**Chapter 1 Final Review**

What is economics all about?

**Making choices**

From your personal perspective, what is unlimited? Through a business standpoint, what is scarce?

**Although your wants, or desires, are virtually unlimited, the productive resources available to help satisfy these wants are scarce.**

What is scarcity in the field of economics?

**the condition facing all societies because there are not enough productive resources to satisfy people’s unlimited wants.**

What are productive resources?

**(factors or production) are the inputs used to produce the goods and services that people want.**

Productive resources, also called factors of production, or simply resources, sort into three broad categories. Identify and explain each category.

**1. Human resources - the personnel of a business**

**2. Natural resources -materials or substances such as minerals, forests, water, and fertile land**

**3. Capital resources- Capital resources are goods produced and used to make other goods and services. Basic categories of capital resources include tools, equipment, buildings, and machinery.**

What does an entrepreneur always seek?

**An entrepreneur seeks to discover profitable opportunities by purchasing resources and assuming the risk of business success or failure.**

What does profit equal?

**Profit equals the revenue from sales minus the cost of production.**

When does an entrepreneur suffer a loss?

**If production costs exceed revenue, the entrepreneur suffers a loss.**

What are exhaustible resources?

**An exhaustible resource- such as oil, coal, or copper ore- does not renew itself and so is available in a limited amount.**

Explain the difference between a good and a service.

**Good- something you can see, feel, and touch.**

**It requires scarce resources to produce, and it satisfies human wants. Service- not physical, yet is uses scarce resources to satisfy human wants.**

What do all goods involve?

**All goods involve a cost to someone.**

Why are goods that are truly free not the subject matter of economics?

**Goods that are truly free are not the subject matter of economics. Without scarcity, there would be no need for prices and no economic problem.**

What is the purpose of an economic theory or an economic model?

**An economic theory, or economic model, is a simplification of economic reality that is used to make predictions about the real world.**

What is the purpose of the “other things constant” assumption?

**The idea is to identify the variables of interest and then focus exclusively on the relations among them, assuming that nothing else of importance changes- that other things remain constant.**

What is the most basic behavioral assumption in economics?

**Perhaps the most basic behavioral assumption is that people make choices based on their own self-interest.**

Explain the difference between a Positive Economic Statement and a Normative Economic Statement.

**Positive Economic Statement- a statement about economic reality that can be supported or rejected by reference to the facts. (The US unemployment rate is at a 48-year low and the average hourly earnings rose 2.8%).**

**Normative Economic Statement- reflects someone's opinion which cannot always be shown to be true or false by reference to the facts.**

What is economic choice based upon?

**Economic choice is based on a comparison of the expected marginal benefit and the expected marginal cost of the action under consideration.**

What does marginal mean in the field of economics?

**Marginal means incremental, additional, extra, or one more.**

**Marginal refers to a change in the status quo.**

What is an opportunity cost?

**The value of the best alternative you must pass up.**

**Your opportunity cost depends on your alternatives.**

Why does the sultan of Brunei still face opportunity costs, even though he could buy almost anything he wanted?

**The sultan of Brunei is among the world’s richest people, with wealth estimated at 16 billion dollars.**

**He can buy just about anything he wants, however, his time to enjoy these goods and services is scarce.**

**Each activity he undertakes has an opportunity cost.**

What is a sunk cost, and why should you always ignore it?

**The ten minutes you may have waited in line to check out at the grocery store represents a sunk cost.**

**A cost you have already incurred and cannot recover, regardless of what you do now.**

**You should ignore sunk cost in making economic choices and you should switch to the newly opened line.**

Why would the opportunity cost for college be higher for some individuals?

**If you expect college to be more painful than your best alternative, then the opportunity cost of attending college is even higher.**

**If you expect to find college difficult, boring, and in most ways more unpleasant than a full-time job, then you money cost understates your opportunity cost.**

**Chapter 2 Final Review**

All economics must answer what three questions?

**What goods and services will be produced?**

**How will they be produced?**

**For whom will they be produced?**

What is the distribution question?

**“For whom will goods and services be produced?”**

In a pure market economy, private firms account for all production.

There is no government at all. What are the two main features of this economic system?

**Private ownership of all resources**

**The coordination of economic activity based on the prices generated in free, competitive markets.**

A pure market economy relies exclusively on markets to allocate (distribute) resources. A pure market economy has its flaws because markets do not always work on their own. What are the five notable market failures?

**Difficulty enforcing property rights**

**Some People have few resources to sell.**

**Some firms try to monopolize markets**

**No public goods**

**Externalities (paper mills causing foul air)**

In a pure centrally planned economy, the government, or state, owns all resources, including labor. Where do central planner direct production? Explain why.

**Central planners direct production through state owned enterprises, which usually face no competition.**

No country on earth represents either a market economy or centrally planned economy in its pure form. What are most economies considered today?

**Most economies now mix central planning with competitive markets called mixed economies.**

What is the PPF and what does it show?

**Given the resources and the technology available in the economy, the production possibilities frontier (PPF) shows the possible combinations of the two types of goods that can be produced when available resources are employed fully and efficiently.**

What does the law of increasing opportunity cost state?

**each additional increment of one good requires the economy to give up successively larger increments of the other good.**

What does the law of comparative advantage state?

**the worker with the lower opportunity coast of producing a particular output should specialize in that output.**

How does specialization increase efficiency?

**Specialization, then, occurs when individual workers focus on single tasks, enabling each one to be more efficient and productive.**

Why would a barter system fail in the United States?

**Barter- a system of exchange in which products are traded directly for other products.**

**Barter works best in simple economies where there is little specialization and few types of goods to trade. For economies with greater specialization, money plays an important role in facilitating exchange.**

How does McDonald’s take advantage of the gains resulting from the division of labor?

**sorts the production process into separate tasks to be carried out by separate workers.**

**Each worker specializes in a separate task. Mangers can assign tasks according to individual preferences and abilities. The worker with the nice smile and good personality can handle the customers up front.**

**Chapter 3 Final Review**

Who determines what gets produced?

Households’ demands for goods and services determines what gets produced.

Explain how the household evolved.

**In 1850 about two-thirds of America’s labor force worked on farms.**

**The economy was primarily agricultural, and each farm household was largely self-sufficient.**

**With the introduction of labor-saving machinery, disease-resistant seeds, and better fertilizers, farm productivity increased sharply.**

**Because each farmer produced much more, fewer farmers were needed to grow enough food to feed the nation.**

**As a result, many workers and their families moved from farms to cities where they became less self-sufficient.**

What caused a rise in the opportunity cost for women not working?

**In 1950, only about 15 percent of married women with children under 18 years old were in the labor force.**

**Since then, higher education levels among married women and a growing need for workers increased women’s earnings, raising their opportunity cost of not working.**

Why are households are no longer self-sufficient?

**Specialization and comparative advantage**

What is a cottage industry system?

**Cottage Industry System**

**Workers’ rural cottages served as tiny factories.**

**Production usually occurred during the months when farming tasks were few- when the opportunity cost for farm workers as lower.**

Why do Patent Laws exist?

**encourage inventors to invest the time and money required to discover and develop new products and processes**

What is the purpose of a copyright?

**copyright assigns property rights to original expressions or an author, artist, composer, or computer programmer.**

What do Antitrust Laws promote and try to reduce?

**Attempt to promote competition and reduce anticompetitive behavior.**

**These laws prohibit efforts to create a monopoly in a market in which competition is desirable.**

Why would a monopoly be allowed in the United States today?

**In rare instances, however, a monopoly can produce and sell the product for less than could several competing firms.**

**Example: electricity is delivered more efficiently by a single firm that wires the community than by competing firms each stringing their own When it is cheaper for one firm to serve the market than for two or more firms to do so, that firm is called a natural monopoly. sets of wires.**

Who owns and regulates public utilities?

**Government-owned and government regulated monopolies are called public utilities.**

What does Monetary policy attempt to supply?

**tries to supply the appropriate amount of money to help stabilize the business cycle and promote healthy economic growth.**

What are the two important features of private goods?

**1. they are rival in consumption**

**2. suppliers can easily exclude those who don’t pay, so a private good is said to be exclusive.**

Why can’t public goods be provided through the market system?

**because of the problem of who would pay for them- National Defense**

Explain the difference between Quasi-public goods and Open access goods?

**Quasi-public goods**

**Goods that, once produced, are available to all, but nonpayers are easily excluded.**

**Television shows (Netflix)**

**Open access goods**

**Goods that are rival in consumption but exclusion is costly.**

**Example: Game fish (in the absence of any regulations, open access goods are overfished, overhunted, or overused).**

Why are poverty rates among female-headed families five to six times greater than rates among married couples?

**Because the father typically assumes little responsibility for child support for child born outside marriage, the child(ren) are much more likely to be poor than other children.**

**Births to single mothers make up the primary source of poverty in the United States.**

When did social security start? What is its purpose?

**Social Security, established during the Great Depression of the 1930s, provides retirement income for those with a work history and a record of making payments to the program.**