

# Economics EOCT Review

1. A need is something necessary for survival.

- Air, food, shelter

A want is an item that we desire but is not essential to survival.

- Designer bags, Starbucks, Samsung Galaxy

2. A good is a physical object such as shoes and shirts. Services are actions or activities that one person performs for another.

## Chapter 1

3. Scarcity implies limited quantities of resources to meet unlimited wants.
- Even someone wealthy who can afford thousands of basketballs would eventually run out of basketballs to buy.

## Chapter 1

4. Resources are the items needed to produce goods and services. Due to scarcity (limited resources) decisions must be made, often including sacrifices, as what will be produced.

## Chapter 1

5. Economics is the study of how people seek to satisfy their needs and wants by making choices.
6. A trade-off describes what you sacrifice to get something else. Opportunity cost refers to what you could have done with what was given up. e.g. Somebody skips school to go see a soccer match. The trade-off is giving up school for seeing the match. Opportunity cost refers to what was given up, i.e. grades would not have suffered had the person in question not skipped school.

## Chapter 1

7. What to produce, how to produce, for whom to produce.

8. Land-natural resources that are used to make goods and services (livestock, sunshine)

Labor- the effort that people devote to a task for which they are paid.

Capital- any human made resources that is used to create other goods and services.

Entrepreneurs- decide how to combine land, labor, and capital resources to create new goods and services.

## Chapter 1

9. Profit is the difference between revenue received and expense paid.

\$10,000 worth of Ipads sold

-\$4,500 in cost to produce them.

= \$5,500 in profit

10. SEE BOARD

**Chapter 1**

11. Production possibilities curve (or frontier) is a graph that shows alternative ways to use an economies resources.
  12. SEE BOARD
  13. SEE BOARD
  14. SEE BOARD
  15. Increase (right) or decrease (left) in resources. Or decrease or increase in efficiency. (Technology) SEE BOARD
  16. Specialization- when workers focus on performing separate tasks.
- Specialization** is the basis of trade and interdependence among individuals, cities, regions and countries.

## Chapter 1



17. Economic decisions are always made on the basis of **marginal** costs and **marginal** benefits. We do very little based on all or nothing.

--If marginal benefits (positives) outweigh the marginal costs (negatives) it is a rational decision.

## Chapter 1

1/2.

- In a **traditional economy**, roles and economic decisions are defined by custom.
- The advantage of a traditional economy is that everyone knows which role to play and there is little uncertainty about WHAT, HOW and FOR WHOM to produce.
- A disadvantage of a traditional economy is the discouragement of new ideas and new ways of thinking. This leads to a lower standard of living than in other societies.

## Chapter 2

1/2. In a **Command Economy**, a central authority determines WHAT, HOW, and FOR WHOM to produce.

Advantages: Ability to change the economic direction of an economy in a short time.

Disadvantages: Consumer needs not met.  
Hard work not rewarded.

## Chapter 2

1/2. A **market economy**, producers and consumers determine WHAT, HOW, and FOR WHOM to produce.

Advantages: Ability to adjust to change.  
Having voice in economy. Variety of goods and services.

Disadvantages: Inability of market to meet every person's basic needs.

## Chapter 2

3. Capitalism: an economic and political system in which a country's trade and industry are controlled by private owners for profit, rather than by the state.

## MARKET

4. MARKET (paper clips)

## Chapter 2

1. Sole Proprietorship: A business owned and run by one person.

Advantages: Easy of start up, easy of management.

Disadvantage: unlimited liability.

1. Partnership: A business jointly owned by two or more people.

Advantages: easy of start up, more money to work with.

Disadvantages: each partner is fully responsible for partner.

1. Corporation: owned by stockholders and recognized by law as a separate legal entity having all the rights as an individual.

Advantage: ease of raising money, limited liability

Disadvantage: Difficult to start, shareholders often have little to say in how business is run. DOUBLE TAXATION.

## Chapter 3

2. Limited liability: owner is not solely responsible for all losses and debts of the business. (corporation)

2. Unlimited liability: owner is personally and fully responsible for all losses and debts of business. (Sole proprietorship)

3. Limited life: The condition that proprietorship and partnerships cease upon the death of an owner.

3. Unlimited life A condition that allows a corporation to continue doing business even after the death of its owner.

## Chapter 3

4. Corporation: hard to find investors and get the capital.
5. Sole proprietorship and partnership: easiest because it is your decision and you don't need to convince others.

## Chapter 3



1. Law of demand: consumers buy more of a good when its price decreases and less when its price increases
2. SEE BOARD
3. Demand Schedule: a table that shows the quantity demanded of a good at various prices
4. Income effect: the change in consumption resulting from a rising prices.
5. Substitution effect: when consumers react to an increase in a good's price by consuming less of that good and more of other goods

## Chapter 4, 5, and 6

6. Demand elasticity: describes demand that is very sensitive to a change in price

6. Demand inelasticity: describes demand that is not very sensitive to a change in price. Ex. Gas, toothpaste.

7. Determinants of demand elasticity: Necessity goods have a less elastic demand whereas comforts and luxuries have a more elastic demand.  
-If the substitutes of the commodity are available its elasticity is higher. If there are no substitutes available the elasticity is less elastic.

**Chapter 4, 5, and 6**

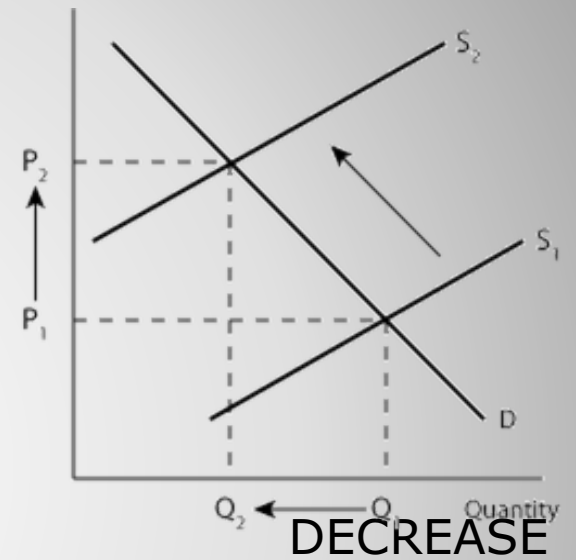
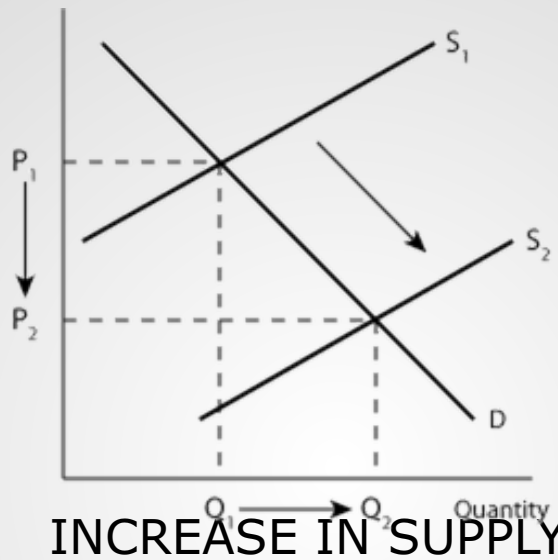
8. Law of supply: When Price RISES, Supply RISES. When Price FALLS, Supply FALLS.

9. SEE BOARD

10. Determinants of supply elasticity: factor mobility. The easier it is for resources to move into the industry, the more elastic supply will be.

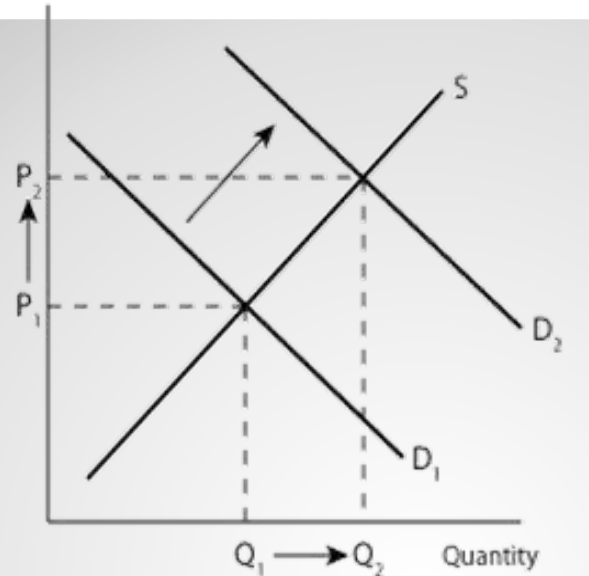
-The number of producers. The more producers there are, the easier it should be for the industry to increase output in response to a price increase. Supply will thus be more elastic.

**Chapter 4, 5, and 6**



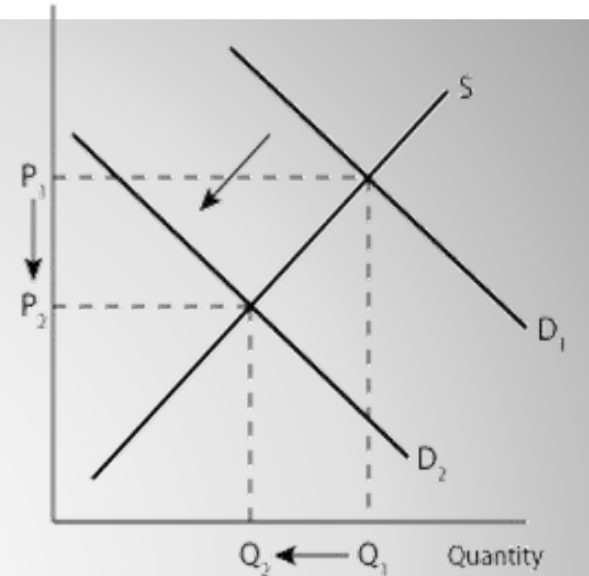
Chapter 4, 5, 6

# DEMAND CURVE



INCREASE IN DEMAND

IN DEMAND



DECREASE

11. Equilibrium point: The market clearing price or equilibrium price “clears” the market resulting in a situation where there are neither shortages nor surpluses.

**Chapter 4, 5, and 6**

12. Price Ceilings-Maximum amount government allows a product to be sold for

- Price Ceiling
- When government sets the most you can be charged
- Example: Rent Control apartments, NYC
- Why? To make it affordable
- Great for you, bad for landlord
- Why?
- They want to charge what they need to make profit,
- they can't, so they leave the real estate business
  
- Creates a shortage
- Of what? PLACES TO RENT

**Chapter 4, 5, and 6**

13. Price Floors- Minimum amount government allows a product to be sold for

- Price floor create surpluses. Why?
- Ceilings are when the government sets a maximum amount.
- Example: Minimum Wage
- Government set minimum amount you can earn at work
- This helps you, but can hurt economy.
- How?
- Because owner may let you go
- Why?
- because he cannot afford as many workers per hour
  
- Creates a surplus
- Surplus of people LOOKING for work

**Chapter 4, 5, and 6**



14. Profit maximization: A company seeks to maximize profit through production/economic decisions.

**Chapter 4, 5, and 6**