

Economics Milestone - STUDY GUIDE

Answer the following questions on Basic Economic Principles. (Chapter 1)

1. What are needs and wants? *Wants are items that we desire but that are not essential to survival. Needs are things like air, food, or shelter that are necessary to survive.*
2. What are goods and services? *Goods are physical (tangible) objects such as clothes or shoes (pg. 3). Services are Actions or activities one person performs for another.*
3. What is scarcity? *We have limited quantities of resources to meet unlimited wants.*
4. What are resources and how do they relate to goods and services? *Resources are land, labor, capital, and entrepreneurship. We have unlimited wants but limited resources. and scarcity? The condition that results from society not having enough resources to produce all the things people would like to have (want).*
5. What is economics? - *The study of how people seek to satisfy their needs and wants by making choices. OR The study of how and why people make choices about the allocation, or distribution, or resources.*
6. What is opportunity cost? *The most desirable alternative given up as the result of a decision. How is it different from a trade-off? A trade-off is an alternative we sacrifice when we make a decision. OR when we make a decision, we gain something, but we also give up something.*
7. What are the three basic economic questions? *What to Produce, How to produce and for whom to produce*
8. What are the four factors of production? *Land, Labor, Capital, and Entrepreneurship. What is the payment for each? Land - Rent, Labor - Wages, Entrepreneurship - Profit and Capital and Capital - the payment is Interest*
9. What are profits? *A financial gain made in a transaction (pg. 29)*
10. Draw the circular flow of economic activity. Pg. 29 or Pg. 42-43 of mixed economy.
11. What is a production possibilities curve and what does it show? *The production possibilities curve that shows alternative ways to use an economy's resources (pg. 13). Can display opportunity cost*
12. How do you explain a point on the production possibilities curve? *Resources used efficiently*
13. How do you explain a point that is inside the production possibilities curve? *Inefficient use of resources (recession/depression)*
14. How do you explain a point that is outside the production possibilities curve? *Unattainable.*
15. What would cause the production possibilities curve to shift right? *Left?*
16. What is specialization? *The concentration of production efforts of individuals and firms on a limited number of activities (pg. 29)*
17. What happens when the marginal benefit is equal or exceeded by the marginal cost? *You are making a rational economic decision.*

Answer the following questions on Economic Systems. (Chapter 2)

1. What are the advantages/ disadvantages of Traditional System? *Traditional system is based on customs/"traditions - A Command System? Adv = security (although we may not see it as secure, since govt makes all decisions) Disadvantage = the government makes all of the decisions and no real individual freedoms; A market system? Advantage = economic freedom, market economies can decide what they want to do in life. If someone is willing to*

work, they can succeed.

2. How are decisions about the allocation of resource made in each system? What to produce, how to produce and for whom to produce. Command economy - government answers the questions; mixed economy - supply and demand; market - individuals answer the questions.
3. What is Capitalism? an economic system characterized by private or corporate ownership of capital goods, by investments that are determined by private decision, and by prices, production, and the distribution of goods that are determined mainly by competition in a free market Which economic system is it closest to? Mixed and Market
4. What system(s) have lots of competition and private property? Mixed Economy and Market economy

Answer the following questions on business organizations. (Chapter 3)

1. Give a brief description of each of the three types of business organizations? Sole proprietorship (owned by one person; easy to start; unlimited liability), partnership(a business owned by two or more persons, unlimited liability, specialization), and corporation (a separate entity; can be more expensive to start, double taxation, capital easier to obtain than sole proprietorship and partnership, limited liability)
2. Compare limited and unlimited liability. Limited liability - the corporation is responsible for the debt; in the event the corporation is sued, it is the corporation sued and not individuals) which types of business organization have unlimited liability? Unlimited liability - sole proprietorship
3. Compare limited life and unlimited life. Corporations have unlimited life; sole proprietors and partnerships have limited life. Which organization(s) has unlimited life?
4. Which type is the hardest to start? corporation
5. Which type is the easiest to start? Sole proprietorship

Answer the following questions on Supply and Demand. (Chapter 4, 5, and 6)

1. Explain the Law of Demand. When the price of a product goes down, the demand goes up; when the price of a product goes up, the demand goes down
2. Draw the demand curve.
3. What is a demand schedule? The chart that explains how much consumers will demand at each price in the market
4. What is the income effect? - The change in consumption resulting from a change in real income (p. 80)
5. What is substitution effect? - When consumers react to an increase in the good's price by consuming less of that good and more of other goods (p. 80) For example, if the price of a name brand item goes up, consumers will substitute that product for a house brand.
6. What is the difference between elastic and inelastic? Elastic - A good is elastic when the price goes up and demand for that product goes down. A good is inelastic when the price goes up and the demand stays the same. Name some examples of inelastic goods. Inelastic goods include gas, milk, and things that don't have good substitutes.
7. What are the determinants of Demand? Tastes - preferences for a product; number of buyers; income; prices of related goods (substitutes and complements), consumer expectations.
8. Explain the Law of Supply. When the price of a good goes up, producers will produce more of that product. When the price goes down, producers will produce less.

9. Draw the supply curve.
10. What are the determinants of supply? Resource prices, technology, taxes and subsidies, prices of other goods, price expectations, number of sellers
11. What is the equilibrium point? Where quantity supplied equals quantity demanded
12. What are price ceilings and what can they create? Price ceiling is when the government intervenes and sets a the highest price that can be charged for that good. Price ceilings create shortages. Price floor - when the government intervenes and sets the lowest price that can be charged for a good. Price floors create surpluses. Give one example.
13. What are price floors and what can they create? See question 12 Give one example.
14. What is the point of profit maximization? **profit maximization** is the short run or long run process by which a firm determines the price and output level that returns the greatest profit.

Answer the following questions on Market Structures. (Chapter 7)

1. What is Perfect/Pure Competition? See Website Unit 3 - "Market Structures" Powerpoint
2. What is Monopolistic Competition? (See Unit 3 PowerPoint)
3. What is an Oligopoly? (See Unit 3 PowerPoint)
4. What is a Monopoly? (See Unit 3 PowerPoint)
5. Rank the market structures in order of number of firms. (1 being the most) perfect competition, monopolistic competition, oligopoly, and monopoly
6. Rank the market structures in order of level of competition. (1 being the most) - Most competitive is perfect competition, then monopolistic competition, oligopoly and then monopoly.
7. Rank the market structures in order of barriers to entry. (1 being the hardest to get into) monopoly has highest barrier to entry, oligopoly would be next, then monopolistic competition, and last would be pure competition.
8. Rank the market structures in order of product differentiation. (1 being the most differentiation) 1. Monopolistic 2. Oligopoly, 3 pure and 4 monopoly
9. Rank the market structures in order of influence over price. (1 being the most)
10. Which ones advertise? Oligopoly and monopolistic
11. What is product differentiation? Various products - variation in the products
12. What are Anti-Trust Acts?
13. What is a public good? - Laws that encourage competition in the marketplace.

Answer the following questions on taxes. (Chapter 14)

1. What are the three types of taxes? Progressive, Regressive, and Proportional
2. What type of tax is a sales tax on food? Regressive
3. What type of tax is the personal income tax? Progressive
4. What type of tax is the property tax? Proportional
5. What tax is the most important to the Federal Government? Federal income tax
6. What tax is most important to the state governments? Sales Tax
7. What tax is most important to local governments? Property Tax
8. What type of tax would a 6% percent tax on gas be? Regressive
9. What type of tax would a 10% tax on income be?
10. What type of tax would a 10% tax on the income under \$10,000; 15% on income between

\$10,000 and \$40,000; and 20% on incomes over \$40,000? Progressive

11. What is FICA? Federal Insurance Contributions Act (Social Security and Medicare that is withheld from your pay check)
12. What is Social Security? Government program that one pays into as long as they work. Intended to help compensate one when they become retirement age
13. What is Medicare? Health insurance for the elderly
14. What is withholding tax? Tax that is withheld from one's paycheck
15. Who is the IRS? Internal Revenue Service - Agency responsible for collecting Federal Income Tax

Answer the following questions on Government Spending. (Chapter 14-15)

1. What is the difference between debt and deficit? Deficit - when the government spends more within a year than they budgeted. When they spend more than budget, must borrow and that contributes to the national debt
2. What is a transfer payment? When one receives money from the government for not providing a service. Examples include unemployment compensation, a government scholarship, welfare, food stamps

Answer the following questions on the Federal Reserve (Chapter 16)

1. What are the functions of money? Medium of exchange, store of value, and unit of account (standard-of-value)
2. What are the characteristic of money? The properties of money are portable, uniformity, durability, stability in value and acceptability
3. What is the money supply? M1 is the narrowest definition of money. It consists of currency (coins and paper money) and all checkable deposits. M2 includes savings deposits, including money market deposit accounts, small time deposits (less than \$100,000) Money Market mutual funds and CDs. How do banks make the money supply grow? Through the creation of loans
4. What is monetary policy? The Federal Reserve is responsible for monetary - controlling the money supply in an economy in an economy
5. List the three tools of monetary policy? Open Market Operations, Reserve Requirement, and the Discount Rate
6. When in the business cycle does the Federal Reserve want to increase the money supply? During the contractionary phase when GDP declines for six consecutive months. Why? Concerned about recession, people are not spending money, concerned about unemployment
7. When in the business cycle does the Federal Reserve want to decrease the money supply? During the expansionary phase when concerned about inflation Why? Too much money circulating can lead to inflation
8. What tool of monetary policy does the Federal Reserve use the most? Open Market Operations (buying and selling of bonds)

Answer the following questions on GDP (Chapter 12)

1. What goods are included in GDP? GDP includes all final goods produced within a country in a year.
2. What is the difference between GDP and GNP? GDP is Gross Domestic Produce - $C+I+G+(Exports - Imports)$; C = Consumer Spending + I = Investment Spending; G = Government Spending (Exports minus Imports) GNP is Gross National Product
Need to know what is included in Consumer Spending, Investment Spending, Government Spending, and the definition of GDP - The dollar value of all final goods produced within a nation in one year. -
Students have a handout with what is included in GDP and what is not. Lesson 2 - Activity 12 - Should be in notes.
3. What are Nominal GDP, and Real GDP? Nominal GDP has not been adjusted for inflation; Real GDP has been adjusted for inflation.
4. What is the output expenditure model for GDP? $C+I+G+(X-M)$

Answer these questions on the Business Cycle. (Chapter 12)

1. What are the four stages of the business cycle? Peak, contraction, trough, expansion
2. What is a recession? When GDP declines for six consecutive months
3. What is a depression? Prolonged recession
4. What is stagflation? When an economy experiences high unemployment and inflation
5. What happens to unemployment at each stage of the business cycle?
6. What happens to GDP at each stage of the business cycle? Peak - GDP is not continuing to grow but not declining; Contraction - GDP is decreasing from month to month
7. What is a CPI? Consumer Price Index What does it do? It measures inflation
8. Who is hurt by inflation? Savers are hurt; borrowers are not hurt if borrowed money at low interest rate prior to inflation; banks are hurt. What is the long-term cause of inflation?
9. What is a price index and what purpose does it serve?
10. What is cost-push inflation? What are examples of cost-push inflation?
11. What is demand-pull inflation? Too many dollars chasing too few goods. What are examples of demand-pull inflation? When there are more dollars available to purchase, but producers cannot keep up with the demand
12. What is inflation risk? When a nation is at risk of inflation. Often happens when the economy is in the expansionary phase of the business cycle
13. Define the following types of unemployment: frictional, structural, seasonal, cyclical? What are examples of each? See foldable
14. What is full employment? When there is low unemployment

Answer these questions on Aggregate Supply and Aggregate Demand (Chapter 12)

1. Draw the Aggregate Supply and Demand Curve.
2. What does the Aggregate Supply curve represent? All goods supplied in an economy
3. What does the Aggregate Demand Curve represent? All goods demanded in an economy (gdp)
4. What events cause aggregate supply shift? See PowerPoint on website - Unit 4 - Titled "The Business Cycle, Aggregate Demand, Aggregate Supply"
5. What events cause aggregate demand to shift? See PowerPoint on website - Unit 4 - Titled,

"The Business Cycle, Aggregate Demand, Aggregate Supply"

6. What is fiscal policy? The government taxing and spending - Recession: Lower Taxes or Increase spending (spending in ways that will increase GDP) - Inflation: Raise Taxes and cut spending.
7. What are automatic stabilizers? Unemployment compensation.
8. What should the government do according to demand-side fiscal policy in a contraction? In an expansion? (see handout - The half sheet that was given to you at the beginning of Unit 5)

Answer the following questions on trade. (Chapter 17)

1. What is absolute advantage? Which country can produce the most. What is comparative advantage? Which country can produce the most efficiently (who is giving up the least - opportunity cost)
2. What do we gain from trade?
3. What is a protectionist trade policy? Those who oppose free trade. Why do countries have them? To protect domestic producers
4. What are tariffs? Taxes on imported goods
5. What are quotas? Limit (number) on imported goods
6. What are standards?
7. What is an embargo? An official ban on trade or other commercial activity with a particular country
8. What are subsidies? A payment from the government to support a business or market.
9. What is the balance of payments? a system of recording all of a country's economic transactions with the rest of the world over a period of one year
10. What is a trade deficit? When a nation imports more goods and services than it exports. Does the U.S. have one? Currently, yes.
11. What is NAFTA? North American Free Trade Agreement. Who is in it? US, Canada, and Mexico. What groups would be against this organization? Protectionists

What is ASEAN? Association of Southeast Asian Nations. Who is in it?

WHAT IS ASEAN? - The Association of Southeast Asian Nation (ASEAN) is an association of nations dedicated to economic and political cooperation in Southeast Asia countries.

□ **BACKGROUND** - ASEAN was established on 8th August 1967 in Bangkok, Thailand with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Members of ASEAN, **Indonesia, Philippines, Malaysia, Singapore and Thailand.**

1. What is the EU? European Union . Who is in it?
2. What is an exchange rate? The value of one nation's currency relative to another nation's currency
3. Define a weak dollar. When the dollar is worth less than other countries. Who benefits from a weak dollar? A weak dollar makes goods and services less expensive to nations whose currency is worth more. Therefore, exports may increase from the country with the weak dollar. Who loses from a weak dollar? It makes goods and services purchased from other countries more expensive to the nation with a weak dollar.

4. Define a strong dollar. (opposite of weak dollar) Who benefits from a strong dollar? Makes other countries goods and services relatively less expensive. Who loses from a strong dollar? Exports may decrease

Answer the following questions on E-Commerce and Loans (Personal Finance - see website)

1. For each of the following types of insurance, explain what each does and why someone would buy them: Life (pays beneficiaries when one dies), Health (helps to cover healthcare expenses), Disability (one chooses to purchase disability and provides a percentage of income when one is injured or sick) , and Property (reimburses for property loss).
2. What is a deductible? An amount of expenses that must be paid out of pocket before an insurer will cover any expenses. A premium? What the insurance policy costs.
3. What factors affect credit worthiness? Assets, ability to repay loans, What is a credit score? A score that expresses how reliable one is to repay loans. The higher the score, the "more reliable" one is.
4. What is a Credit Union? A nonprofit bank owned by its members, often members of a single organization or trade union.
5. Define each of the following investment options and explain the risk of each: stocks (potential high returns, but high risk) , bonds (A formal contract to repay borrowed money with interest at fixed intervals. When one purchases a bond, they are loaning money to the entity from which bond is purchased - government, corporate, etc.) , and mutual funds A fund that pools the savings of many individuals and invests this money in a variety of stocks, bonds, and other financial assets..
6. What does "the greater the risk, the greater the return" mean? Risky investments may pay a higher return on your money, but your chances of losing your money is great - money not insured, no guarantee that you will profit from investment.
7. What are the reasons for the spread between the interest charged and interest returned? Banks are in business to earn a profit. Banks pay you a lower rate of interest on your savings and charge you a higher rate of interest on your loans from the bank.
8. What is the difference between simple and compound interest? Simple interest only pays you interest on your principle (savings). Simple interest only charges you interest on the amount of your loan. Compound Interest - If you are saving money, you earn interest on your principle plus interest earned. If you are borrowing money you pay interest on your principle plus the interest. See Personal Finance Terms for example of simple interest and compound interest. Use 100 at 5% simple and 5% compound to show the difference?