

Name: \_\_\_\_\_

## Economics- Final Exam Review Guide Key

What is a good? List three examples of goods. *(Chapter 1)*

**Must be used by consumers to receive the benefit. Examples include basketballs, cookies, and cars.**

What is a service? List three examples of services. *(Chapter 1)*

**To receive the benefit, the service must be done by someone else. Examples include haircuts, surgery, and food delivery.**

What is scarcity? *(Chapter 1)*

**When there are limited resources for our unlimited wants. Everything in the world is scarce.**

What are the three basic economic questions? *(Chapter 1)*

**What goods and services should be produced?**

**How will the goods and services be produced?**

**Who will consume the goods and services?**

What is economics? *(Chapter 1)*

**The study of how scarce resources are used in society.**

What are the factors of production? Define them and give examples. *(Chapter 1)*

**Land- natural resources (oil, coal, ore)**

**Labor- workers (McDonalds cashier, lawyer, etc.)**

**Capital- There are 2 types: physical (the man-made resources) and human (knowledge needed to produce something)**

What is the difference between producers and consumers? *(Chapter 1)*

**Producers use the factors of production to make and sell the goods and services. Consumers are the factors of production (workers) and buy the goods and services.**

What is an entrepreneur? *(Chapter 1)*

**A person who owns and operated their own business. They are in control of the factors of production.**

Define an opportunity cost. *(Chapter 1)*

**The most desirable alternative given up when a decision is made.**

Describe the difference between a factor market and a product market. *(Chapter 1)*

**Resources are bought and sold in the factor market while finished products are sold in the product market.**

What is profit? *(Chapter 2)*

**Total production cost minus revenue.**

What are traditional economic systems? Give two examples. *(Chapter 2)*

**When a societies economy is based on custom and tradition. For example, the Amish share most of the resources equally among their community. Also, females and males have specific roles in Amish society.**

What are free market economic systems? Give two examples. *(Chapter 2)*

**A society whose economy is completely free from government interference. IN the world, there aren't any economies that are truly 100% free. Singapore would be the closest to a free market economy.**

What is competition? *(Chapter 2)*

**When firms compete for consumer demand.**

What is self-interest? *(Chapter 2)*

**When individuals make decisions for their own benefit.**

What are incentives? *(Chapter 2)*

**The reason people make decision and/or do work. For example, an incentive to go to college is the reward of having a better chance of working at a higher wage/salary.**

Why are prices important to consumers and producers? *(Chapter 2)*

**It informs them about the product.**

What are centrally planned economic systems? Give two examples. *(Chapter 2)*

**When the government has complete control of the economy. North Korea and Cuba would be examples.**

What are mixed economic systems? Give two examples. *(Chapter 2)*

**Where a country's economy is controlled by both individuals and the government. Most economic systems are mixed. The US and Germany are examples.**

What is Microeconomics? What is Macroeconomics? Give an example of each. *(Chapter 3)*

**Micro- Is the study of economic decisions made by individuals and firms. Macro is the study of economic decisions made by countries and world economies.**

What is the law of demand? *(Chapter 4)*

**As price increases, the quantity demanded will decrease. The opposite is also true.**

List five factors that cause a shift in demand. What causes a movement along the demand curve? *(Chapter 4)*

**A change in popularity of the product**

**A change in consumers income**

**A change with compliment/substitute goods**

**Future expectation about the product.**

What is a demand curve used to illustrate? *(Chapter 4)*

**How many consumers are willing to buy the good or service at different prices.**

What is the difference between normal goods and inferior goods? Give examples of each. *(Chapter 4)*

**Normal good- a good consumers demand more of as their income increases (movie tickets, apples)**

**Inferior Good- a good consumers demand less of when their income increases (frozen pizza because now a consumer can afford better pizza)**

What is the difference between substitutes and complements? Give examples of each. *(Chapter 4)*

**Substitutes- when an increase in the price of good A causes the demand for good B to increase. These are goods that can replace one another. For example, Pizza Hut pizza and Giordano's pizza.**

**Compliments- when an increase in the price of Good A causes the demand for Good B to decrease. These are goods that "go together." For example, hot dogs and hot dog buns.**

Define price elastic. Provide two examples of goods with elastic demand and elastic supply. *(Chapters 4 & 5)*

**When the quantity change is more than the price change. An elastic demand example is movie tickets (because they are not a necessity). An elastic supply example are jeans (because they are very easy to produce).**

Define price inelastic. Provide two examples of goods with inelastic demand and inelastic supply. (Chapters 4 & 5)

**When the quantity change is less than the price change. An inelastic demand example is medication (because it's needed). An inelastic supply demand example are mansions (they require a lot of resources to produce).**

What is total revenue? (Chapter 4)

**Price multiplied b quantity sold.**

What is the law of supply? (Chapter 5)

**As price increases, the quantity supplied will increase. The opposite is true.**

List four factors that cause a shift in supply. What causes a movement along the supply curve? (Chapter 5)

**A change in the price of resources**

**A change in the amount of resources available**

**A change in production technology**

**A change in the amount of the actual good or service**

**A change in the price of the actual good or service will cause a movement along the supply curve.**

What is a supply curve used to illustrate? (Chapter 5)

**The different quantities that producers are willing to produce at every possible price.**

What is the Law of Diminishing Marginal Returns? (Chapter 5)

**The amount produced by each individual input will decrease as more and more inputs are added.**

What is a fixed cost? What is a variable cost? Provide an example of each. (Chapter 5)

**A fixed cost never changes while a variable cost does change depending on how much is produced. A fixed cost example would be rent and a variable cost example would be rubber needed for basketballs.**

What is the difference between a shortage and a surplus? (Chapter 6)

**Shortage- When quantity demanded is greater than quantity supplied.**

**Surplus- When quantity supplied is greater than quantity demanded.**

Define a black market. What causes this? *(Chapter 6)*

**When products are illegally bought and sold. Government regulations of markets cause this as well as people stealing.**

Define and provide an example of each of the four market structures? *(Chapter 7)*

**Monopoly- only one firm produces the product.**

**Oligopoly- only a few firms produce the product.**

**Monopolistic Competition- when many firms produce similar but not identical products.**

**Perfect competition- when many firms produce identical products.**

What is a sole proprietorship? List two advantages and two disadvantages. *(Chapter 8)*

**When one person owns a business. Advantages include total control and ownership of all the profits.**

**Disadvantages include 100% liability and lack of resources.**

What is a partnership? List two advantages and two disadvantages. *(Chapter 8)*

**When a few people own a business. Advantages include shared decision making and more resources.**

**Disadvantages include differences in opinion and shared profits.**

What is a franchise? List two advantages and two disadvantages. *(Chapter 8)*

**When the business is owned by a parent company. Advantages include easy access to resources and parent company guidance. Disadvantages include lack of control and franchise fees.**

What is a corporation? List two advantages and two disadvantages. *(Chapter 8)*

**A business that is owned by individual stock holders. Advantages include more investment money and greater chances of expansion. Disadvantages include high government regulation and legal complexity.**

What are stocks? What are stockholders? *(Chapters 8 & 11)*

**Stocks represent ownership in a company. Stockholders are part owners of a company.**

How much control do stockholders have over a firm? (Chapters 8 & 11)

**Limited- the large majority of stockholders either have no control or can only vote on corporate related matters.**

What is a merger? (Chapter 8)

**When two or more businesses combine.**

What is a conglomerate? (Chapter 8)

**A corporation that owns multiple businesses that produce unrelated products.**

What is a cooperative? (Chapter 8)

**When two or more business work together for their mutual benefit.**

What is an asset? Give three examples. (Chapter 8)

**Something of value. House, car, gold, and stocks.**

What is liability? What type of liability is associated with sole proprietorships and partnerships? (Chapter 8)

**When an individual o a firm is responsible for all related gains and/or losses. In a sole proprietorship, the individual owner has 100% liability. In partnerships, the liability is shared.**

List three factors that determine wages. (Chapter 9)

**Popularity of the product being produced  
The productivity and education of the worker  
The danger of the job**

What are labor unions? List four purposes of labor unions. (Chapter 9)

**They are a group of workers who work together to protect each other and improve working conditions.  
Improve working conditions  
Improve wage  
Protect against unfair employer practices  
Provide legal protection**

What are the three uses of money? (Chapter 10)

**Medium of exchange  
Unit of account  
Store of value**

What are the six characteristics of money? *(Chapter 10)*

**Portability, durability, uniformity, divisibility, acceptability, and controlled supply.**

What is a bank run? *(Chapter 10)*

**When there are more customers asking to collect their money than what the bank has on hand.**

What is the largest source of income for banks? *(Chapter 10)*

**Interest earned from loans.**

What do banks do with customer deposits? *(Chapter 10)*

**Save 10% and loan the remaining 90% to individuals and businesses.**

What is an investment? *(Chapter 11)*

**Allocating funds and/or resources in the hopes of a future gain.**

What are the different forms of bonds? Which have the least risk? *(Chapter 11)*

**Corporate bonds, junk bonds, savings bonds, treasury bonds, and municipal bonds. Government bonds have the least amount of risk (savings, treasury, and municipal).**

What are two main differences between a corporate bond and a government bond? *(Chapter 11)*

**Corporates are issued by corporations and government bonds are issued by the government. Also, corporate bonds are riskier than government bonds.**

What is the advantage of diversification? *(Chapter 11)*

**Less risky**

When should an investor sell their stock? *(Chapter 11)*

**When the price of stock is at its highest.**

What is a mutual fund? What's the main advantage of this investment? (Chapter 11)

**A stock investment where an investor's money is pooled into a variety of stocks. Less risky than investing in individual stocks.**

What is a portfolio? (Chapter 11)

**A collection of an investor's assets.**

What is the Dow Jones Industrial? (Chapter 11)

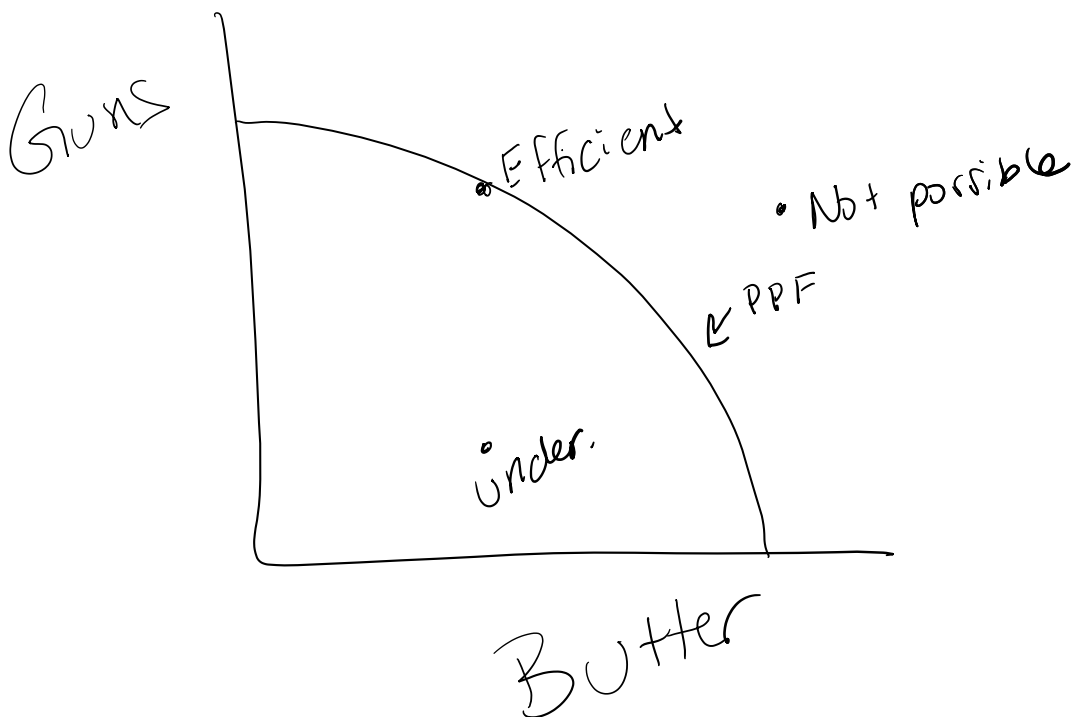
**A representation of the top 30 companies in the stock market.**

What is the S&P 500? (Chapter 11)

**A representation of the top 500 companies in the stock market.**

### Draw/Sketch the Following:

Draw a production possibilities frontier for guns and butter. Plot the following points: Efficiency, underutilization, and not technologically possible.



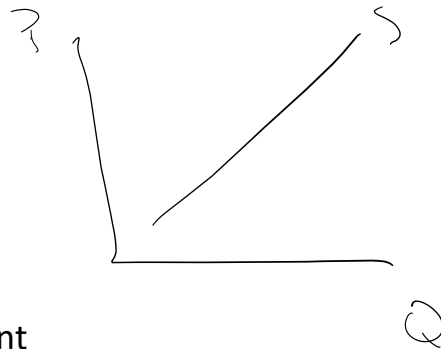


**Draw/Sketch the Following:**

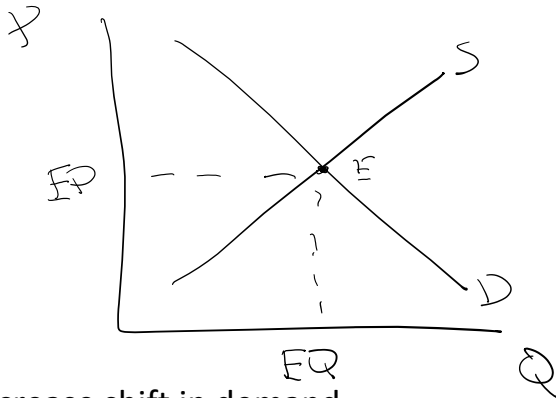
A demand curve



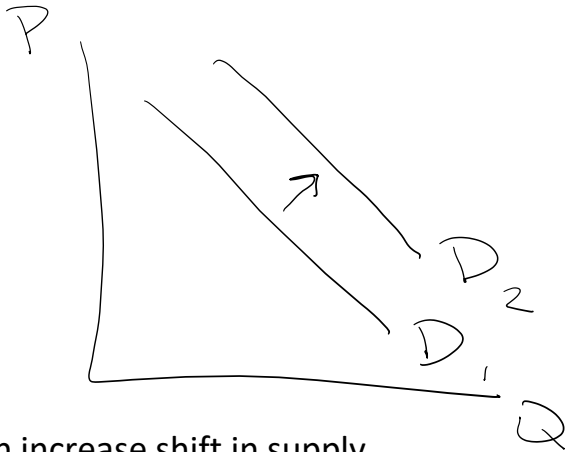
A supply curve



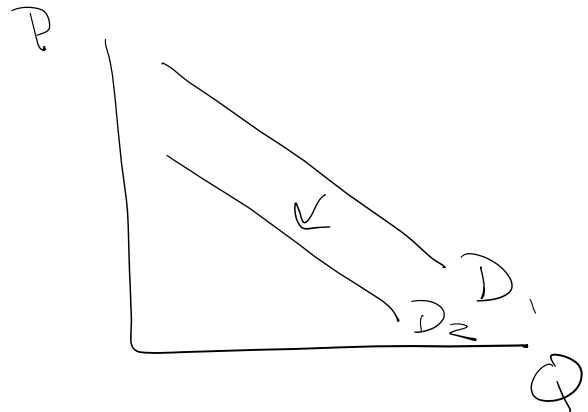
A supply AND demand graph with an equilibrium point



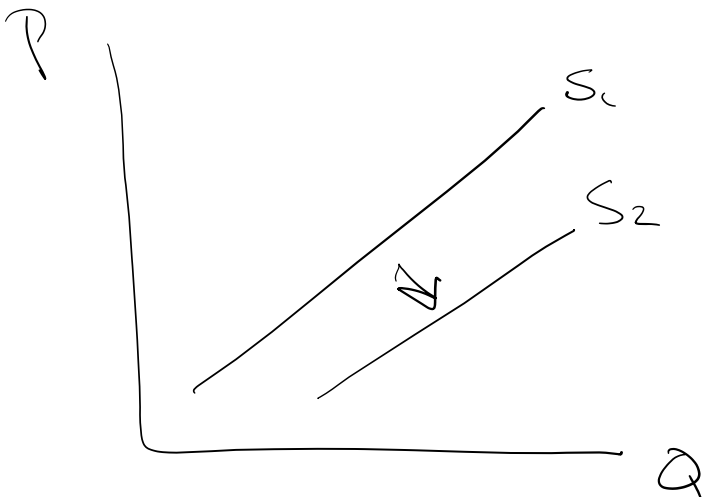
An increase shift in demand



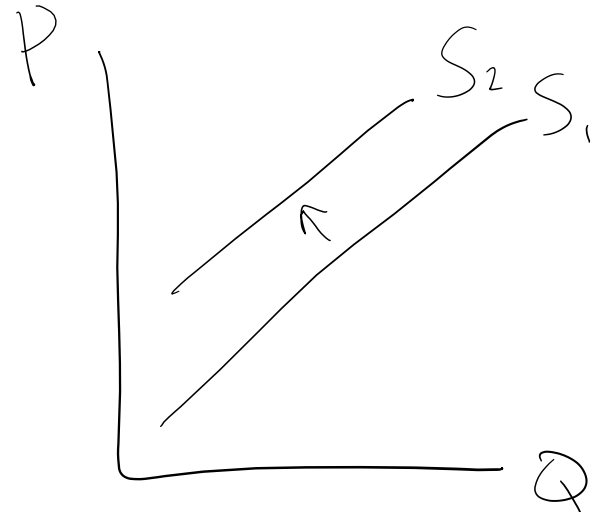
A decrease shift in demand



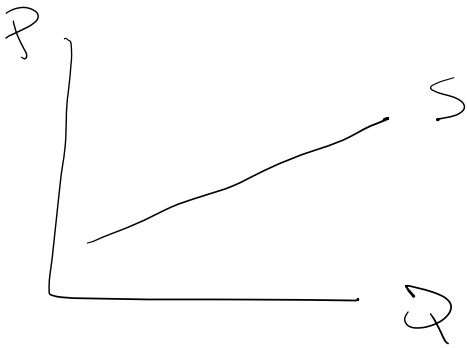
An increase shift in supply



A decrease shift in supply



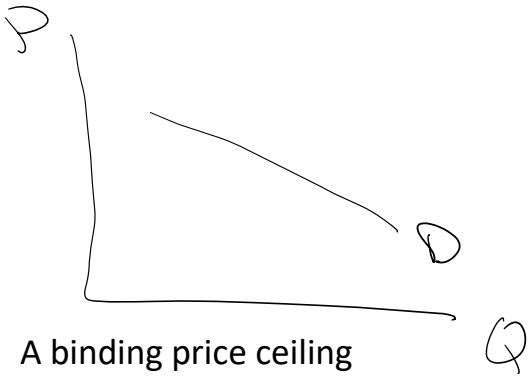
An elastic supply curve



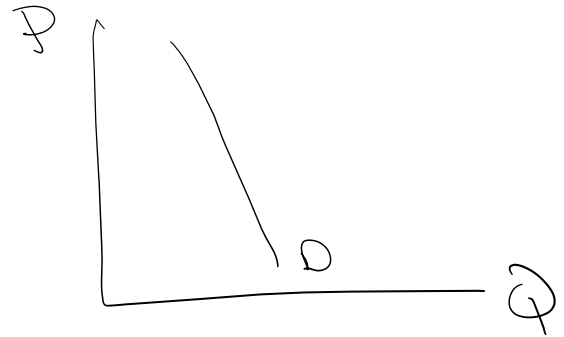
An inelastic supply curve



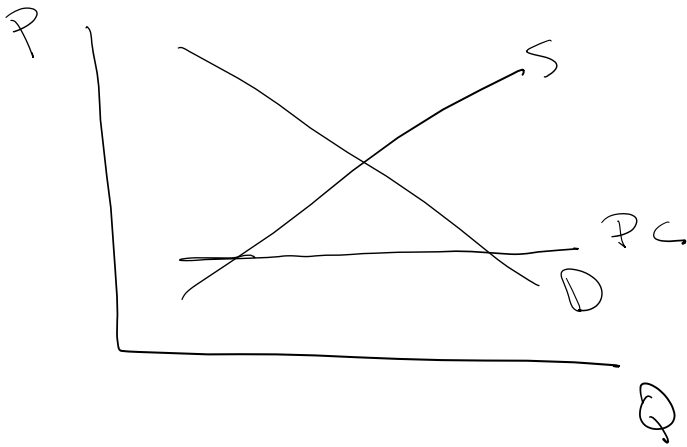
An elastic demand curve



An inelastic demand curve



A binding price ceiling



A binding price floor

