Study Guide
Unit 1
Chapters 1 and 2

scarcity

economic good

free good

economic bad

resources, factors of production, or inputs

- land
- labor
- capital
- payments for factors of production

rational self-interest

positive analysis

normative analysis

incentives

economics

increasing opportunity cost

constant opportunity cost

goods

services

ceterus peribus

producer

consumer

circular flow model

product market

factor market

household

firm

fallacy of composition

association as causation

microeconomics

macroeconomics

opportunity costs

tradeoff

marginal cost

marginal benefit

production possibilities curve (PPC)

marginal opportunity cost

comparative advantage

private property rights

command economy

market economy, capitalism, free enterprise

traditional economy

specialization

Be able to graph and interpret PPC’s.

List the assumptions used to construct a PPC.

Distinguish between constant and increasing opportunity costs and give examples of each.

Explain how the PPC shifts and what would cause varying shifts.

Be able to determine comparative advantage given the resources needed or the output attained.

Be able to determine terms of trade between countries.

Explain how rational self interest works and how the use of marginal analysis helps people make decisions.

Describe 3 factors of production.

Explain 3 questions every economy must answer.

Explain how different types of economies answer the three questions.

Determine the difference between normative and positive economic statements.

Determine the difference between microeconomic and macroeconomic topics.

Explain opportunity cost and tradeoffs, and their relationship to TANSTAAFL.

Explain the discipline of economics.

Explain the difference between financial capital and physical capital.

Be able to complete a circular flow model.

Explain why concentrating on capital goods lead to future economic growth.