

Economics: content AP Macroeconomics Unit 1

Entrepreneurs are willing to accept risks, they do so for the opportunity to earn a profit, not a salary. People who organize resources in order to produce goods or services. Some economists feel that entrepreneurial ability is so important they consider it the fourth factor of production

Factors of Productions:

Land- things like trees, fish, and minerals are part of that category.

Capital-buildings, equipment, machinery, and human skill used in producing goods and services A factory would be an

Macroeconomists do study overall spending and saving patterns in an economy, how they change over time and how they differ between countries. Tax rates and the amount people work and the relationships between these things are studied.

Microeconomists study the behavior of individual units in the economy, specifically firms and households.

Value The value of a good may change over time as your needs change, the value you place on various goods change as well. For example, you may value a warm pair of gloves more in January than you do in July.

Market A market doesn't have to be one physical place. An online auction house is a place where buyers and sellers come together and mutually agree to exchange goods or services, so it is a market.

Circular Flow Model households earn money by selling their factors of production to firms in the factor market and use that money to buy goods and services from firms in the product market.

Slope The rise over the run, or the vertical change over the horizontal change. Slope is the rise over the run, or the vertical change over the horizontal change.

Scientific Method Identify and define the key variables relevant to the problem. A hypothesis explains how key variables relate to one another. Developing a hypothesis is the third step of the scientific method. The final step in the scientific method is to test the validity of the hypothesis and to accept, revise, or reject it. Economists, like all scientists, assume *ceteris paribus*, or "all else equal." This means that when they are studying the interaction of two or more variables, they assume everything else stays the same. When they conduct experiments, they control the other variables to ensure they stay the same. Unlike other scientists, economists make a fundamental assumption about human behavior. They assume that humans act in their own self-interest when they make decisions. This doesn't necessarily mean that they're selfish. Economists sometimes say people act in their own "rational" self-interest. This doesn't mean there's always one right answer. It just recognizes that people make decisions after weighing the costs and benefits of all their alternatives. Economists have found that the unpredictable behavior of individuals tends to average out when larger numbers of people are studied. This allows both macroeconomists and microeconomists to make generalizations about what people will do in certain circumstances. They assume people's divergent tendencies balance each other out toward an average. Economists face the difficulty of deciding between two theories that explain measurements or observations equally well.

Free enterprise economy Free enterprise allows buyers and sellers to interact through price signals as they exchange goods in a free market. The *free* in free enterprise has to do with the freedom of buyers and sellers to exchange goods and services without government intervention.

Command economy is synonymous with a centrally planned economy. In a command economy, the government makes many of the decisions. *Centrally planned* means that the planning is done by the central government. One of the biggest disadvantages in a command economy is that the resources and means of production are publicly owned. This eliminates the incentive for individuals to act in their own self-interest. Central planners don't decide how much of a good will be produced in all economies. Although this may be true in a command economy, other types of economies answer this question in different ways.

Transition economy China and Russia are in transition as they move from command economies to market/capitalist systems where individuals make their own decisions.

Pure Capitalism Buyers and sellers interact to exchange goods. Buyers and sellers are allowed to interact and exchange goods between themselves leads to more efficient uses of resources.