

This study guide is not intended to cover all of the content that will be on the test. DUE THE DAY OF TEST & required for eligibility for test corrections

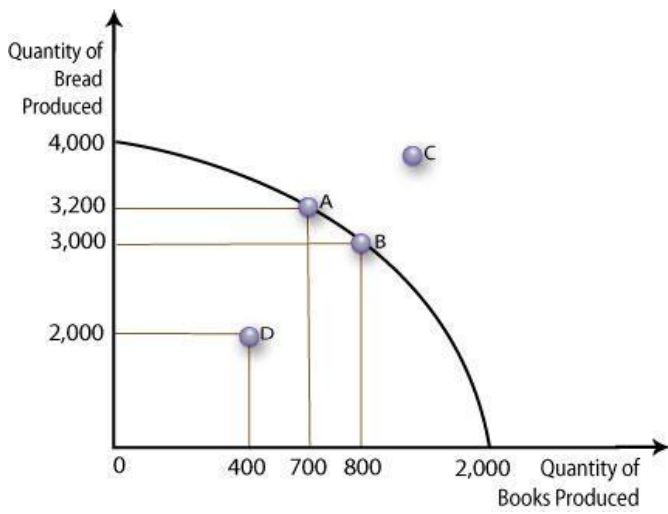
Name: _____ **Date:** _____

Section 1 – Basic Concepts and Vocabulary

1. Why is scarcity important to the study of economics?
2. What are land/natural resources? Give two examples.
3. What are labor/human resources? Give two examples.
4. What is capital stock? Give two examples.
5. What are human capital resources? Give two examples.
6. What is an allocation strategy?
7. List six main allocation strategies and an example of a good or service allocated that way in the USA.
8. Why do people, companies, and countries specialize in the production of certain goods and services?
9. What do economists believe about voluntary exchange and trade?
10. List the three basic economic questions all societies must answer.
11. Define trade offs and opportunity costs.
12. Define absolute advantage and comparative advantage. Which is the basis for international trade?
13. Explain the concept of terms of trade.

Section II – Application Questions

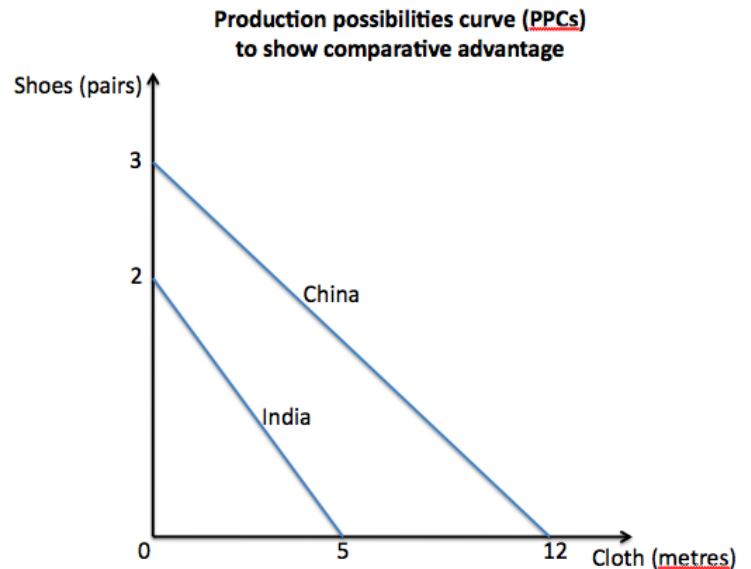
1. **Carl is considering attending a concert instead of studying. The ticket price of the concert is \$35. He estimates that the cost of driving to the concert and parking there will total an additional \$20. In order to attend the concert, Carl's opportunity cost of attending the concert is:**
2. **A teachers' union negotiates a contract that dramatically increases benefits for its members. How would this influence the opportunity cost for a teacher who was considering giving up their career in education to pursue a career in broadcasting?**
3. Describe the significance of each of the points found on the PPC below. Calculate the opportunity cost and marginal benefit of moving from A to B. Describe how to move the curve outward to point C. Explain what could happen in an economy to cause a movement from a point on the curve to point D.



4. A teenager named Rosa started a pet-walking business. She found customers and hired workers for her business. What factor of production (productive resource) does Rosa represent?

5. Answer the following questions based on the chart below with China & India: **Show your work!**

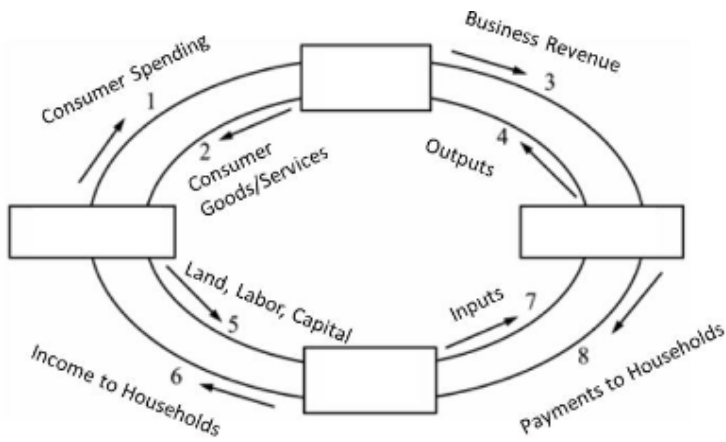
- Input or Output?
- Country with an absolute advantage in Shoes:
- Country with an absolute advantage in Cloth:
- Opportunity Cost of producing Shoes in India:
- Opportunity Cost of producing Cloth in India:
- Opportunity Cost of producing Shoes in China:
- Opportunity Cost of producing Cloth in China:
- Country with a comparative advantage in Shoes:
- Country with a comparative advantage in Cloth:
- Possible terms of trade:



6. Determine which has absolute and comparative advantage in each and determine acceptable terms of trade: **Show your work!**

	Hours to produce one	
	Cake	Pudding
Belize	10	5
Algeria	15	3

- Input or Output problem?
- Country with an absolute advantage in cars:
- Country with an absolute advantage in planes:
- Opportunity Cost of producing cars in Belize:
- Opportunity Cost of producing planes in Belize:
- Opportunity Cost of producing cars in Algeria:
- Opportunity Cost of producing planes in Algeria:
- Country with a comparative advantage in cars:
- Country with a comparative advantage in planes:
- Possible terms of trade:



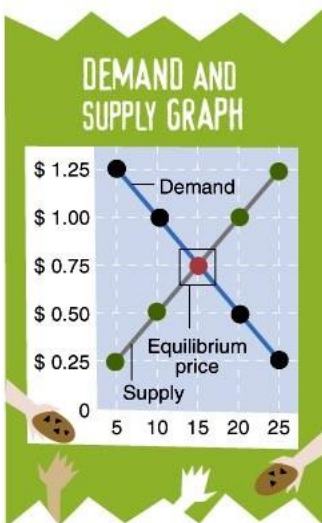
For the four blanks in the Circular Flow Diagram, fill in the letter of the term that corresponds with the blanks on the circular flow map from the following choices (use a term only once; not all terms will be used):

- Factor Market
- Product Market
- Farmers' Market
- Businesses
- Finished goods & services
- Households
- Factors of production

- The primary incentive motivating entrepreneurial activity is
- Define the Law of Demand
- Define the Law of Supply
- Give the two criteria that must be met to have "demand" for a good, service, or factor of production.
- Define each of the following and explain the relationship to the demand curve.
 - Income effect
 - Substitution effect
 - Diminishing Marginal Utility

Price (\$)	Demand	Supply
8.00	10,000	18,000
7.00	12,000	16,000
6.00	14,000	14,000
5.00	16,000	12,000
4.00	18,000	10,000
3.00	20,000	8,000
2.00	22,000	6,000
1.00	24,000	4,000

- Use the table to the right to answer questions a, b and c:
 - Describe what is happening in this market when the price is \$6.00.
 - Describe what is happening in this market when the price is \$2.00.
 - Describe what is happening in this market when the price is \$8.00.



- Use the graph to the left for a-c.
 - In this market, the equilibrium price is _____.
 - In this market, at a price of \$.25, [surplus/shortage] of ___ units exists.
 - In this market, at a price of \$1.25, [surplus/shortage] of ___ units exists.
- Explain the difference between a change in demand and a change in quantity demanded. Graph these two situations:

- Draw two graphs. On the first, graph a change in quantity supplied and, on the second, graph a change in supply.

10. List the determinants (shifters) of demand and the determinants (shifters) of supply.

Demand (INSECT)	Supply (EATING)

11. How does a change in consumer income affect demand for a product? What is the exception to this rule?

12. Price ceilings are [minimum/maximum] prices set by the government that cause a [surplus/shortage].

13. Price floors are [minimum/maximum] prices set by the government that cause a [surplus/shortage].

14. How will the following changes affect the market price of ice cream (assuming that the market is initially in equilibrium)? In each case, DRAW what happens to the demand and/or supply curves and, as result, circle what happens to the equilibrium price and quantity. Indicate the determinant governing the shift.

(a) Price of milk rises.

Circle One:

Ep: $\uparrow \bullet \downarrow$

Eq: $\uparrow \bullet \downarrow$

Qs: $\uparrow \bullet \downarrow$

Qd: $\uparrow \bullet \downarrow$

(b) Frozen yogurt prices fall.

Circle One:

Ep: $\uparrow \bullet \downarrow$

Eq: $\uparrow \bullet \downarrow$

Qs: $\uparrow \bullet \downarrow$

Qd: $\uparrow \bullet \downarrow$

(b) Chocolate syrup prices fall.

Circle One:

Ep: $\uparrow \bullet \downarrow$

Eq: $\uparrow \bullet \downarrow$

Qs: $\uparrow \bullet \downarrow$

Qd: $\uparrow \bullet \downarrow$

(c) New technology makes it easier to freeze ice cream.

Circle One:

Ep: $\uparrow \bullet \downarrow$

Eq: $\uparrow \bullet \downarrow$

Qs: $\uparrow \bullet \downarrow$

Qd: $\uparrow \bullet \downarrow$

(d) People expect prices to decrease next month during “National Ice Cream Month”.

Circle One:

Ep: $\uparrow \bullet \downarrow$

Eq: $\uparrow \bullet \downarrow$

Qs: $\uparrow \bullet \downarrow$

Qd: $\uparrow \bullet \downarrow$

(e) Nabisco, Little Debbie and Coke all decide to start making ice cream.

Circle One:

Ep: $\uparrow \bullet \downarrow$

Eq: $\uparrow \bullet \downarrow$

Qs: $\uparrow \bullet \downarrow$

Qd: $\uparrow \bullet \downarrow$

