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**PBA #1 Study Guide**

<p>List the 3 Factors of Production.</p>	<p>1. LAND 2. LABOR 3. CAPITAL</p>
<p>Provide an example of human capital.</p>	<p>- employee trained to use heavy machinery (knowledge)</p>
<p>Why do humans have to make trade-offs?</p>	<p>- we cant have everything! (scarcity)</p>
<p>Explain Opportunity Cost.</p>	<p>- the best alternative you give up in a trade-off</p>
<p>How did Adam Smith describe a 'free market'</p>	<p>- little to no government involvement</p>
<p>Describe the concept of Marginal Product of Labor</p>	<p>- additional output from hiring one more worker</p>
<p>Describe the concept of Diminishing Marginal Returns</p>	<p>- output ↓ after adding one more worker</p>
<p>For each type of economy list who has control of the factors of production.</p>	<p>Traditional = small, isolated, all for one / one for all          Command = gov. 100% control F.of P.          Free Market = private business 100% control F.of P.          Mixed =</p>
<p>Which type of economy does the U.S. most resemble?</p>	<p>Mixed Economy</p>
<p>Draw a circular flow model for a free market economy.  Label the arrow in which households would be paying money to firms.</p>	<p>The diagram illustrates the circular flow of income and products between Households (HH) and Firms.          <ul style="list-style-type: none"> <li>An arrow at the top points from Firms to HH, labeled "goods / services".</li> <li>An arrow in the middle points from HH to Firms, labeled "\$ for g/s".</li> <li>An arrow at the bottom points from HH to Firms, labeled "Labor".</li> <li>An arrow at the bottom points from Firms to HH, labeled "wages".</li> </ul>         On the right side, "Product market" is associated with the top arrow and "Labor market" is associated with the bottom arrow.</p>

When a consumer is able and willing to buy a good or service, he or she creates a?	Demand
Define Law of Demand	$P \uparrow D \downarrow$ / $P \downarrow D \uparrow$
List 3 elastic goods and 3 inelastic	<p>Elastic =</p> <ol style="list-style-type: none"> <li>1. hamburger</li> <li>2. t-shirt (brand)</li> <li>3. pencil</li> </ol> <p>Inelastic =</p> <ol style="list-style-type: none"> <li>1. medicine</li> <li>2. gasoline</li> <li>3.</li> </ol>
List 5 causes that would cause a demand curve to shift?	<ol style="list-style-type: none"> <li>1. Taste / Pref.</li> <li>2. Related Goods</li> <li>3. Income</li> <li>4. Buyers (# of)</li> <li>5. Expectations</li> </ol>
Define elasticity and list the 4 factors that affect elasticity of demand?	<p>Define = sensitivity to a price change</p> <ol style="list-style-type: none"> <li>1. Available substitutes</li> <li>2. Relative Importance</li> <li>3. Necessity vs. Luxury</li> <li>4. Change over Time</li> </ol>
What is the amount of goods available called?	Supply
Define Law of Supply	$P \uparrow S \uparrow$ / $P \downarrow S \downarrow$
What 3 ways does the government influence supply?	<p>subsidies</p> <p>taxes</p> <p>regulations</p>
What is equilibrium?	$Q_D = Q_S$
When quantity supplied is greater than quantity demanded what is the result?	Surplus $Q_S > Q_D$
When quantity demanded is greater than quantity supplied what is the result?	Shortage $Q_D > Q_S$
Why does the government use rationing to allocate goods?	command economies do this to control the use of a market's resources