

VOCABULARY TERMS

Unit 1 – Scarcity & Opportunity Cost

1. <i>economics</i>	The study of how people and societies use limited resources to satisfy unlimited wants; the management of scarcity and choice
2. <i>individual choice</i>	The decision by an individual of what to do, which necessarily involves a decision of what not to do.
3. <i>resource</i>	Anything, such as land, labor, and capital, that can be used to produce something else; including natural resources (from physical environment) and human resources (labor, skill, intelligence).
4. <i>scarce</i>	In short supply; not enough resources to satisfy all the various ways a society wants to use them.
5. <i>opportunity cost</i>	The real cost of an item; what you must give up in order to get it.
6. <i>trade-off</i>	A comparison of costs and benefits of doing something.
7. <i>marginal decision</i>	A decision made at the “margin” of an activity to do a bit more or a bit less of an activity.
8. <i>marginal analysis</i>	The study of marginal decisions.
9. <i>interaction</i>	My choices affect your choices, and vice versa.
10. <i>trade</i>	In a market economy, individuals provide goods and services to others and receive goods and services in return.
11. <i>gains from trade</i>	By dividing tasks and trading, people can get more of what they want through trade than they could if they tried to be self-sufficient.
12. <i>specialization</i>	Each person in the task that he or she is good at performing.
13. <i>equilibrium</i>	An economic situation in which no individual would be better off doing something different.
14. <i>efficient</i>	Description of a market or economy that takes all opportunities to make some people better off without making other people worse off.
15. <i>equity</i>	Fairness; everyone gets his or her fair share.
16. <i>model</i>	A simplified representation of a real situation that is used to better understand real-life situations.
17. <i>other things equal assumption</i>	In the development of a model, the assumption that all relevant factors except the one under study remain unchanged.
18. <i>production possibility frontier</i>	Illustrates the trade-offs facing an economy that produces only two goods. It shows the maximum quantity of one good that can be produced for any given quantity produced of the other.
19. <i>factors of production</i>	The resources used to produce goods and services. Labor and capital are examples.
20. <i>technology</i>	The technical means for producing goods and services.
21. <i>comparative advantage</i>	The advantage an individual or nation has in producing a good or service; Occurs when the opportunity cost of producing the good or service is lower for that individual or nation than for other producers.

22. <i>absolute advantage</i>	The advantage an individual has in an activity if he or she can do it better than other people.
23. <i>circular-flow diagram</i>	Represents the transactions in an economy by two kinds of flows around a circle: flows of physical things such as goods or labor in one direction and flows of money to pay for these physical things in the opposite direction.
24. <i>household</i>	A person or a group of people that share their income.
25. <i>firm</i>	An organization that produces goods and services for sale.
26. <i>markets for goods and services</i>	Markets in which firms sell goods and services that they produce to households.
27. <i>factor markets</i>	Markets in which firms buy the resources they need to produce goods and services.
28. <i>income distribution</i>	The way in which total income is divided among the owners of the various factors of production.
29. <i>positive economics</i>	The branch of economic analysis that describes the way the economy actually works.
30. <i>normative economics</i>	The branch of economic analysis that makes prescriptions about the way the economy <u>should</u> work.
31. <i>sunk cost</i>	Cost that has already been incurred and cannot be recovered.
32. <i>microeconomics</i>	The study of individual choice, and how that choice is influenced by economic forces.
33. <i>macroeconomics</i>	The study of an economy as a whole, which includes inflation, unemployment, business cycles, and growth.
34. <i>command economy</i>	An economy where industry is publicly owned and there is a central authority (government) making production and consumption decisions.
35. <i>market economy</i>	An economy where decisions of individual producers and consumers determine what, how, and for whom to produce (no government).
36. <i>mixed economy</i>	An economic system where both the state and private sector direct the economy.
37. <i>traditional economy</i>	A system where traditions, customs, and beliefs shape the goods and services society creates.