

Basic Economic Concepts — Free Preview Definition Sheet

1. **Economics**: study about how to use scarce resources to satisfy unlimited wants.
2. **Scarcity** exists because there are not enough resources to produce everything people want.
3. **Resources**, also known as **factors of production**, are the inputs used to produce goods and services:
 - a. **land**: natural resources
 - b. **labor**: human effort
 - c. **capital**: man-made goods used to produce other goods
 - d. **entrepreneurship**: the risk-taking and innovation that organize production
4. **Microeconomics** focuses on the decisions of individual consumers, firms, and specific markets.
5. **Macroeconomics** looks at the economy as a whole, such as national output, inflation, and unemployment.
6. **Opportunity cost**: the value of the best alternative that is given up.
7. **Marginal benefit** refers to the additional benefit from one more unit
8. **Marginal cost**: the additional cost of that same unit.
9. **Incentives** are factors that motivate people to change their behavior.
10. **Positive economics** describes and explains economic behavior using facts and data.
11. **Normative economics** involves opinions and value judgments about what the economy should be like.
12. The **Production Possibilities Curve (PPC)** shows the maximum combinations of two goods an economy can produce using all available resources and current technology.
 - a. points on the curve represent **efficient** use of resources
 - b. points inside the curve are inefficient, and points outside the curve are unattainable.
 - c. the law of increasing opportunity cost explains why the PPC is bowed outward
 - d. an outward shift of the PPC represents economic growth, caused by increases in resources or improvements in technology.
13. **Law of increasing opportunity cost**: as more of one good is produced, increasingly costly resources must be used.