

## Economics - Unit I, Part I Exam Study Guide

Test Date & Study Guide Due Date: \_\_\_\_\_

### PART 1: Fundamental Concepts

1) What is the study of economics?

2) Define the word <b>scarcity</b> .	Give example of <u>scarcity</u> in action. These can be examples from current events discussed in class or from your personal experience.
	Example:

3. How does scarcity force individuals, businesses, and governments to make choices?

4) Define the word <b>opportunity cost</b> .	Give an example of <u>opportunity cost</u> in action. These can be examples from current events discussed in class or from your personal experience.
	Individual Example:  Business Example:  Government Example:

5) Define the word <b>specialization</b> .	Give an example of <u>specialization</u> in action.
	Example:

6) How does specialization lead to a need for exchange? Think critically about this question.

### PART II: Productive Resources (SSEFI)

	Definition	At Least ONE Example
7) Land		
8) Labor		
9) Capital		
10) Entrepreneur		

11) What encourages **entrepreneurs** to take risks and create new businesses and products?

12) Define the word <b>human capital</b> .	Give example of <b>human capital</b> . These can be examples from current events discussed in class or from your personal experience.
	Example:

13) How does investment in **human capital** lead to increased productivity, economic growth, and future standards of living?

14) Explain how investment in equipment and technology can lead to **economic growth**. Give an example if that is easier than explaining.

## PART II: Marginal Analysis

A pond in the middle of a community is very polluted, and residents want it to be cleaned up. A company has offered the community a plan that would clean the pond in five stages. The residents of the community can choose to pay for one or more of the stages. They would have to begin with stage 1 and decide whether to continue onto stage 2 and beyond in order. A cleaner pond would mean the houses in the community would be worth more money. That is the main benefit of the pond clean-up.

Project Stage	% Pollution Removed	Total Benefit (total community property value increase)	Marginal Benefit (community property value increase at each stage)	Total Cost	Marginal Cost	Marginal Net Gain
1	40%	\$4 million	\$4 million	\$1 million	\$1 million	\$3 million
2	65%	\$7 million	\$3 million	\$2 million	\$1 million	\$2 million
3	80%	\$8 million	\$1 million	\$2.5 million	\$0.5 million	\$0.5 million
4	90%	\$8.5 million	\$0.5 million	\$3.5 million	\$1 million	-\$0.5 million
5	95%	\$8.75 million	\$0.25 million	\$5 million	\$1.5 million	-\$1.25 million

15) If the community was making a rational decision based on a marginal cost-benefit analysis, how many clean-up stages would they pay for? Why?

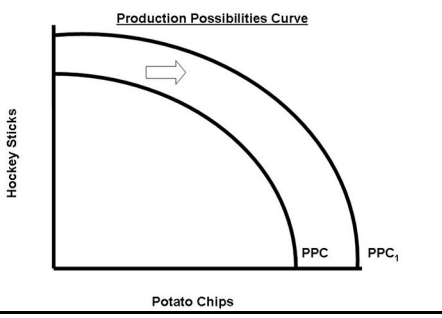
16) When is a decision considered rational in marginal analysis?

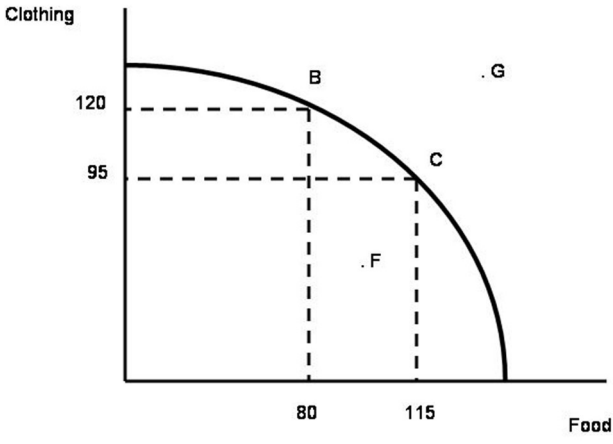
17) What is marginal cost?

18) What is marginal benefit?

## PART III: Production Possibilities Curves SSEF6

19)	Label the following points on the PPC as either efficient, inefficient or unattainable
	<ul style="list-style-type: none"> <li>● Points A,B, C:</li> <li>● Point D:</li> <li>● Point E:</li> </ul>

	Increasing or Decreasing? How do you know?	What could cause this occurrence?
<p><b>20)</b></p> 		<p><b>Scenario 1:</b></p>
		<p><b>Scenario 2:</b></p>

	<p>21) What is the <b>opportunity cost</b> of moving from point B to point C?</p> <p>22) What is the <b>opportunity cost</b> of moving from point C to point B?</p> <p>23) What would need to occur in order for this facility to each point G?</p>
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24) How does a **production possibilities curve (PPC)** show scarcity, trade-offs, opportunity cost & efficiency?

#### **PART IV: ECONOMICS SYSTEMS (SSEF4)**

25) What are the three economic questions which all economic systems answer?

26) What are the 4 types of economic systems and how does each system answer the 3 economic questions?

27) Which broad social and economic goal attempts to achieve

**Which broad social and economic goal is being described in each of the following scenarios?**

- 28. Increasing the production of goods and services over time
- 29. Getting smooth and steady growth over time with low unemployment and inflation
- 30. Ensure that all those who are willing and able to work have the opportunity to do so

**PART V: GOVERNMENT REGULATION (SSEF5)**

31. What is the purpose of government regulation?	
<b>32. What does Government regulation generally do to business output?</b>	<b>33. What does Government deregulation generally do to business output?</b>

- 34. What is a market failure?
- 35. Why do market failures exist?
- 36. What are the four market failures?

**Part VI: Personal Finance**

- 37) What should your budget should include in order to meet long-term financial goals & have a “rainy day” fund?
- 38) What is the difference between fixed and variable costs?