

Chapter One Reading Guide

1. What is scarcity?
2. What is an example of a shortage?
3. What is an example of scarcity, rather than shortage?
4. What would an economist consider to be land?
5. One example of an entrepreneur is _____
6. What is a factory building an example of?
7. What are “guns or butter” decisions? What’s an example?
8. The opportunity cost of a decision can be examined by using a _____
9. Give an example of thinking at the margin.
10. Give an example of making a decision at the margin.
11. You bought two new CDs with the last \$30 in your checking account, and your next payday is on Monday. What is the opportunity cost of these CDs?
12. An efficient economy is one that _____
13. What does a production possibilities frontier show?
14. Production possibilities frontiers curve when they are charted on a graph because this shows the
15. What can cause a production possibilities curve to move to the right?

Interpreting a Decision-Making Grid (Questions 16-19)

Decision Making at the Margin		
Options	Benefits	Opportunity Cost
Work 1 hour	1 hour pay	1 hour of study or recreation time
Work 2 hours	2 hours pay	2 hours of study or recreation time
Work 3 hours	3 hours pay	3 hours of study or recreation time
Work 4 hours	4 hours pay	4 hours of study or recreation time
Work 5 hours	5 hours pay	5 hours of study or recreation time

Figure 1.1

16. According to Figure 1.1, which option leaves the most time for recreation?
17. What basic assumption is made by Figure 1.1?
18. According to Figure 1.1, which option will earn the most money the quickest?
19. Why is the decision being made a decision at the margin?

20. Drawing Conclusions: Explain how the introduction of physical capital, in the form of a computer, could benefit a family. Are there also some ways in which a computer might not benefit a family?

21. Analyzing information: Explain how an economy can work efficiently in terms of its production possibilities but not be producing goods that are useful to it.

Vocabulary: Define the following terms (hint: could be on the quiz)

1.1

Goods:

Services:

Scarcity:

Shortage:

Factors of production:

Labor:

1.2

Trade-offs:

Opportunity cost:

1.3

Production possibilities graph (curve):

Production possibilities frontier:

Efficiency:

Underutilization:

Growth: