**Chapter Overviews**

***Section 1: Scarcity and the Science of Economics***

Economics is a social science that deals with the fundamental economic problem of scarcity—a condition caused by the combination of seemingly unlimited wants and limited resources. Because of this, people are forced to make choices and decisions about how they will use their resources. People have needs such as food, clothing, and shelter; people have wants, which are nonessential ways of expressing needs. The notion of TINSTAAFL, which stands for There Is No Such Thing As A Free Lunch, is often used to remind us that resources are scarce and that we must make careful economic decisions regarding WHAT, HOW, and FOR WHOM to produce. Other concepts relevant to economics are the four factors of production: land, capital, labor, and entrepreneurs. And the four key elements to this study are description, analysis, explanation, and prediction.

***Section 2: Basic Economic Concepts***

The concepts of goods, services, consumers, markets, factor markets, product markets, productivity, economic growth, and economic interdependence are explained and are linked in the circular flow diagram. Productivity is necessary for economic growth, and growth takes place when specialization and the division of labor are present. In addition, human capital—the sum of our skills, abilities, health, and motivations—are other important components of growth.

***Section 3: Economic Choices and Decision Making***

Choices are explained in terms of trade-offs, or alternatives that are available whenever a decision is made. The cost of every decision is measured in terms of its opportunity cost, which is the cost of the next best alternative use of money, time, or resources when one choice is made rather than another. Trade-offs can be analyzed with a production possibilities curve (frontier), a diagram representing various combinations of goods and services an economy can produce when all its resources are in use. Furthermore, economists use cost-benefit analysis to evaluate choices.

**MULTIPLE CHOICE QUESTIONS**

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| **Your Results:** |
| The correct answer for each question is indicated by a This is the correct answer..  |

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| **2** | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gifThe resources needed to produce things we would like to have are known in economics as \_\_\_\_\_\_\_\_. |
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| **3** | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gifAn example of a capital resource is a(n) \_\_\_\_\_\_\_\_\_. |
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| **7** | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gifIn the circular flow model, businesses sell their goods and services in the \_\_\_\_\_. |
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| **10** | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gifThe term *standard of living* refers to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. |
|  | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **A)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | decisions that make a country's economy function |
|  | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **B)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | quality of life in a country |
|  | http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | **C)**http://glencoe.mcgraw-hill.com/olcweb/styles/shared/spacer.gif | productivity and economic growth in a country |
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Chapter 1 Test Review NAME\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

ECONMICS

VOCABULARY REVIEW

 Capital Goods Opportunity Cost Consumer Goods

 Scarcity Economics Services

 Factors of Production Human Capital Utility Value

1. Economic products designed for final use by people are called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
2. The \_\_\_\_\_\_\_\_\_\_\_\_\_ of a computer can be expressed in dollars and cents.
3. Haircuts and appliance repairs are examples of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ arises because society does not have enough resources to produce all the things people would like to have.
5. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of going to a football game instead of working would include the money not earned at your job.
6. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the sum of skills, abilities, health, and motivation of people.
7. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is another name for the capacity of a product to be useful.
8. The only factors of production that are themselves the result of earlier production are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
9. Land, capital, labor, and entrepreneurs are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
10. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the study of how people use limited resources to satisfy unlimited wants.

SHORT ANSWER

1. **EXPLAIN** how the circular flow of economic activity generates wealth in an economy.

THE CIRCULAR FLOW OF ECONOMIC ACTIVITY



1. The inner arrow represents:
2. The outer arrow represents:
3. EXPLAIN the significance of the financial capital market.
4. COMPARE the differences between factor (productive resources) markets and product markets.
5. IDENTIFY the three basic questions that every society must answer and why.

FILL IN THE BLANK

1. Economics is concerned with economic products, goods, and services that are \_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to others.
2. In Economics, \_\_\_\_\_\_\_\_\_\_\_ refers to a worth that can be expressed in dollars and cents.
3. A \_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is intended for final use by consumers rather than businesses.
4. A \_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_ lasts for at least 3 years when used regularly.
5. A \_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_ wears out or lasts for fewer than three years when used regularly.
6. DEFINE Human Capital.
7. List 5 ways in which you can invest in your own human capital.
8. Economists have identified several ways to increase productivity to reduce the effects of scarcity. List and explain each.
9. DEFINE interdependence and EXPLAIN it’s importance.