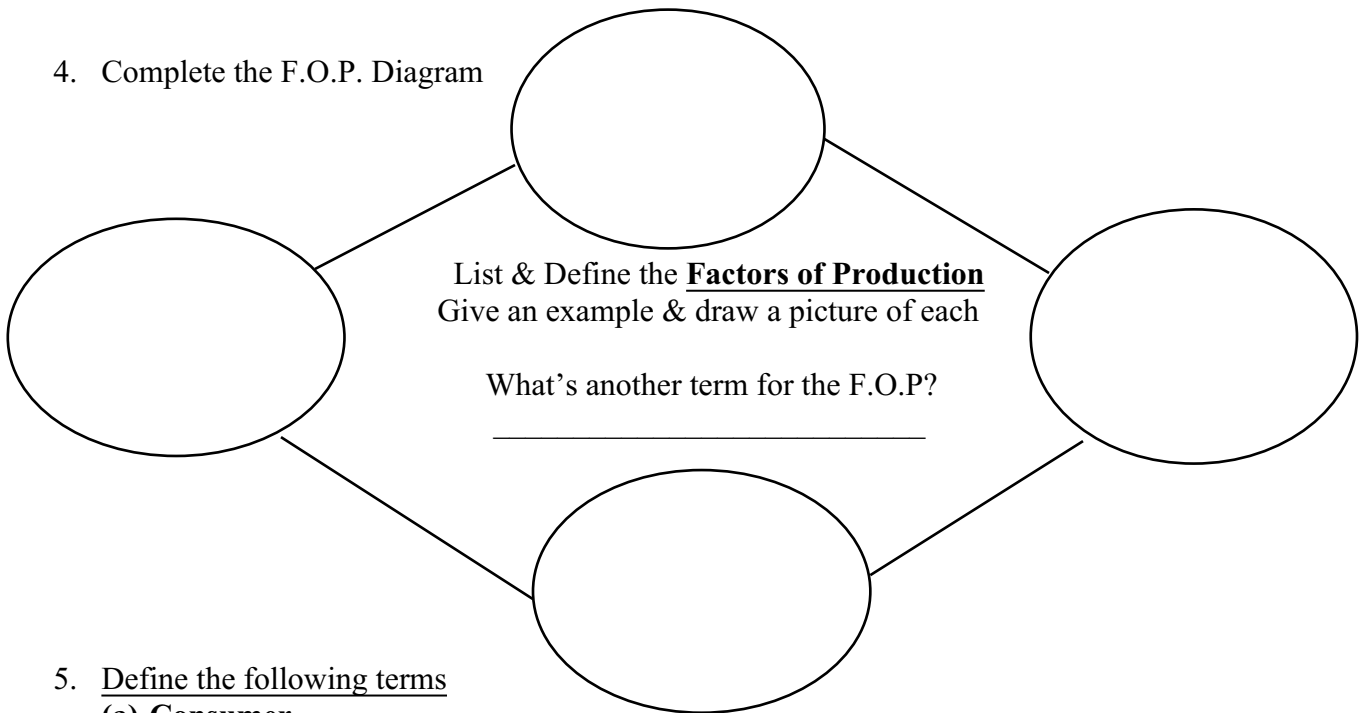


## Economics Unit 1 Study Guide Fundamentals of Economics

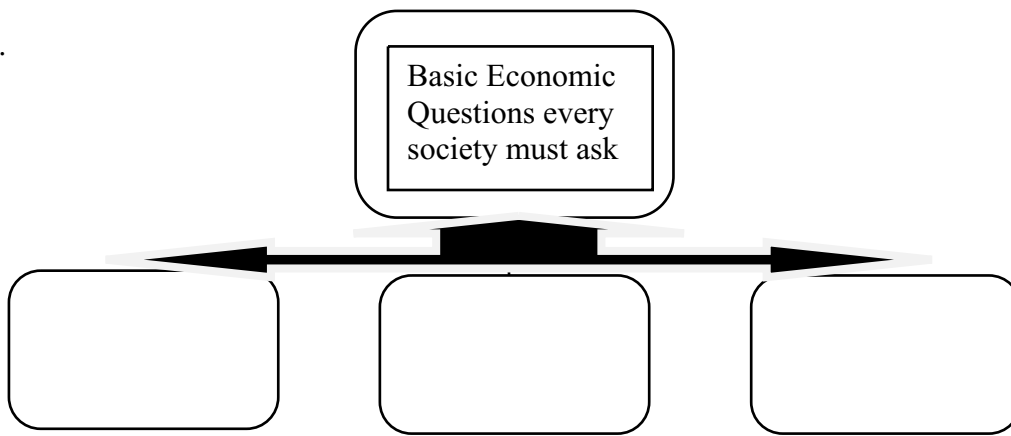
1. Define Economics: \_\_\_\_\_
2. What is the #1 fundamental economic problem that all economists face? \_\_\_\_\_
3. What is the difference between a need & a want? What do they have to do with scarcity?

4. Complete the F.O.P. Diagram



5. Define the following terms
  - (a) **Consumer** –
  - (b) **Utility** –
  - (c) **Incentives** –
  - (d) **Cost-benefit analysis** –
  - (e) **Specialization** –
  - (f) **Productivity** –
  - (g) **Division of labor** –
  - (h) **Efficiency** –
  - (i) **Voluntary exchange** –
  - (j) **Law of Diminishing Marginal Utility** –

6.



7. What is an opportunity cost? \_\_\_\_\_  
 8. Select the opportunity cost and identify the trade-offs in this particular scenario.

Courtney can #1 earn extra gas money from her parents by driving her little brother to school; #2 go to the library and study for her very difficult college finals that are coming up; or #3 get up early to watch her favorite TV show before heading to Kennesaw State University. She ultimately decides that she desperately needs the additional gas money, so what is Courtney's opportunity cost?



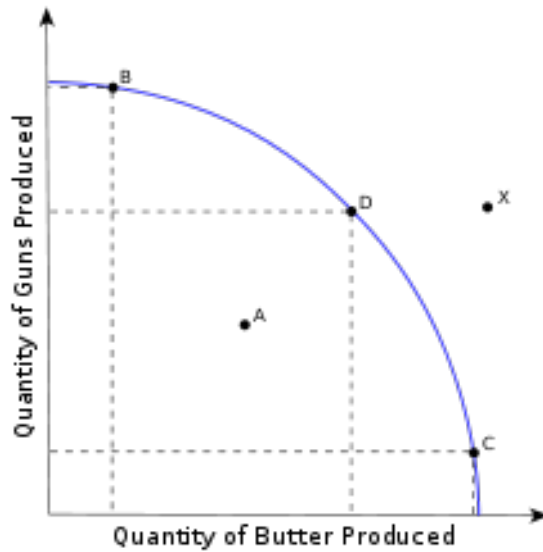
9. Who answers the 3 basic questions in each economic system?

	Command	Market
What to produce?		
How to produce?		
For Whom to produce?		

10. Who is the "Father of Classical Economics," (aka. Capitalism) and what metaphor did he give for what guides the free market? I bet you can't draw it!!!

11. List the 7 Economic & Social Goals, provide a brief explanation of each, and decide which type of economic system best addresses each goal.
- (a) \_\_\_\_\_
  - (b) \_\_\_\_\_
  - (c) \_\_\_\_\_
  - (d) \_\_\_\_\_
  - (e) \_\_\_\_\_
  - (f) \_\_\_\_\_
  - (g) \_\_\_\_\_
12. Why do most developed nations have a Mixed Economy?
13. What are the 4 roles of GOVERNMENT in a free enterprise system and provide an example of each?
- (a) \_\_\_\_\_
  - (b) \_\_\_\_\_
  - (c) \_\_\_\_\_
  - (d) \_\_\_\_\_
14. What is the difference between the **private sector** and **public sector**? Give some examples.
15. How do **GOVERNMENT REGULATIONS** impact a market economy? So, why does the government impose regulations on private businesses?
- Why? \_\_\_\_\_
16. What is a **subsidy**? Why does the government provide subsidies to certain industries?
17. List 5 advantages of a Capitalist Free Enterprise System.
18. What's the biggest problem with **SOCIALISM**? (*ask Margaret Thatcher!*)

19. Be able to understand and interpret a **Production Possibilities Curve (Frontier)**



- (a) Which point on the PPC demonstrates the most efficiency in the production of guns? \_\_\_\_\_
- (b) Which point on the graph shows the most opportunity cost in the production of guns? \_\_\_\_\_
- (c) What point on the graph is attainable, but demonstrates inefficiency in production? \_\_\_\_\_
- (d) What point on the graph attempts to maximize production in both guns and butter? \_\_\_\_\_
- (e) Which good on this PPC represents a consumer good? \_\_\_\_\_
- (f) Draw a new curve labeled PPC1 that would represent a decrease in materials for the production of guns but not butter.
- (g) List the 3 causes that will allow the curve to extend outward to reach point X?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- (h) Draw a new curve labeled PPC2 showing a **Constant Opportunity Cost** for both guns & butter.
- (i) Explain the **Law of Increasing Opportunity Cost**:

Remember, if the **Study Guide is 100% completed**, you get to **voluntary exchange** it for **10 Bonus Points** on your **Unit 1**

**Fundamentals Test!!** Now that's a **positive incentive** that should maximize your **utility!!**