
UNIT 1

Final Review



Three Fundamental Questions of Economics

- ▶ **WHAT to produce**
- ▶ **HOW to produce**
- ▶ **FOR WHOM to produce**

Need vs. Want

- ▶ **Need: basic requirement for survival**
 - ▶ ex) food, clothing, shelter
- ▶ **Want: way of expressing a need**
 - ▶ ex) wanting a Chipotle burrito to satisfy need for nourishment

Resources: Factors of Production

- ▶ **Land**
- ▶ **Labor**
- ▶ **Capital**
- ▶ **Entrepreneurship**
- ▶ **Technology**

The Biggest Challenge of Economics: Scarcity

- ▶ **We do not have enough resources, time, money, etc. to get everything we want.**
- ▶ **We have to make choices on how to allocate resources.**
- ▶ **Unlimited wants vs limited resources**

Value & Paradox of Value

- ▶ **Value: monetary worth (\$). Has utility + is scarce**
- ▶ **Paradox of Value: when some necessities, such as water, have little monetary value, whereas non-necessities, such as diamonds, have higher value**



So What Exactly is Economics?

- ▶ **The study of how people and nations make choices about how to use scarce resources to fit their needs and wants.**

Traditional Economy

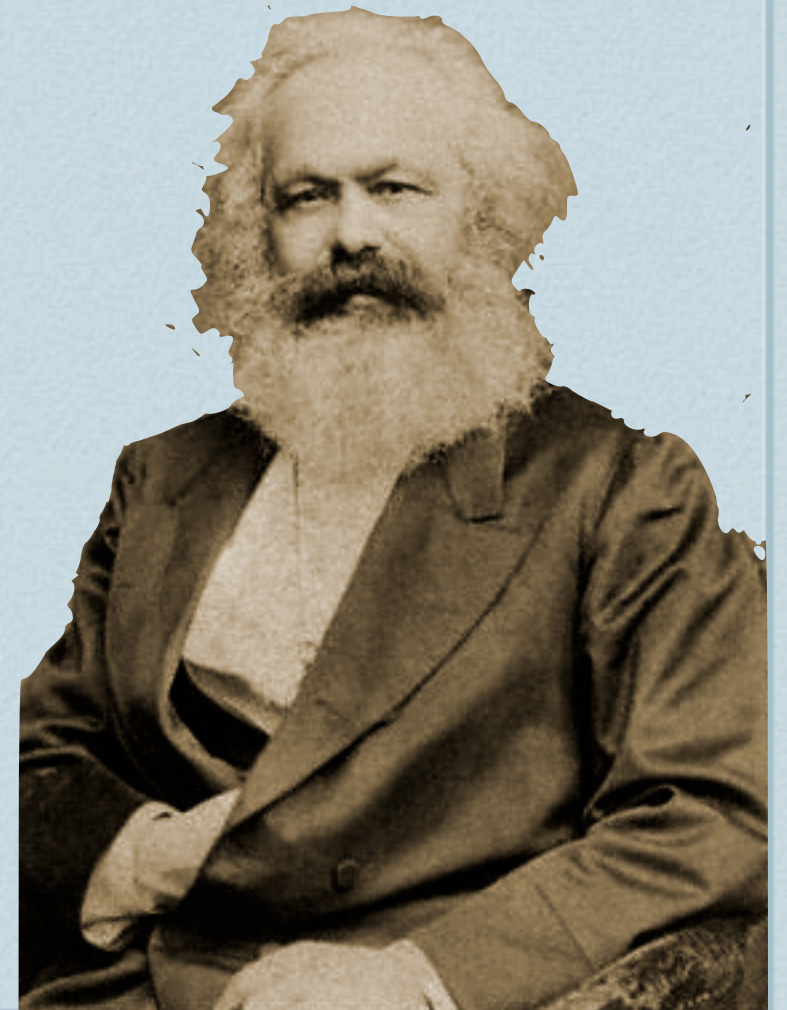


- ❖ **Allocation of scarce resources is based on ritual, habit, custom**
- ❖ **Individuals have little say over role in society & economy**
- ❖ **Tend to be more family-centered**
- ❖ **Small-knit communities & tribes**

Command Economy

- ❖ **The GOVERNMENT owns all resources**
- ❖ **The GOVERNMENT answers the three fundamental economic questions**
- ❖ **People don't need to worry about making profits**

NO
Profit
means
NO
Incentives



Market Economy

- ❖ **Individuals in the Market own resources & answers three fundamental questions**
- ❖ **Market Economy is driven by:**
 - ❖ **Competition**
 - ❖ **Profit Incentives**
 - ❖ **Self-Interest**
- ❖ **Laissez-faire & invisible hand**



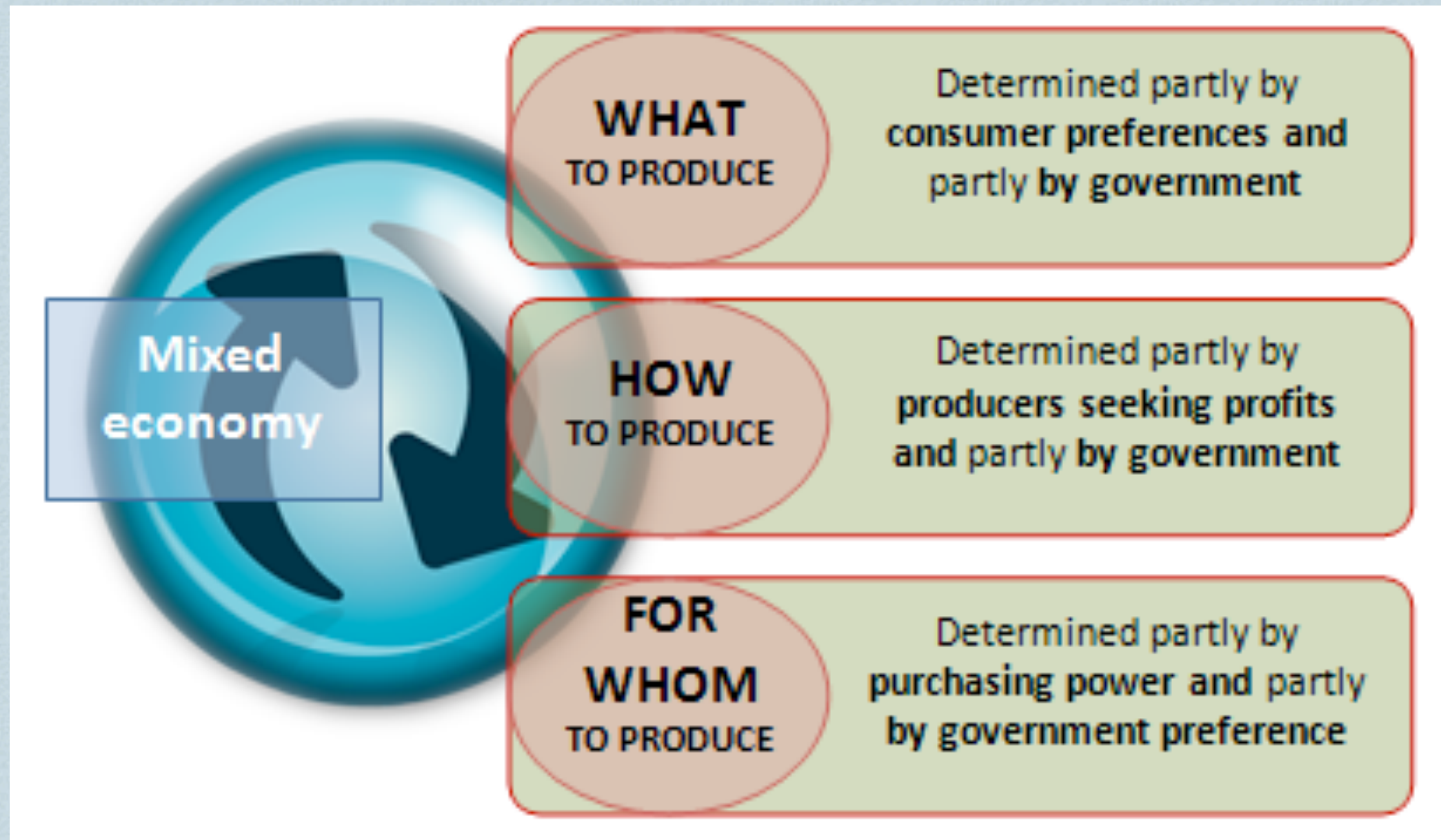
Market Economy

- ❖ **Laissez-Faire: Hands Off!**
- ❖ **Belief that the economy will function best without government intervention**
- ❖ **An invisible hand guides the Market to make best decisions**



Mixed Economy

- ❖ **Combination of both Market and Command Economy**



TRADE-OFFS

- **ALL THE ALTERNATIVES WHEN A CHOICE OR DECISION IS MADE**



OPPORTUNITY COST

- **THE NEXT BEST ALTERNATIVE THAT HAD TO BE GIVEN UP FOR THE ALTERNATIVE THAT WAS CHOSEN**



OPPORTUNITY COST



You study late night
for a final



The next day you
are very sleepy



Your opportunity cost
is a good night's sleep.

- **OPTIONS: 1) STUDY ALL NIGHT OR 2) GO TO SLEEP**
- **CHOICE: STUDY ALL NIGHT**
- **OPPORTUNITY COST: GETTING ENOUGH SLEEP**

OPPORTUNITY BENEFIT

- **WHAT IS GAINED WHEN A DECISION OR CHOICE IS MADE**

- **EX) THE OPPORTUNITY BENEFIT OF DOING YOUR ECONOMICS HOMEWORK INSTEAD OF PLAYING VIDEO GAMES IS A BETTER GRADE IN ECONOMICS.**

Economic & Social Goals

- Economic Freedom
- Economic Efficiency
- Economic Equity
- Economic Security
- Full Employment
- Price Stability
- Economic Growth



Capitalism & Free Enterprise

- **Capitalism**

- **Private citizens own factors of production**

- **Free Enterprise**

- **Competition flourishes with a minimum of government interference**

Characteristics of Free Enterprise

- **Economic Freedom**
- **Voluntary Exchange**
- **Private Property Rights**
- **Profit Motive**
- **Competition**

Circular Flow of the Economy

