

What should you know on UNIT I:

Georgia Performance Standards:

Fundamental Economic Concepts

SSIEF1 The student will explain why limited productive resources and unlimited wants result in scarcity, opportunity costs, and tradeoffs for individuals, businesses, and governments.

1. Define scarcity as a basic condition that exists when unlimited wants exceed limited productive resources.

b. Define and give examples of productive resources (factors of production) (e.g., land (farm), labor (farmer), capital (capital goods), entrepreneurship).

d. List a variety of strategies for allocating scarce resources.

d. Define opportunity cost as the next best alternative given up when individuals, businesses, and governments confront scarcity by making choices.

SSIEF2 The student will give examples of how rational decision making entails comparing the marginal benefits and the marginal costs of an action.

4. Illustrate by means of a production possibilities curve the trade-offs between two options.

b. Explain that rational decisions occur when the marginal benefits of an action equal or exceed the marginal costs.

SSIEF3 The student will explain how specialization and voluntary exchange between buyers and sellers increases the satisfaction of both parties.

e. Give examples of how individuals and businesses specialize.

b. Explain that both parties gain as a result of voluntary, non-fraudulent exchange.

SSIEF4 The student will compare and contrast different economic systems and explain how they answer the three basic economic questions of what to produce, how to produce, and for whom to produce.

e. Compare command, market, and mixed economic systems with regard to private ownership, profit motive, consumer sovereignty, competition, and government regulation.

b. Evaluate how well each type of system answers the three economic questions and meets the broad social and economic goals of freedom, security, equity, growth, efficiency, and stability.

SSIEF5 The student will describe the roles of government in a market economy.

a. Explain why government provides public goods and services, redistributes income, protects property rights, and resolves market failures.

b. Give examples of government regulation and deregulation and their effects on consumers and producers.

SSIEF6 The student will explain how productivity, economic growth, and future standards of living are influenced by investment in factories, machinery, new technology, and the health, education, and training of people.

a. Define productivity as the relationship of inputs to outputs.

b. Give illustrations of investment in equipment and technology and explain their relationship to economic growth.

c. Give examples of how investment in education can lead to a higher standard of living

Key Questions:

1. What are resources?

2. What is a need and want?

3. What is a shortage and scarcity?

4. What is a trade-off?

5. What is opportunity cost?

6. What are the different productive resources?

7. Difference between physical and human capital?

Practice Questions:

A. Which sentence best describes the economic problem of scarcity?

a. It exists only in poor, underdeveloped nations

b. It exists only after a natural disaster

c. It existed only in the past when there was no technology

d. It is the basic economic problem facing all societies

B. A person decides to spend \$20 on a ticket to a football game instead of buying a warm jacket for \$20. What is the opportunity cost of this decision?

a. \$20

b. The benefit of owning a warm jacket

c. The opportunity of the football game

d. The opportunity to learn about football

C. A teenager named Rose started a pet-walking business. She found customers and hired workers for business. What productive resource does Rose represent?

a. Entrepreneurship

b. Land

c. Labor

d. Capital

B. What are rational decisions?

9. What is a cost-benefit analysis?

10. What is a marginal benefit and marginal cost?

11. What does efficient mean?

12. What is a production possibilities curve?

13. Illustrate a PPC and show an efficient, inefficient and impossible point on the graph

14. What is the opportunity cost of moving along the curve?

15. What is specialization? Voluntary exchange?

17. What is division of labor?

Practice Questions:

A. Division of labor is:

a. A kind of specialization that increases productivity

b. A kind of voluntary exchange of products

c. A kind of marginal costs that reduces productivity

d. A kind of labor that has no marginal costs

B. What is a rational economic decision?

a. One in which there are no opportunity costs

b. One in which benefits are unknown, but costs are low

c. One in which marginal benefits are greater than marginal costs

d. One in which marginal costs are greater than marginal benefits

C. Which points represents an inefficient use of resources?

- a. Point E
- b. Point F
- c. Point G
- d. Point H

Unit I – Part II: Economic Systems

18. What are the three economic questions?

19. Who answers the three economic questions in a command economy? Advantages and disadvantages of one?

20. Who answers the three economic questions in a market economy? What are they also known as? Advantages and disadvantages?

21. What are the six economic goals? Match each goal to an economic system.

22. What are traditional economic systems?

23. What are mixed economic systems?

Practice Questions:

A. The MAIN reason that modern command economies have failed is:

- a. Consumers demanded more freedom in the marketplace
- b. Housing prices were too high and luxury goods were unavailable
- c. Government decision-making led to shortages and inefficiency
- d. Government favored public works over consumer goods

B. A market economy depends on

- a. Private ownership and control of resources
- b. Government ownership and control of resources
- c. An equal distribution of wealth
- d. Limited competition and profits

C. One weakness of market systems is that

- a. They allow producers very little freedom
- b. They cannot guarantee security and fairness
- c. They do not respond quickly to change
- d. They provide very few choices for consumers

24. What is the role of government regarding contracts?

25. What are public goods? Private goods? How are public goods paid for?

26. How does the government redistribute income? What are transfer payments?

27. How does the government promote competition? What is a trust? What are antitrust programs? Example of breaking up monopolies?

28. What is a market failure? Positive and negative externalities

29. What are the effects of government regulation? Positive and negative

30. What are the effects of government deregulation? Positive and negative

Practice Questions:

A. Which of the following is an example of a market failure?

- a. A meat processing plant that earns high profits while polluting neighbors' water supply
- b. An airline that goes bankrupt because of high profits and poor service
- c. A consumer who goes into debt by using credit cards
- d. A cable TV company that fails because its programs do not attract sponsors

B. Which type of government intervention promotes market competition?

- a. Transfer payments
- b. Antitrust laws
- c. Public libraries
- d. Price regulations

C. Which sentence BEST describes the effects of regulation and deregulation?

- a. Regulation benefits customers, while deregulation benefits producers
- b. Regulation benefits producers, while deregulation benefits consumers
- c. Regulation benefits both consumers and producers; deregulation hurts both
- d. Both deregulation and regulation have benefits and costs to producers and consumers

31. When does economic growth occur?

32. What is an input? Output?

33. What is capital investment?

34. What graph do we use to show economic growth?

Practice Questions:

A. To achieve economic growth, a society must:

- a. Discover new resources
- b. Use resources less efficiently
- c. Increase taxes
- d. Decrease its labor force

B. Pablo starts a taxi cab business. He rents a garage, buys three taxi cabs, hires three drivers, and advertises in the local newspaper. Which of his actions represents capital investment?

- a. Renting a garage
- b. Buying three taxi cabs
- c. Hiring three drivers
- d. Advertising in the newspaper

C. A country is currently investing in new technology for all its businesses. What change in the graph shows how this investment will affect production?

- a. A shift from curve BC to curve DE
- b. A shift from curve DE to curve BC
- c. A movement from point A to point G
- d. A movement from point O to point F