or imagine a brilliant student invents a brand new robotic machine that can build Tractors twice as fast. Or imagine millions of new workers move to the country ready to work hard.

When a country gets more resources or invents better technology their entire boundary shifts outward. That dashed green line is the greatest goal of every nation on earth. That green line is Economic Growth. Suddenly the impossible dream of Point E becomes perfectly possible.

The Big Takeaway

Every time you look at this simple map you are seeing the reality of human existence. You are seeing scarcity. You are seeing the painful choices leaders have to make. You are seeing the cost of being lazy. And you are seeing the incredible power of innovation pushing humanity forward.

You have just mastered the absolute foundation of economics. Oh! Yes you did. Everything we learn next builds directly on this battlefield of choices.