

# Macroeconomics

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## Chapter 1: What is Economics?

- **Scarcity** - the resources we use to produce goods and services are limited.
  - Example: scarcity and tradeoffs associated with making choices; you have a limited amount of time. Each **hour on the job** means one less hour of studying or playing [opportunity cost]
- **Economics** - the study of choices when there is scarcity.
- **Factors of Production** - the resources used to produce goods and services; also known as production inputs or resources.
  - **Natural resources** - provided by nature and used to produce goods and services.
  - **Labor** - human effort, including both physical and mental effort people use to produce goods and services.
  - **Physical capital** - the stock of equipment, machines, structures, and infrastructure that is used to produce goods and services.
  - **Human capital** - the knowledge and skills acquired by a worker through education and experience and is used to produce goods and services.
  - **Entrepreneurship** - the effort used to coordinate the factors of production - natural resources, labor, physical capital, and human capital - to produce and sell products.
- **Positive analysis** - answers the question "what is..." or "what will be..." or "if..." or "how..."
- **Normative analysis** - answers the question "what ought to be..." or "should..."
- The choices made by individuals, firms and government answer the questions:
  - What products do we produce?
  - How do we produce these products?
  - Who consumes these products?
- **Economic Model** - a simplified representation of an economic environment.
- Economists use assumptions to make things simpler and focus attention on what really matters.
- Economic analysis often involves variables and how they impact the output.
- **Marginal change** - a small one unit change in value
  - How will making a small change in one variable affect another variable and what impact that has on the people's decision making.
- A key assumption of most economic analysis is that people act rationally, meaning that they act in their own self-interest.
  - Tax incentive on donating to charity.
- **Macroeconomics** is the study of the nation's economy as a whole; it focuses on the issues of inflation, unemployment and economic growth.

# Chapter 1 Quiz Review

1. Slope is calculated by the change in the vertical variable divided by the change in the horizontal variable.
2. Deciding if a power company will generate electricity from wind power or coal answers the economic question of: how will the products be produced.
3. A change in a variable measured on an axis of a graph causes a movement along the curve, while a change in relevant variables measured on an axis causes a shift in the curve.
4. Tradeoff is sacrificing one thing for another.
5. A question answered with normative economic reasoning is: should the college increase tuition to fund its athletic programs.
6. Economic models are used to explore decision making by individuals, firms and other organizations.
7. An economic model is a simplified representation of an economic environment.
8. Because resources are limited people must make choices.
9. If the variable on the vertical axis increases by 20 and the variable on the horizontal axis decreases by 5, the slope of the line is -4.
10. An arrangement that allows buyers and sellers to exchange things is called a market.
11. The Latin phrase *ceteris paribus* means that when a relationship between two variables is being studied, all other variables are held fixed.
12. There is a negative relationship between two variables if they move in opposite directions.

## Chapter 2: The Principle of Opportunity Cost

- **Opportunity Cost**
  - o Trade off.
  - o Give up to Gain.
  - o Sacrifice.
  - o Scarcity.
- **Product Possibility Curve**
  - o Efficient is on the curve.
  - o Not possible with the amount of resources is outside the curve.
  - o Inefficient is under the curve.
  - o Combinations of goods you can produce.
- **Marginal Principle**
  - o  $MB > MC$  = increase activities.
  - o  $MC > MB$  = decrease activities.

- o MC = MB = profit maximizing point.
- **Voluntary exchange**
  - o Doing something for your own self-interest.
  - o Mutual Benefit.
  - o Much more efficient if we voluntary exchange rather than trying to do everything ourselves.
  - o Self-Sufficient.
- **Diminishing Returns**
  - o Output increases at a decreasing rate.
  - o As you increase the number of people making copies but don't increase the amount of copiers, the total output will increase but the rate at which each person works will decrease.
- **Real-Nominal Principle**
  - o Purchase power - the real value.
  - o Nominal = Face value
  - o Inflation affects what the real value you is compared to the nominal value.

## *Chapter 2 Quiz Review*

1. The saying that "There is no such thing as a free lunch" refers to the principle of opportunity cost.
2. Suppose that your tuition to attempt college is \$14,000 per year and you spend \$5000 per year on room and board. If you were working full time you could earn \$26,000 per year. Your opportunity cost of attending college is \$40,000.
3. If an economy is represented by a point along its production possibilities curve, it can produce more of one product only if it produces less of another product.
4. The principle that individuals and firms pick the activity level where the incremental benefit of that activity equals the incremental cost of that activity is known as the marginal principle.
5. The real - nominal principle states that what matters to people is the purchasing power of money or income.
6. According to the principle of diminishing returns, if all factors of production but one are held constant and if that one factor is doubled, then eventually output will most likely less than double,
7. The production possibilities curve illustrates the notion of opportunity cost.
8. Considering how a change in one variable affects the value of another variable is called the marginal principle.
9. A little girl decides to dress up like a princess for Halloween, the opportunity cost of her decision is the fact that she can't dress up like Dora, her second choice.
10. The opportunity cost of going to college includes wages you lose by going to school instead of work.
11. People acting in their own self-interest are the basis of the principle of voluntary exchange.