

Study Guide
Chapter 1 Introduction

1. Economics -
2. Resources -
3. Land – refers to natural resources being a part of the natural environment that can be used to make goods and services. Thus a tree in the forest is included in land. A Christmas tree for sale in Kmart is not considered as land, but “goods.” This Christmas tree is not included in land because it is no longer a part of the natural environment.
4. Labor -
5. Capital – any man-made productive assets such as machinery, equipment, constructions including factories, offices, parking lots, roads, etc. Some people say “money is capital.” This is not true in economics. Though one needs money to buy a machine, the machine is capital but money is the cash or check you pay to get the machine. ☺
6. Scarcity – Since people’s wants are unlimited but resources are limited, **scarcity exists anywhere in the world.**
7. Opportunity cost -
8. Three basic economic questions -
9. Command economy -
10. Market economy -
11. Mixed economy -
12. Transaction economy -
13. Macroeconomics – studies the entire economy as a whole. Thus the concepts are all aggregated such as national income, national employment, Gross Domestic Product (GDP), unemployment rate, and inflation.
14. Microeconomics – studies how households and business firms make decisions. For example, how many workers a firm would hire; how many stores a firm would open; how much money a person would spend on housing; how many hours a worker would like to work; etc.
15. Economist’s method of study -

16. Positive economics – describes what things in an economy are and how they work.
- do not tell you good or bad; right or wrong.

17. Normative economics – evaluate and judge things.
- tell you what should (shouldn't) be done.

For example:

Positive economist: prices rise when the government prints too much money.

(This economist tells us what would happen without judging it)

Normative economist: Government should not print too much money because it would cause inflation.

(This economist tells us what shouldn't be done)