

Chapter 1
Ten Principles of Economics

business cycle
economics
efficiency
equity
externality

inflation
marginal changes
market economy
market failure
market power

opportunity cost
Phillips curve
productivity
scarcity

- _____ Economy that allocates resources through the decentralized decisions of many individual firms and households as they interact in the markets for goods and services
- _____ Increase in the price level
- _____ Limited nature of society's resources
- _____ Output of goods and services per worker hour
- _____ Short-run fluctuations in economic activity
- _____ Short-run tradeoff between inflation and unemployment
- _____ Small incremental changes to a plan of action
- _____ Society is getting the most it can from its scarce resources
- _____ Sometimes, the market left on its own fails to allocate resources efficiently
- _____ Study of how a society best uses its scarce resources
- _____ The ability of a single economic agent to have a substantial influence on the market price
- _____ The fair distribution of economic prosperity among the members of a society
- _____ The impact of one person's actions on the well-being of a bystander
- _____ What must be given up to obtain something

For each example below, write the Principle of Economics that the example illustrates. Table 1 on page 15 in your text lists the Ten Principles of Economics.

- 1) Two common results of government policies that keep gasoline prices low so everyone can afford gasoline are long lines at gasoline stations and shortages of gasoline.

Economic Principle:

- 2) If a country uses gold for its currency, prices increase when a new source of gold is discovered.

Economic Principle:

- 3) Antilock brakes help cars stop faster on slick roads. Drivers of cars equipped with antilock brakes tend to drive faster on rainy roads than do drivers of cars without antilock brakes.

Economic Principle:

- 4) The largest cost of going to college is whatever else you would choose to do with the time you spend going to college.

Economic Principle:

- 5) When the United States trades with Mexico, citizens of both the United States and Mexico benefit.

Economic Principle:

- 6) In an effort to improve standards of living, the government of Elbonia required all employers to increase workers wages by 25%. The result was a 25% increase in prices and no improvement in standards of living.

Economic Principle:

- 7) If Social Security provides more income to retirees, current workers will have to spend less.

Economic Principle:

- 8) Unemployment temporarily decreases when spending and inflation increase.

Economic Principle:

- 9) The average cost per passenger on a flight from Oklahoma City to Denver is \$200. The flight typically has ten empty seats so the airline has decided to sell up to ten tickets per flight

Economic Principle:

10) Oklahoma has banned smoking in restaurants because second-hand smoke has a negative effect on nonsmokers in restaurants.

Economic Principle:

Using the information in Chapter 1, briefly answer each question below.

- 1) People face tradeoffs. Why (one word)?
- 2) What is the *Invisible hand*?
- 3) When might the government be able to improve on the market outcome?
- 4) What happens to prices when the government prints too much money?
- 5) What is the short-run relationship between inflation and unemployment?