**Unit 1 Test: Fundamentals of Economics Study Guide**

1. What is **scarcity**?

2. What is a **trade-off**?

3. What is **opportunity cost** and give an example.

4. What is a **resource**?

5. What does **allocation of resources** mean? (\*think lotteries, bartering, rationing, prices)

6. List the **4 factors of production** and give an example.

7. What is the difference between **capital** (physical) and **human capital**?

8. What is **economic productivity**?

9. What is the purpose of a **production possibilities curve**?



10. What does point D represent?

11. What do points A and B represent?

12. What does point C represent? What might be some reasons?

13. What should the country invest in to get economic growth (shift

to the right)?

14. What is the opportunity cost of moving from point A to point B?

15. Which point is producing more guns than butter?

16. What are the 3 basic questions that must be answered in an economy?

17. What does it mean to be an **efficient economy**?

18. What does **specialization** mean? How is an assembly line a good example of

 specialization?

19. What is an **economic system**?

**Economic Goals:**

Efficiency

Equity

Freedom

Growth

Security

Stability

20. What is a **traditional economic system**? (what are their goals and values?)

21. What is a **market economic system**? (What are their goals and values?)

22. What is a **command economic system**? (What are their goals and values?)

23. Which goal might be difficult to achieve in a pure free market economic system?

24. Why would the government need to intervene in a **free market economy**?

25. What motivates individuals to make decisions in a free enterprise or free market economic system?

26. What does it mean to **think at the margin?** When should you make a **rational decision**?

27. What is an example of a **negative incentive**?