



Section 2: Guided Reading and Review

Opportunity Cost

A. As You Read

As you read Section 2, fill in two supporting facts or details under each main idea by answering each question. *Possible answers below*

Main Idea: Trade-offs are alternatives that people give up when they choose one course of action over another.

1. Who makes trade-offs? individuals, businesses, and governments
2. Why do decisions involve trade-offs? Resources are limited.

Main Idea: Opportunity cost is the most desirable alternative given up as the result of a decision.

3. How does opportunity cost vary? It varies based on what is being given up by making the decision. The choices of what must be given up vary from situation to situation.
4. Why does opportunity cost vary? to situation.

Main Idea: Deciding whether to do or use one more or one less unit of some resource is thinking at the margin.

5. What does thinking at the margin help with? decision making
6. What does thinking at the margin help compare? opportunity cost and benefits

B. Reviewing Key Terms

Answer each of the following questions. *Possible answers below*

7. In what way are trade-offs and opportunity costs alike?
Both trade-offs and opportunity costs are choices/benefits that individuals or groups give up in favor of another choice/benefit.

8. How does an opportunity cost differ from a trade-off?
An opportunity cost is the most desirable option of all those available, but there may be more than one trade-off.

9. What are “guns or butter” decisions?
Guns or butter decisions are made by countries/societies when they choose to produce more or less military or consumer goods.

10. How does thinking at the margin change the decision-making process?
Thinking at the margin considers the relative benefit of doing or using one additional unit of a resource.

Section 3: Guided Reading and Review

Production Possibilities Curves



A. As You Read

As you read Section 3, complete the chart by indicating where on a production possibilities curve the following information is shown.

Reading a Production Possibilities Curve

- | |
|--|
| <p>1. Categories or specific goods or services to be compared
<u>horizontal and vertical axes</u></p> |
| <p>2. Range of choices in the combination of goods or services produced
<u>points plotted on the graph</u></p> |
| <p>3. Production possibilities frontier
<u>line connecting the plotted points</u></p> |
| <p>4. An economy working at its most efficient production levels
<u>production possibilities frontier</u></p> |
| <p>5. An economy working below its most efficient production levels
<u>points inside of the production possibilities frontier</u></p> |
| <p>6. Future production possibilities frontier if more land, labor, or capital resources become available
<u>line outside of the production possibilities frontier</u></p> |

B. Reviewing Key Terms

Define the following terms.

7. production possibilities curve graph that shows alternative ways to use an economy's resources
8. production possibilities frontier line on a production possibilities curve that shows the maximum possible output
9. efficiency using resources in such a way as to maximize the output of goods and services
10. underutilization using fewer resources than an economy is capable of using
11. cost alternative that is given up because of a decision
12. law of increasing costs Shifting factors of production from making one good or service to another increases the cost of producing the second item.



Section 1: Guided Reading and Review

Answering the Three Economic Questions

A. As You Read

As you read Section 1, supply the missing information about economic systems in the spaces provided.

1. Three economic questions answered:

(a) What goods and services should be produced?

(b) How should these goods and services be produced?

(c) Who consumes these goods and services?

2. Economic concept necessitating choices and priorities in any society:

scarcity—resources are limited

3. Economic question answered by basic social values and goals:

Who consumes which goods and services?

4. Five basic economic goals guiding society's choice of systems:

(a) efficiency

(b) freedom

(c) security and predictability

(d) equity

(e) growth and innovation

5. Four main kinds of economies:

(a) traditional (c) centrally planned

(b) market (d) mixed

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

- An economic system that relies on habit, custom, or ritual to decide questions of production and consumption of goods and services is a traditional economy.
- An encyclopedia entry illustrating how a hunter-gatherer group collects and shares food resources is describing that society's economic system.
- When voluntary exchanges in the markets determine decisions on production and consumption, the society's economic system is a market economy.
- When people earn income for supplying land, labor, capital, or entrepreneurship, they receive factor payments.
- An economic system in which the central government makes all decisions on production and consumption of goods and services is a centrally planned economy.
- People who receive disaster relief from the government after a flood are benefiting from an economic system that provides a safety net.

Section 2: Guided Reading and Review

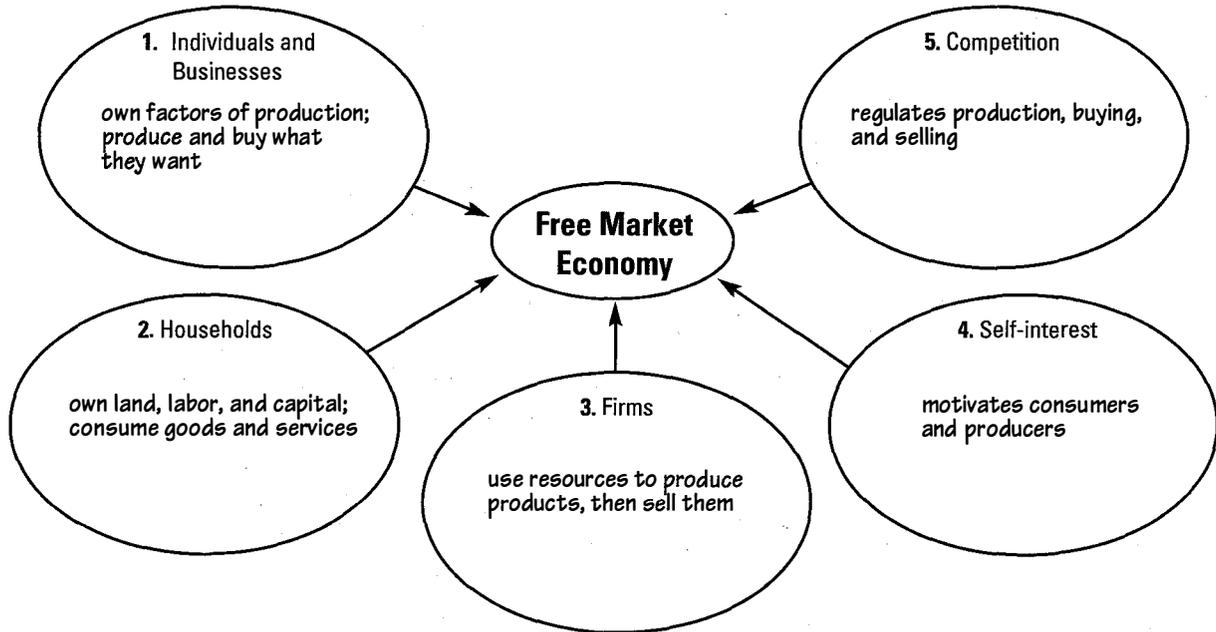
The Free Market



A. As You Read

As you read Section 2, list the role or roles played in a free market economy by each factor in the diagram below.

Roles and Functions in a Free Market Economy



B. Reviewing Key Terms

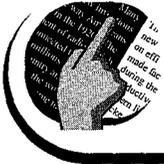
Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided. You will not use all of the terms.

Column I

- c 6. market in which households purchase the goods and services that firms produce
- e 7. an expectation that encourages people to behave in a certain way
- i 8. power of consumers to decide what gets produced
- h 9. market in which firms purchase the factors of production from households
- a 10. financial gain made in a transaction
- g 11. concentration of productive efforts of individuals and firms on a limited number of activities
- d 12. an arrangement that allows for exchange among buyers and sellers

Column II

- a. profit
- b. competition
- c. product market
- d. market
- e. incentive
- f. self-interest
- g. specialization
- h. factor market
- i. consumer sovereignty



Section 3: Guided Reading and Review

Centrally Planned Economies

A. As You Read

As you read Section 3, supply the missing information in the chart below.

Central Economic Planning in the Former Soviet Union

1. Main goal: building national power and prestige

2. Role of central government:
 - (a) control land, labor, and capital
 - (b) decide what, how much, and how to produce and distribute goods and services
3. Effects on agriculture:
 - (a) Positive workers were guaranteed employment and income
 - (b) Negative lack of incentives to produce more or better crops; country could not feed its population
4. Effects on industry:
 - (a) Positive jobs and wages were guaranteed
 - (b) Negative lack of worker incentive and innovation; lower quality resources for consumer goods
5. Effects on consumers:
 - (a) Positive luxuries were affordable
 - (b) Negative shortages and poor quality of goods and housing

B. Reviewing Key Terms

Define the following terms.

6. socialism social and political philosophy advocating equal distribution of wealth throughout a society

7. communism political system characterized by a centrally planned economy with all economic and political power resting with the central government

8. authoritarian requiring strict obedience to an authority, such as a dictator

9. collective a large Soviet farm leased by the state to groups of peasant farmers

10. heavy industry industry that requires a large capital investment and that produces items used in other industries
