Unit 1 Study Guide – Introduction to Economics Name:___________________________
Mr. Larsen Social Studies

Part A – Multiple Choice Questions – Scarcity, Incentives, Opportunity Cost, and Thinking on the Margin:

1. Economics is the study of __________.

- a. Managing money
- b. Entrepreneurship
- c. Choices under scarcity
- d. Resource allocation

2. Incentives always involve __________.

- a. Predicting human behavior
- b. Monetary compensation
- c. Ignoring intentions
- d. Rewards and/or penalties

3. Which of the following is NOT an example of incentives at work?

- a. Someone publicly donates to a charity using Facebook.
- b. A bonus is offered to the employee with best results at the end of the quarter.
- c. A child is allowed to play with his toys only after finishing his homework.
- d. After an increase in shoplifting, a store installs hidden cameras.

4. Which of the following is most likely to incentivize better driving?

- a. A PSA on the dangers of reckless driving.
- b. Improving the quality of driving lessons.
- c. Lowering insurance rates for drivers with strong records of safe driving.
- d. More traffic lights and stop signs.

5. Which of the following most accurately identifies the opportunity cost of a cafe manager considering opening a new cafe location?

- a. The additional revenue gained from the new location
- b. The cost of rent at the original location
- c. The value of the next best alternative to their time and money spent on the new location
- d. The shorter wait time for customers due to the opening of the new location

6. Which of the following best describes the trade-offs involved in increasing animal welfare requirements for egg-laying chickens?

- a. Increasing animal welfare requirements will decrease the cost of eggs
- b. Increasing animal welfare requirements will increase the cost of eggs
- c. There are no trade-offs

7. You purchased non-refundable plane tickets to travel to Tampa this weekend for $200. Your friend just called and won 2 free concert tickets for this weekend to see your favorite artist and wants to know if you will join them. What is the minimum amount you can value the concert to cancel your travel plans to Tampa?

- a. $1
- b. $101
- c. $201
- d. You should not cancel your travel plans, since your tickets are non-refundable.

8. Suppose that you are looking to buy a home. Which of the following choices is the best example of a marginal decision?

- a. Setting a budget of $300,000
- b. Deciding to purchase a house
- c. Hiring a real estate agent
- d. Increasing your budget by $10,000

9. Suppose that coffee costs $3.00 per cup. If the marginal benefit of your next cup of coffee is $2.50, should you buy a cup of coffee?

- a. Yes
- b. No
- c. Not enough information

10. You try a new dinner recipe, and it goes horribly wrong. You have 4 dinner portions of a meal you value at negative $5.00 each (the food is that bad!). You spent $20 on ingredients. How many portions of the meal should you eat in the next few days?

- a. Zero portions
- b. One portion
- c. Two portions
- d. Three portions
- e. All 4 portions

Part B:– Fill in the blanks

1. _________ exists because resources are limited but wants are unlimited.

2. Every choice involves an _________ cost, the next best alternative you give up.

3. The four factors of production are: _________, _________, _________, _________.

4. On a PPC, a point on the curve shows _________, while a point inside shows _________.

5. The three basic economic questions are: What to **produce**? _________? _________?

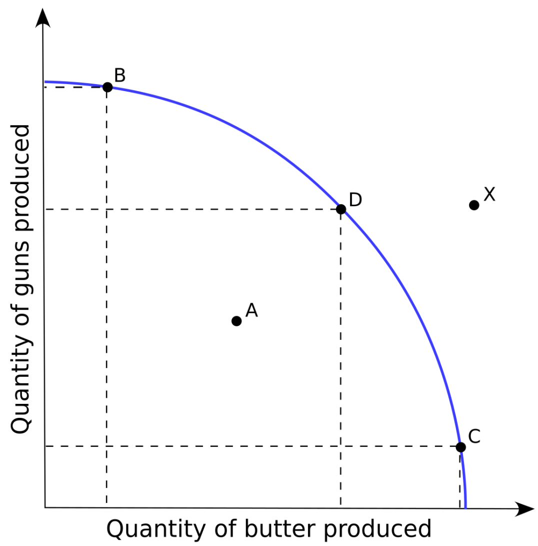
1. Scarcity _________	A. Blend of market freedom and government involvement.
2. Opportunity Cost_________	B. Adam Smith's idea that self-interest promotes society's good.
3. Human Capital_________	C. The value of the next best alternative given up.
4. Market Economy_________	D. Skills, education, and training of workers.
5. Command Economy_________	E. Government makes economic decisions and controls resources.
6. Traditional Economy_________	F. French term and idea that government should not interfere in the economy.
7. Mixed Economy_________	G. Limited resources vs. unlimited wants.
8. Invisible Hand_________	H. Decisions based on customs and traditions.
9. Laissez-faire_________	I. Decisions made by individuals and businesses, guided by supply and demand.
10. Incentives_________	J. Rewards or punishments that motivate behavior.

Part C: Short Answer

1. Explain the difference between trade-offs and opportunity cost.

2. Give one example of each factor of production (Land, Labor, Capital, Entrepreneurship).

Land	Labor	Capital	Entrepreneurship



3. Which Points on the Above Production Possibility Curve (PPC) are efficient levels of production? ______________________________

4. Point X on the above PPC curve is currently unattainable, what would a government how to do in order to get to point X?

5. List one advantage and one disadvantage of a market economy.

6. Why are most modern economies mixed instead of purely command or market?

7. A hurricane destroys farmland across a region. How might a traditional economy handle this problem differently than a command economy?

3. Which system would you prefer to live under (traditional, command, market, or mixed)? Give 2 reasons.