

Economics
Chapters 1-2 & 4-6
Duke

Unit I
“The Principles of Economics”

Chapter 1

Explain the difference between a need and a want.

Explain the difference between goods and services.

Scarcity -

Find three things in our society that are scarce, and explain why scarcity applies to each item.

<u>Item</u>	<u>Why?</u>
1.	
2.	
3.	

Why is scarcity not the same as shortage?

List and explain the four factors of production?

- 1.
- 2.
- 3.
- 4.

What is the difference between human and physical capital?

What is a trade-off?



Guns or Butter -

Define Opportunity Cost.

Jora went prom dress shopping and narrowed her decision to three dresses; the black, the red, and the neon pink. She purchased the black dress instead of the red dress because she thought black would match better with her boyfriend's suit. She decided the neon pink was not a good option because she was not living in the eighties. What was Jora's opportunity cost in this scenario? Why?

What is thinking at the margin?

Give a personal example of when you have weighed the costs and benefits of doing a little more or a little less of something.

Lets say you usually eat one Double-Double every time you go to In-n-Out Burger. The next time you go you see that In-n-Out Burger offers the following special "Buy one Double-Double, get the next one for \$1.00." You decide to buy the second burger.

What are the marginal (additional) costs associated with buying the additional burger?

What are the marginal (additional) benefits of buying the additional burger?

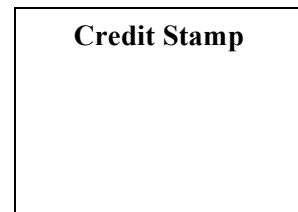
Production Possibilities Curve -

Efficiency -

Underutilization -

Economically speaking, what is the cost of a decision?

What is the law of increasing costs?



Chapter 2

What are the three key economic questions every society must answer?

- 1.
- 2.
- 3.

Describe the three different economic systems:

Free Market Economy -

Centrally Planned Economy -

Mixed Economy -

What are two characteristics of a free-market economy?

- 1.
- 2.

Who is Adam Smith?

Self-Interest -

Incentive-

Competition -

What is the “invisible hand?”

Lets say you go to the market to buy a 6-pack of soda and you see the following prices:

Diet Coke - \$1.99	Diet Dr. Pepper - \$ 2.29
Diet Pepsi - \$2.09	Diet 7-Up - \$2.19

According to Adam Smith, what is the incentive to buy Diet Coke?



What is the “incentive” for the manufacturers of Diet Dr. Pepper?

According to Adam Smith, who determines the price of these sodas?

Consumer Sovereignty -

How is a centrally planned economy organized?



Socialism-

Communism -

Authoritarian -

Give three examples of how the former Soviet Union used a centrally planned economic system.

- 1.
- 2.
- 3.

What are the characteristics of a mixed economy?

Laissez-Faire -

Private Property -

Assume the role of an entrepreneur in the United States. You have just designed a cure for Lou Gehrig’s Disease. The United States has granted you a patent for your invention. Explain why in the United States, clearly defined property rights are such an important part of encouraging business growth.

Free Enterprise -

What are three benefits of the U.S. economy?

1.

2.

3

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Chapter 4

What is the law of demand?

Give a personal example how the law of demand has influenced you as a consumer.

According to the law of demand, what will happen when Duke-oberto's restaurant decides to cut the price of their tacos by 50% for their "Taco Tuesday" special?

Substitution Effect -

Give a personal example in your life when you have reacted to the rise in price of a product, by buying a cheaper/less expensive substitute.

Income Effect -

What is the difference between a demand schedule and a market demand schedule?

Why does the demand curve slope downward to the right?

Ceteris Paribus -

What does a shift in the entire demand curve represent?

What is the difference between a normal and inferior good?

Suppose you were making \$18,000 dollars a year living just above the poverty line. What inferior goods would I expect to see in your grocery basket each week?

List four factors other than price that causes a demand curve to shift.

- 1.
- 2.
- 3.
- 4.



Complement Good-

Substitute Good -

What is elasticity of demand?

Inelastic -

Elastic -

Unitary Elastic -

What are three factors that effect elasticity of demand?

- 1.
- 2.
- 3.

How do we calculate firm's total revenue?

Calculate the total revue for Duke-oberto's using the following monthly sales data.

<u>Item</u>	<u>Quantity</u>	<u>Price</u>
Taco	1,013	.99
Burrito	245	1.25
Shakes	316	1.49
Mega Meals	89	2.69

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Chapter 5

What is the law of supply?

Quantity Supplied-


Why is an increase in price an incentive for the supplier to produce more?

What is a supply schedule?

Supply Curve -

Why does the supply curve always rise from the left to the right?

Elasticity of Supply -

What is the key factor in determining elasticity of supply? Hint -> 



In the short run, why is supply inelastic for apples? Remember, elasticity of supply measures how quickly apple suppliers can respond to an increase in the price of apples)

When determining how many employees to hire, what must a business consider?

Marginal Product of Labor -

What does it mean to have increasing marginal returns?

What does it mean to have diminishing marginal returns?

What is the difference between a fixed and variable cost?

List three fixed and three variable costs for a Starbucks store each month

<u>Fixed</u>	<u>Variable</u>
1.	1.
2.	2.
3.	3.

Total Cost -

What is the marginal cost of production?

What is a firm's basic goal?

What will happen to supply at all levels if there is a change in production? In other words, what will a supplier be more likely to do if it becomes more expensive for them to produce their product? Assuming they cannot raise their prices.

Describe how government a subsidy might affect supply:

Explain this quote: *"When you subsidize something, you'll get more of it."*

18. Why does the United States government pay farmers not to plant their fields?

Excise Tax -

Regulation -

What will a producer of cotton do if he expects a future increase in cotton prices?

How do future price expectations affect short term and long term supply?

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Chapter 6

What is equilibrium?

Excess Demand-

Excess Supply-

Describe the following ways in which the government may intervene in the market place:

Price Ceiling-

Price Floor-

Give two examples of price floor and ceiling currently used in the U.S.

Price Ceiling

price floor

1.

1.

2.

2.

Surplus-

How will suppliers respond to excess supply? Why?

List three factors that may shift the supply curve for cars the left, i.e. fewer cars will be supplied.

1.

2.

3.

Shortage -

Search Costs -

Describe the following advantages of prices:

Price as an Incentive-

Price as Signals - (discuss how price expectations affect consumer behavior).

Rationing -

Black Market -

Externalities -

Give two personal examples of positive and negative externalities in society.

Positive	Negative
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1.

1.

2.

2.

Using your knowledge of externalities; Why would the average American have a vested interest in lowering the rate of drunk driving?

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