

Module 1 Review Guide

- Economics is the study of how people get the goods and services they need and want. It is not just about money, although money does play a significant role. Economics is about the choices we make every day.
- **Macroeconomics** --- looks at the big picture of communities, nations, and global decision making.
- **Microeconomics** --- looks at the smaller picture of individuals and businesses.
- Three Economic Questions: 1) **What** will be produced? 2) **How** will it be produced? 3) **For Whom** will it be produced?
- **Scarcity** forces us to make choices. There are **trade-offs** associated with any choice we make, but there are also benefits like earning an A in Economics. Trade-offs can also be called costs of the choice made. The most valuable trade-off, the one you truly gave up (like extra sleep), is the **opportunity cost**. Remember that opportunity cost is the most valued trade-off; it is the next best option that you give up. Note, however, that an opportunity cost's value is not just money and time. Value also includes the experience that you give up.
- We say that the **quantity demanded** (QD) has increased when people purchase more of a product. When we list the various amounts that people will pay for a certain item, we can create a demand schedule. Based on this schedule we can draw a graph to illustrate overall demand for the good or service. **Demand** (D), the total amount of a good or service that people are willing to buy, is the “whole curve”—overall demand for a good or service at all prices. Quantity demanded, however, is a specific point on the curve, showing how much will be purchased at a specific price. **So when price changes, only the quantity demanded changes as a result.**
- When the **price** for a “good” like gasoline or a cell phone **goes down**, people will typically **purchase more** of it

What events would cause the whole **demand curve to shift? (Left is less. Right is More.)**

T	Tastes and preferences	Example: People prefer the Nike® shoe to other brands because of its use of newer technology. Demand increases—the curve shifts to the right.
R	Related goods and services	Example: The price of shoelaces quadruples. People decide to wear more sandals. Demand decreases—the curve shifts to the left.
I	Income	Example: The NBA® gives all players a huge raise, and now they can buy more shoes. Demand increases—the curve shifts to the right.
B	Buyers , number of	Example: The sports arena is closed for renovations and all games are moved to a different county. Fewer sports fans visit the Nike® store next to the arena, so there are fewer buyers demanding goods from that store. Demand decreases – the curve shifts to the left.
E	Expectations of price	Example: People hear that the price of Nike shoes will go up in the future. They buy more shoes now. Demand increases—the curve shifts to the right.

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Supply is the “whole curve,” supply for goods and services at all prices, while **quantity supplied** is a “specific point” on the curve, showing how much will be produced at a specific price. **Suppliers will typically produce more of a good when the price rises.** (looking to make the most profit possible)

What events would cause the whole **supply curve to shift?** (**Left is less. Right is More.**)

R	Resource: cost and availability	Example: A major technology plant is destroyed and computer chips for gaming are unavailable for Nintendo® to use in production. Nintendo's® supply decreases—the curve shifts to the left.
O	Other goods' price	Example: The price of video monitors decreases. People are buying more monitors and may be tempted to get a new Nintendo® game system as well. Nintendo's® supply increases—the curve shifts to the right.
T	Taxes, subsidies and government regulation	Example: The government doubles taxes on all parts used to manufacture Nintendo consoles in the United States. This causes Nintendo's® manufacturing costs to increase and lowers profitability. Nintendo's® supply decreases—the curve shifts to the left.
T	Technology (productivity)	Example: A new machine is developed that assembles the consoles in half the time causing Nintendo's® costs to decrease. Nintendo's® supply increases—the curve shifts to the right.
E	Expectations of the producer	Example: Nintendo® expects to have higher demand for its new console over the holiday season. Nintendo's® supply increases—the curve shifts to the right.
N	Number of firms in the industry	Example: Three other video game manufacturers go out of business causing less competition for Nintendo®. The market supply decreases due to fewer businesses in the industry—the curve shifts to the left.

- The point where the supply and demand curves meet (also known as the equilibrium point) identifies the **equilibrium price. This is how much suppliers should charge for their product.**
- When price is **higher** than the **equilibrium price** then too much will be produced so there is a **surplus** (not as many people will want the good due to the higher price).
- When price is **lower** than the **equilibrium price** then not enough will be produced so there is a **shortage** (demand will increase due to the lower price, but supply will not due to need to cover costs at a lower profit margin).
- Four Functions of Money: **“Money is a matter of functions four—a medium, a measure, a standard, a store.”**
 - a) **Medium of Exchange:** Money is accepted in exchange for another item. For example, when you purchase gum at the store and hand over a one dollar bill, the bill is accepted as a medium of exchange.

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b) **Measure of Value:** Money is used to describe the worth of an item. For example, you may estimate your CD collection as valued at \$500. Your friend might say \$50, given the popularity of downloadable music. Either way, you are both describing the value of the CD collection in terms of money.

c) **Standard:** Money has a consistent numerical measurement. In other words, the one dollar bill in your shoe is worth the same as the crisp one dollar bill in your wallet. Both are also equal to the 10 dimes in your couch.

d) **Store of Value:** Money holds its value. So, if you find that one dollar bill in your shoe a year later and it is very stinky, it is still worth a dollar just like the crisp dollar bill with the freshly inked perfume.

- Money is more than the currency you hope to receive as a gift. It is also debit cards and government bonds; all share similar functions and characteristics.
- Characteristics of money –
 - a) Divisible
 - b) Stable in value
 - c) Durable
 - d) Portable
 - e) Scarce
 - f) Accepted
- During the Great Depression, the U.S. government abandoned the gold standard (where the value of money was based on gold). **We have confidence that the money will hold its value because it was issued by the government.** “**Fiat currency**,” like U.S. currency, is money the government declares legal for use in payment.