

Limits, Alternatives, and Choices

INSTRUCTIONAL OBJECTIVES

After completing this chapter, you should be able to:

1. Define economics.
2. Describe the “economic way of thinking,” including definitions of purposeful behavior, utility, marginal costs, marginal benefits and how these concepts may be used in decision-making.
3. Explain how economists use the scientific method to formulate economic principles.
4. Explain the importance of *ceteris paribus* in formulating economic principles.
5. Explain the steps used by policy makers.
6. Differentiate between micro- and macroeconomics.
7. Differentiate between positive and normative economics.
8. Explain the economizing problem from the individual’s perspective
9. Construct and explain a budget line.
10. Describe the economizing problem facing society.
11. Identify types of economic resources and types of income associated with various factors.
12. Construct a production possibilities curve when given appropriate data.
13. Illustrate economic growth, unemployment and underemployment of resources, and increasing costs using a production possibilities curve.
14. Give some real-world applications of the production possibilities concept.
15. Summarize the general relationship between investment and economic growth.
16. Explain and give examples of the fallacy of composition, post hoc fallacy, and other logical pitfalls. (Last Word)

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HOMEWORK

Directions. Read Chapter 1 and complete the following. Your responses must be typed, printed out, and placed in the homework section of your binder.

Terms. For each term listed below, provide 1) a textbook definition, and 2) a one-sentence explanation of its importance in economics.

- Economic Perspective
- Opportunity Cost
- Utility
- Marginal Analysis
- Positive Economics
- Normative Economics
- Economizing Problem
- Land
- Labor
- Capital
- Investment
- Entrepreneurial Ability
- Consumer Goods
- Capital Goods
- Law of Increasing Opportunity Costs

Questions. Respond to each question in a short answer format (e.g. a topic sentence and a two to three sentences of explanation – or more when required).

1. What is an opportunity cost? How does the idea relate to the definition of economics? Which of the following decisions would entail the greatest opportunity cost: Allocating a square block in the heart of New York City for a surface parking lot or allocating a square block at the edge of a typical suburb for such a lot? Explain.
2. What is meant by the term “utility” and how does it relate to purposeful behavior?
3. Cite three examples of recent decisions that you made in which you, at least implicitly, weighed marginal costs and marginal benefits.
4. What are economic resources? What categories do economists use to classify them? Why are resources also called factors of production? Why are they called inputs?
5. Why isn't money considered a capital resource in economics? Why is entrepreneurial ability considered a category of economic resources, distinct from labor? What are the major functions of the entrepreneur?
6. Specify and explain the typical shapes of the marginal-benefit and marginal-cost curves. How are these curves used to determine the optimal allocation of resources to a particular product. If current output is such that marginal cost exceeds marginal benefit, should more or fewer resources be allocated to this product? Explain.

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7. Explain how (if at all) each of the following affects the location of a country's production possibilities curve:
 - a. The quality of education increases.
 - b. The number of unemployed workers increases.
 - c. A new technique improves the efficiency of extracting copper from ore.
 - d. A devastating earthquake destroys numerous production facilities.

8. Suppose that, on the basis of a nation's production possibilities curve, an economy must sacrifice 10,000 pizzas domestically to get the 1 additional industrial robot it desires, but it can get the robot from another country in exchange for 9,000 pizzas. Relate this information to the following statement: "Through international specialization and trade, a nation can reduce its opportunity cost of obtaining goods and thus 'move outside its production possibilities curve.'"