

### **1. How is microeconomics different from macroeconomics?**

Microeconomics: study of how households/firms make choices and interact in the market

Macroeconomics: study of the economy as a whole and the factors that affect it such as inflation, recession, economic growth, U, etc...

### **2. What is economics? How is positive economics different from normative economics?**

Economics: the study of how we make choices to attain goals given the scarce resources.

Positive economics: analysis concerned with “what is”

Measures the costs and benefits

Verifiable analysis

Normative economics: analysis concerned with “what ought to be”

Based on opinion (ex: is this good or bad?)

### **3. How is a centrally planned economy different from a market economy?**

Central: Government decides what goods will be produced, how they will be produced and who will receive them.

Market: Individuals and firms decide the what, how and who.

- High quality goods @ lowest prices

- Rewards hard work

- Consumers ultimately decide what is produced – through “wants”

### **4. How have health care costs affected the medical industry?**

Health Care costs are rising to a point that insurance companies can't pay for the expenses.

- a. Obamacare= attempts to use taxes to pay for public health care.  
Phased in, attempt to do something, but more paperwork for doctors to do.
- b. Private doctor's return for services is declining because more people are going to public health care, i.e. emergency rooms.
- c. Fees are rising for healthcare.
- d. A lot of doctors doing the rational thing- leave private practice, joining hospitals

### **5. In economics, “capital” refers to \_\_\_\_\_.**

Physical capital – manufactured goods used to produce other goods (ex: computers, buildings, tools, etc...)

## 6. What do we mean by factors of production? Opportunity cost? Ceteris paribus?

Factors of production: Inputs used to make goods & services → Land, Labor, Capital and Entrepreneurial ability.

Opportunity cost: Highest valued alternative that must be given up to engage in another activity

Ceteris Paribus: When all other factors are held constant when analyzing relationship b/w 2 variables.

## 7. What is the intuition (meaning) behind the production possibilities frontier (PPF)? What points are unattainable? Efficient? Attainable? Which points reflect full employment of resources?

PPF: Curve showing the maximum attainable combinations of 2 products that may be produced with available resources. Shows trade offs and opportunity costs.

Unattainable: points beyond the PPF curve – don't have sufficient resources to reach that level of productivity

Efficient: points on the PPF curve – fully utilizing resources to reach max level of productivity → full employment of resources.

Attainable: point on or inside the PPF curve – you have the resources to reach these levels of productivity

## 8. Why does the production possibilities curve display a bowed-out shape (i.e., concave to the origin)?

The curve is bowed-out shape b/c the opportunity cost is increasing. **If the opportunity cost were decreasing it would be a straight line, linear.** If we carefully plot data of a product and the quantity demanded at each price, holding other variables constant that affects the quantity demanded, we will usually find a curved-nonlinear- relationship rather than a linear relationship.

## 9. What are the ceteris paribus assumptions behind the production possibilities curve? How would technological advance, an increase in the capital stock (i.e., investment) or an increase in the labor force affect the production possibilities curve?

The resources to an economy are all fixed at any given time on the PPF curve. Given these fixed resources a firm can only produce along/inside the PPF curve. Because the resources are fixed, a firm does not have the ability to produce beyond the PPF curve. If capital stock increased or the labor force grew, the PPF would shift outwards, allowing us to produce more of each good. If technology advanced we would be able to produce more goods with the same # of laborers and same amount of capital. The PPF here, too, would shift outward.

**10. Why does an outward shift in the PPF represent economic growth?**

Outward shifts in the PPF represent economic growth because the ability of the economy to increase production has increased. The resource base has grown.

**11. Productivity is defined as \_\_\_\_\_.**

Productivity = output/hour

**12. What is society's tradeoff between producing more investment goods versus consumer goods in the present?**

Society is choosing to produce investment goods, (durable goods-long lasting products) because they generally increase in value over time. Consumer goods (non durable-short term products) gain profits immediately.

More investment goods will be produced, so society will have to sacrifice the amount of consumer goods produced. This will lead to competition in buying the limited consumer goods. Investment goods will help to produce more consumer goods in the long run.

**13. What is the law of increasing opportunity cost? How is it related to the production possibilities curve?**

Increasing marginal opportunity costs occur because some resources are better suited to one use than another. The more resources already devoted to an activity, the smaller the payoff to devoting additional resources to that activity. As the economy moves down the PPF it experiences increasing opportunity costs.

**14. Because of scarcity, all societies are limited to which points on the production possibility curve?**

Our unlimited wants exceed the available resources to satisfy them. Because of this, societies are limited to only the attainable and/or efficient points on/inside the curve.

**15. What is gross domestic product? Which goods are counted? Which goods are not counted?**

GDP is market value of all final goods/svcs produced in a country only during given period of time, typically one year. Final goods and newly produced goods are included. Intermediate goods, transfer payments, home production and underground economy are not included.