Name ____ AP ECONOMICS

Section 1 Guided Reading and Practice: Basic Economic Concepts

Module 1: The Study of Economics (pages 2 - 9) - Define

1. Terms:
    a. economics

    b. individual choice

    c. economy

    d. market economy

    e. command economy

    f. incentives

    g. property rights

    h. marginal analysis

    i. resources

    j. land

    k. labor

    l. capital

    m. entrepreneurship

    n. scarce

    o. opportunity cost

    p. microeconomics

    q. macroeconomics

    r. economic aggregates

    s. positive economics

    t. normative economics

2. Explain the importance of choice in economics.
3. Compare and contrast market economies and command economies. Which economic system works better? Why do you suppose that is?
4. Explain how the concepts of marginal benefit and marginal cost function in decision-making? Why does an activity stop when marginal cost exceeds marginal benefit?
5. What makes the issue of dealing with scarcity important to economics?
6. Why is time a scarce "resource"?
7. What are the factors of production? (4 categories) Describe each. (Does "capital" mean money when economists discuss the factors of production?)
8. Think about the saying, "There is no such thing as a free lunch." Is this true? (Use the concept of opportunity cost.)
9. What is the difference between microeconomics and macroeconomics? Create some examples of microeconomic questions. See table 1.1 for examples.
10. What is the difference between positive and normative economics? Create an examples of positive and normative statements. (Understanding this part of economics will help you begin to understand politics.)

Module 2: Introduction to Macroeconomics (pages 10-14)

1. Terms:
    a. business cycle
    b. depression
    c. recession
    d. expansion
    e. employment
    f. unemployment
    g. labor force
    h. unemployment rate
    i. output
    j. aggregate output
    k. inflation
    l. deflation
    m. price stability
    n. economic growth
    o. model
    p. “other things equal assumption”
2. Sketch out the model for a model for a business cycle and label it’s parts (expansion, contraction, peak, trough).
3. What is the difference between a recession and a depression?

4. Create a mathematical formula to define labor force, unemployment, and employment.

5. Is it likely that the US will ever experience a 0% unemployment rate? Why or why not?

6. What is the relationship between employment and output?

7. Does an increase in wages necessarily indicate “economic progress”? Explain. your answer.

8. What problems can occur with inflation?

9. What problems can occur with deflation?

10. Price level is used to define inflation and deflation. When evaluating the macroeconomy, why do you suppose we use the term “price level” and not “price”?

11. What are the goals of macroeconomists?

12. How is GDP per capita used to determine the economic health of a nation?

13. How do economists use models? What are some examples of economic models?

14. Explain the importance of “ceteris paribus” to economists.

Module 3: The Production Possibilities Curve Module (pages 16-21)

1. Terms: (define)
    a. trade-off

    b. production possibilities curve

    c. efficient

    d. technology

2. How can the production possibilities curve (PPC) be useful?

3. Draw a correctly-labeled PPC graph. Label an “inefficient but possible” point, an “efficient” point, and a point that is “unattainable”.

4. The opportunity cost of producing something is not its “price”. Explain.

5. What is the connection between the concepts of opportunity cost and trade-off?

6. Draw a PPC graph with constant opportunity costs.

7. Draw a PPC graph with increasing opportunity costs.

8. Why do increasing opportunity costs occur?

9. Using a correctly-labeled PPC graph, show economic growth.

10. What are the sources of economic growth?

Module 4: Comparative Advantage and Trade (pages 23-29)

1. Terms:
   a. trade
   b. gains from trade
   c. specialization
   d. comparative advantage
   e. absolute advantage
2. Why trade?

3. What is the benefit of specialization? Explain using the excerpt from Adam Smith's book, *The Wealth of Nations*.

4. What is the difference between comparative advantage and absolute advantage?

5. Look at Figure 4.1. How do you calculate the opportunity cost of each product?