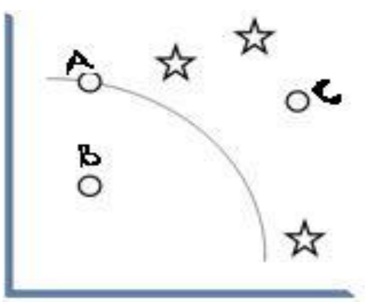
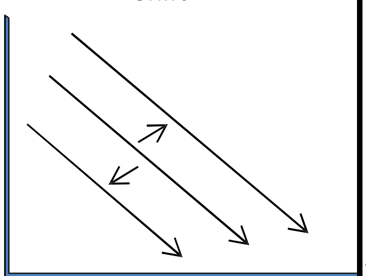
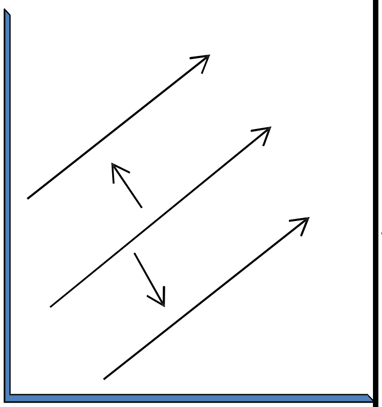
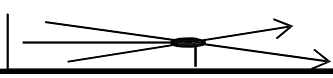
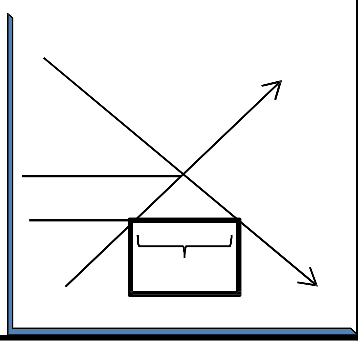
Exam#1 Review	
Economics:	Social Science; Study of choices
Resources Renewable Nonrenewable	Limited Ex: Grass, Forest, Animals Ex: Iron ore, Copper ore, coal, crude oil
Wants	Unlimited
Scarcity	Economic problem, not having enough resources to satisfy our wants
Because of scarcity societies and economies have to answer the 3 major economic questions	1. What to produce? (What is in demand?) 2. How to produce? (produce with least cost) Capital intensive technique or labor intensive technique 3. For whom to produce? (How to distribute the good?)
Goods Free Goods Economic Goods	Ex: Air, Sunshine, water Consumer goods: For Final use Capital goods: for further use; any finished product if you use it to produce other goods
4 Basic Factors of Production Land Labor Capital Entrepreneurship	Natural Resources Physical & Intellectual Physical - Ex: Machinery, equipment Human - Ex: Job skills, education Organizer, risk-taker, and innovator
Opportunity Cost : Is the result of scarcity	Next best alternative you sacrifice to get something

Classical Economists Adam Smith Karl Marx David Ricardo	 Laissez-Faire Policy Self-interest Invisible hand Division of Labor His famous book was "Wealth of Nations" published in 1776 Famous books written by Karal Marx were "Das Kapital" "Communist Manifesto" Exploitation of Labor Government Economy Comparative Advantage Theory Producing with less opportunity cost
Production Possibilities Model  	Law of Increasing Opportunity Cost A. Efficient production and attainable B. Inefficient Production (not using all inputs) C. Unattainable Goal (can't produce at C point) Because of scarcity, producing more of one good or service means, producing less of another good or service.
Steps the economists generally follow to develop a model	Formulate hypothesis, decide assumptions and use economic data to explain.

Market Economic Behavior Sellers Buyers Government	Maximize profit while supplying goods to the market. Maximize satisfaction while demanding goods and service in the market.
Demand	Law of demand Inverse relationship between price and quantity demanded Price increases Quantity Demand decreases - Ceteris Paribus Price decreases quantity demanded increases
Factors cause Demand curve to Shift  Increase Demand = Right shift Decrease Demand = left shift	1. Number of buyers 2. Tastes and preferences 3. Incomes Normal good: 95%, positive relationship Inferior goods: inverse relationship bt. Demand and income 4. Expectations of Buyers 5. Prices of related Goods Substitute Goods (comparative goods) : Pepsi vs. Coke Complementary Goods (joined or go-together goods): shoes and socks
Supply	<u>Law of Supply</u> Upward relationship Price increases Quantity Supplied increases - Ceteris Paribus Price decreases Quantity Supplied decreases

Factors cause Supply curve to Shift  Increase Supply = (down) right shift Decrease Supply = (up) left shift	1. Increase in number of sellers 2. Technology 3. Resources (input) price 4. Future expectation of Sales 5. Supply shocks 6. Taxes and subsidies
Ceteris Paribus	All other things remain constant unchanged (constant) Increase in price of Dell computer will increase demand for HP computer
Equilibrium Price 	Quantity Demanded = Quantity Supplied
Price ceilings 	Favor for buyers Below the equilibrium price Ex: New York rent controls Main disadvantage: Shortage

Price Floors	Favor for sellers Above the equilibrium price Ex: Minimum wage law - in 1938 @ 25 cents/hour Main disadvantage: Surplus
Money	Not a factor of production
Factor market	Where factors of production are bought and sold
Household	Consumption unit, one or two living under a roof with a sort of income
Firms	Business firms; production unit produce either goods or services
3 Types of Economic systems	1. Capitalistic / private enterprise / market economy. Examples: US, Canada and japan 2. Government (command and control)/ central planning system Examples: Cuba, North Korea and Romania 3. Mixed economy
Macroeconomics	Study of economy as a whole
Microeconomics	Study of individuals, single firm and single industry and how do they take decisions
Normative analysis : What	Positive analysis : What is
Quantity demanded	Movement along the line
Demand	Shifts
Short-run	Entrepreneur can't change all inputs (resource)
Long-run	Can change all inputs
Circular Flow Model	Relationship between household and firms
Economic Model	Basic structure of the economy