EOCT Study Guide for Economics

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1. Economics-a social science studying the allocation of goods and services.

2. Four basic questions all economies must answer-What will be produced, How will it be produced, How many will be produced; For whom will it be produced for.

3. Resources /Factors of production: land, labor, capital and entrepreneurship

4. Product market-finished product Ex. Hamburger

5. Scarcity-problem all economies face; not enough resources

6. allocate-distribute resources for a goal, plan, or budget because you cannot have it all.

7. Capital-anything used to make something else. Ex. Factory building,

8. opportunity cost-value of the next best alternative (the thing you did not choose)

9. Marginal cost- the cost of getting or making one more item.

10. Marginal benefit-the benefit associated with one additional item

11. Marginal benefit=marginal cost; then no more will be made

12. Marginal revenue-money to be made by producing

13. Benefits of specialization-allows people to work in the area they know best; gain knowledge; build and produce faster; increased output; create things other cannot; skilled labor can charge more (more wage)

14. Assembly line-increases productivity-workers focus on specific tasks.

15. U.S. is a capitalist system/market/mixed

16. Market economy-individuals control f.op. price and quantity are determined by demand and supply; government does not interfere (laizze faire, invisible hand) approach; underproduction od public goods; large gap of distribution of wealth.

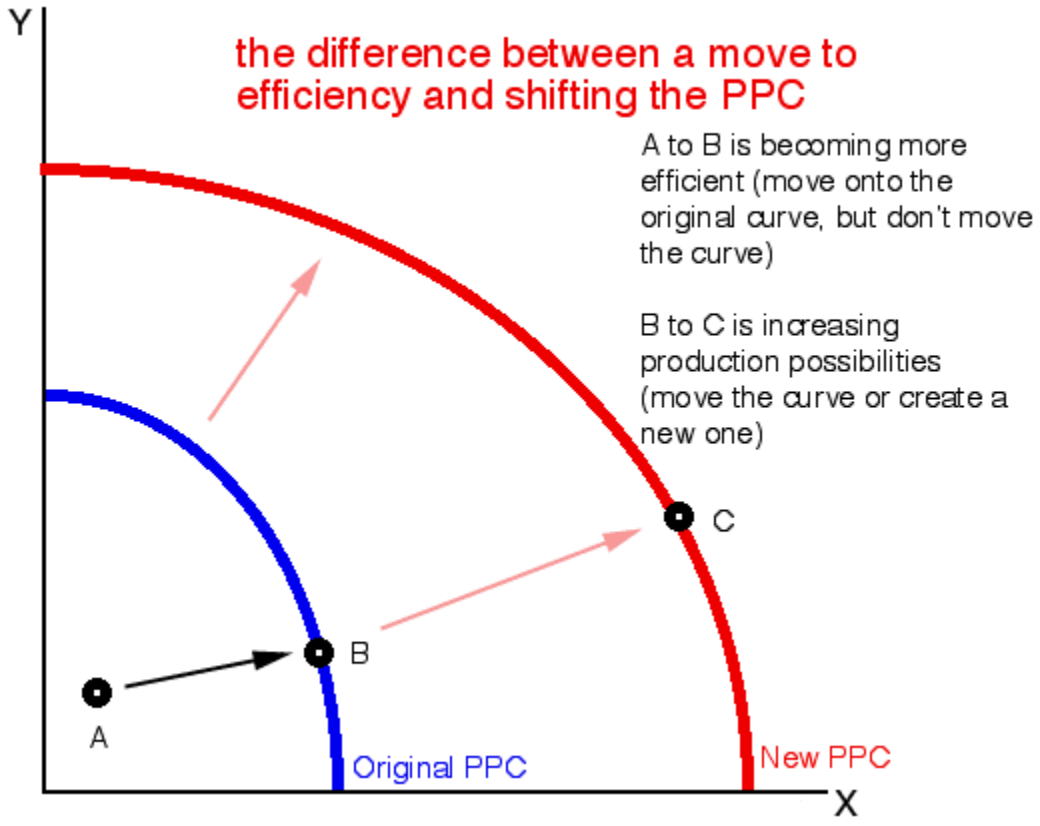
17. Command/Central; government owns f.o.p.; many public goods are made; unemployment is low (minimal); planning committees decide what gets produced; distribution of wealth is equal; no welfare; no unemployment; many public goods; under produce consumer goods

18. Traditional-subsistence living; status quo

19. Mixed-market and command.

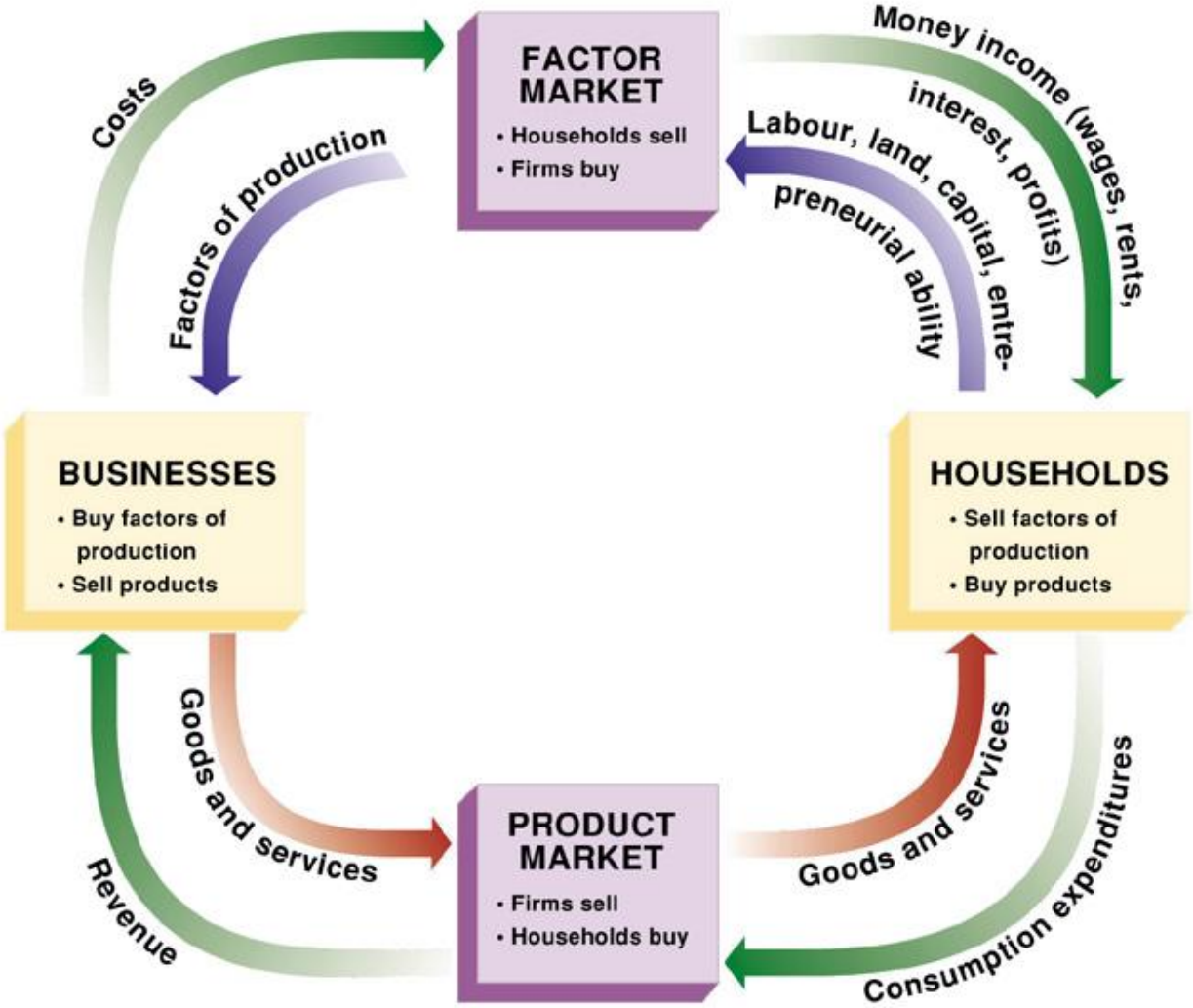
20. Regulatory agencies-Consumer Product Safety-recalls unsafe products-sometimes works as a trade barrier.

21. PPF-Production Possibility Frontier/Curve; shift to the left technology-investmentsgrants; shift to the right-natural disasters, higher taxes, higher cost to produce



22. Microeconomics-interactions of people and business (firms)

23. Circular flow diagram of goods and services-SEE DIAGAM IN NOTEBOOK



24. Expenditures-money households pay to the product market

25. Labor is in resource market they are paid a wage

26. Supply-the quantity of goods and services that someone is willing to supply at different prices.

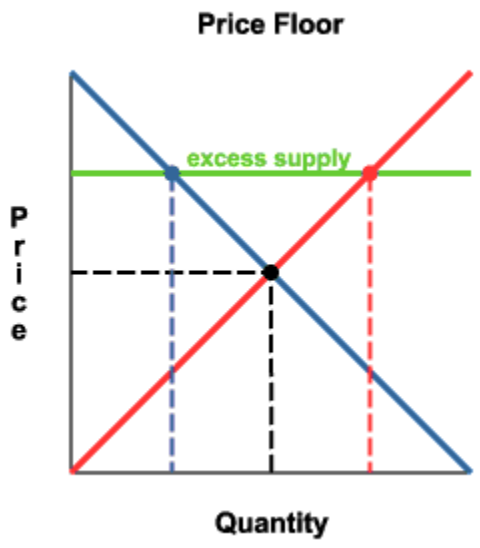
27. Law of supply-quantity supplied is directly proportional to the price (price goes up supply goes up)

28. Demand –the amount of goods and services that buyers are able and willing to purchase at different prices.

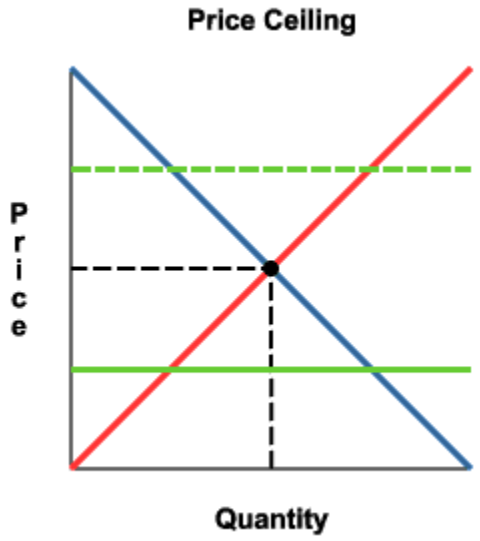
29. Law of Demand-quantity demanded is inversely related to price (as the price goes up demand goes down.

30. Factors affecting supply; cost of inputs, changes in technology, price floors, price ceilings.

31. Price floors-set a minimum price. On the top. Ex. Minimum wage, price for certain goods.



32. Price ceilings-set a maximum price. On the bottom. Ex. Rent controls.



33. Factors effecting demand; change in income; substitutes, complements; change in preference or fad.

34. Price elasticity-how much a change in price affects demand

35. Inelastic-change in price has no change in demand

36. Sole proprietorship-single owner; unlimited liability; all profit.

37. Partnership-limited liability; divide profits

38. Corporations-based on sold stock; easy to raise capital by selling stock; receive dividends; double taxation (taxed twice)

39. Monopoly-1 firm; very high barriers; 1 product, no competition, price makers. Ex. Microsoft

40. Natural monopoly-Ex. Electric company

41. Geographic monopoly-the only one in town

42. Perfect/Pure Competition-many firms, no barriers to entry, many products, competition, price takers

43. Monopolistic Competition-many firms, few barriers, products are similar but nit exact

44. Oligopoly-few numbers of firms, high barriers to entry, little competition. Ex. Cell phone companies

45. Macroeconomics-large scale, business, households, and government.

46. GDP (Gross Domestic Product)-sum of all goods and services produced by a country in a year.

47. GDP is determined by the expenditure approach-GDP=Consumer Spending + Investments+ government Spending+ and Net exports (X-M)

48. Inflation-a rise in the price when there is too much money chasing too few good.

49. Real GDP-calculates inflation in GDP.

50. Price Index-tracks inflation and deflation.

51. CPI- basket of prices for some goods and services. CPI= current year divided by base year times 100

52. Aggregate Demand-demand of all goods and services within a country.

53. Aggregate supply- supply of all goods and services within a country.

54. Factors affecting -consumer income, taxes, transfer payments

55. Factors affecting AS-cost of production, taxes, improvement in technology

56. Recession-decrease in total output that lasts for more than 2 quarters.

57. Depression-steep fall in total output lasting a year.

58. Stagflation-prices are increasing but supplies and GDP falls.

59. Unemployment-a person looking for work that cannot find a job.

60. Structural unemployment- job skills no one wants anymore.

61. Frictional unemployment- searching or in between jobs.

62. Cyclical unemployment occurs during recessions, layoffs, and plant closings.

63. Seasonal-working only during a specific time and then no longer needed.

64. Deficit- government spends more than the make.

65. National debt- government deficit over many years.

66. Peak-highest point on the business cycle

67. Trough-Lowest point on business cycle.

68. Federal Reserve System (FED) - Central bank

69. FED-12 banks, prints money, controls MONETARY POLICY

70. Government controls FISCAL POLICY

71. Monetary policy- open market buys and sells government securities (sell reduces money supply buy increases money supply); change interest rates, change discount rates (increase reduces money supply decrease increases money supply), change reserve requirements (increase reduces money supply decrease increases money supply).

72. Discount rate-interest rate the FED charges for banks to borrow money

73. Reserve Requirement- amount of money banks have to keep in bank and cannot lend out.

74. Fiscal Policy of the Government- taxes, government spending (transfer payments)

75. Transfer payments-welfare, social security, unemployment checks NOT included in GDP.

76. Specialization-division of labor, do what you know best, efficient production.

77. Absolute advantage-country can produce more of a good than another country.

78. Comparative advantage-the one with the lower opportunity cost should specialize in that product.

79. Balance of trade-Net exports. Exports-Imports

80. Balance of payments- all economic transactions and trade.

81. Protectionism-protect country form foreign industry. Why? National security

82. Trade Barriers-reduces foreign trade.

83. Tariff- tax on imports.

84. Quotas-limit number on imports

85. Embargo-prohibits any imports NONE.

86. Standards and Safety Commission-NON TARIFF, keeps foreign trade down by saying the product is not safe or good.

87. Subsidization- government payments to domestic supplier to reduce price of good. NON TARIFF.

88. Trade barriers leads to an increase in prices because no competition.

89. Free Trade decreases prices and more competition.

90. NAFTA- North America Free Trade Agreement-US, Canada, Mexico-trading block to reduce trade barriers between these countries.

91. EU-European union trading block to reduce trade barriers in Europe.

92. exchange rate-measures the price of one nation's currency in terms of another nation's currency.

93. Appreciation-the value of the U.S. dollar increases; US can get more foreign goods, Foreigners get less US goods.

94. Depreciation-dollar lessens; US gets less foreign products, foreigners get more US products.

95. Saving-monetary deposits saved for later

96. Investment- future return or benefit; it is a risk of losing money, no guarantee of getting money back.

97. Savings account- earns small interest because no risk is involved.

98. Educated workforce-higher income to tax so Gov. offers tax breaks to go to school.

99. Sick workforce-government taxes a higher tax to discourage use-cigarettes.

100. Financial institution- "bank"

101. Interest- bank charge on loaning out money.

102. Savings interest- money given by banks to people who place money in savings, bonds, and mutual accounts.

103. Credit Union-member operated bank, provided same services as a regular bank.

104. Bank-place to store money, receive a loan, open a checking account.

105. Savings and loan-offers few services mostly home mortgages and savings accounts, offers a higher interest rate than banks.

106. Payday loan company-small loan till your payday. Charges a high interest rate to loan money.

107. Mutual fund- a form of investment in stocks, many people pool money together for less risk.

108. Bonds- investments offered by the government.

109. Stocks-Corporation sales parts of the company, very risky investment, make the most money the fastest.

110. Inflation makes real wages decrease although there is no real change in wage it seems like it.

111. Progressive tax- tax increases as income increases. Ex. Federal income tax.

112. Regressive tax- tax decreases as income increases. Ex. Social Security tax.

113. Proportional tax- (flat tax) everyone pays the same thing.

114. Credit worthiness-ability to secure a loan.

115. Collateral- something of value you own the bank could take over if a debt is not repaid.

116. Simple interest rate- rate times loan amount-percentage plus loan amount; determined annually with original loan.

117. Compound interest-Interest rate determined with existing amount owed; rate times loan amount-percentage plus loan amount; new loan amount times rat-percentage plus new loan amount.

118. Credit Cards-Consumer pays high interest.

119. Mortgage Loan-House loan of 15-30 years.

120. Asset Protection-Protection against future financial loss

121. Deductible-Amount of money insurers pays when a claim is filed

122. Shared liability-Insurance Company and person have to both pay

123. Demand for a service or job can boost wage….

124. Labor is in limited supply can boost wage.

125. Training and more education can boost wage.

126. Trade-off-exchanging one thing for another.

127. land-anything natural receives rent

128. labor-any work receives wage

129. physical capital-anything used to make something else-factory building a nail gun.

130. human capital-knowledge, training, education.

131. entrepreneurship-ability to start a business receives a profit.

132. Voluntary exchange benefits both buyer and seller

133. Economic goals-freedom, security, equity (being fair and just) growth, efficiency, and stability.

134. Equilibrium is the market clearing price where supply and demand are equal.