**Economics Chapter 1 Sections 3&4**

An **economic model** is a simplified representation of complex economic activities to clarify \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

One such model is the **P\_\_\_\_\_\_\_\_\_\_\_\_\_ P\_\_\_\_\_\_\_\_\_\_\_\_\_\_ C\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**, a graph to illustrate the impact of scarcity on an economy.

For an economic model to work, 4 assumptions must be made:

1.

2.

3.

4.

The point of a PPC model is to find the point at which all resources are being used to their maximum potential. This point is called **e\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**. (pg. 20) The condition where resources are not being used to their full potential is referred to as **U**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. When producers switch from making one product to another, the greater number of the new product is created, the greater the opportunity cost (what they could have made instead.) This concept is called **L**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

(pg. 22) When new resources are introduced, potential production increases because now we have more resources to use. To signify this on the PPC, the line will shift in which direction? \_\_\_\_\_\_\_\_\_\_\_\_\_\_

Since economists can’t interview all consumers to see what choices they would prefer, they rely on **S\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_,** numerical data and information, to make decisions. Economic models are based on simply assumptions based on numbers from previous choices and conditions. For scientists, everything on earth is a potential source of data to be observed and recorded. **M\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** is the study of choices an individual makes, while **M­­­­­­­­­­­­­­­­­­­\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** is the study of all of society.

While microeconomics considers the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ consumer, macroeconomics focuses on the s\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. A sector is the combination of all individual units into one larger whole. Macroeconomics brings a national or global perspective to their work.

There are two ways at looking at economies: the way they should be if all things worked correctly and how they really are. This first point of view, where everything is working correctly, is referred to as **P\_\_\_\_\_\_\_\_\_\_** economics. The latter option is referred to as **n\_\_\_\_\_\_\_\_\_\_\_\_\_\_** economics. Positive economics works off of real numbers that can be observed and tested. Normative economics is base don value judgments, what we think a value will be at a given point.

One of history’s greatest economists was **A\_\_\_\_\_\_\_\_\_ S\_\_\_\_\_\_\_\_\_\_.** He argued that a nation would be wealthier if it engaged in \_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_. He reasoned that people behave in ways that satisfy their **s\_\_\_\_\_\_\_\_\_-\_\_\_\_\_\_\_\_\_\_\_\_\_\_.** In a way, according to Smith, this self-interest guides the markets like an **I\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_**, shaping and forming markets without actually becoming a policy. In such a free market, both the buyer and seller benefit because the seller brought the best product and the buyer got the best price.