

# EOCT Prep Session Review Packet

## Fundamental Concepts

What are the 3 key questions of all economic systems?

1. What
  2. How
  3. For whom
- to produce?

### SSEF1

Scarcity is a basic condition where unlimited wants exceed limited productive resources.

Name the four factors of production and give an example of each.

1. Land
2. Labor
3. Capital
4. Entrepreneurship

Allocate means to decide how to distribute scarce resources.

Opportunity Cost is the next best alternative that is given up when a choice is made.

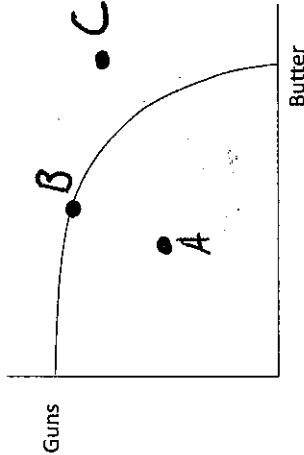
### SSEF2

According to economists a rational decision is made when the Marginal Benefit is greater than or equal to the Marginal Cost.

A Production Possibilities Curve is a graphic representation of scarcity.

Draw 3 points on the PPC below.

- o Let Point A represent inefficient production
- o Let Point B represent maximum efficiency
- o Let Point C represent an unattainable/impossible level of productivity

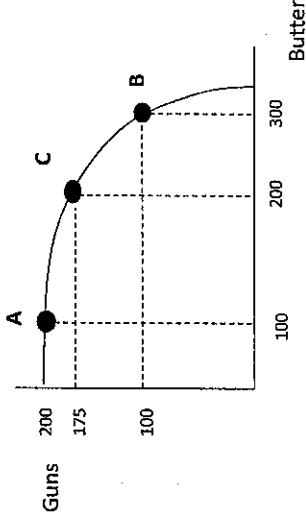


Name the two ways that this economy could produce at point C.

1. More Resources
2. More Technology

- in this next PPC example...

- What would be the opportunity cost of moving from point A to point B? 100 Guns
- What would be the opportunity cost of moving from point B to point C? 100 Butter
- What would be the opportunity cost of moving from point B to point A? 200 Butter



### SSEF3

Specialization occurs when a company or person engages in producing the same product or service over and over, and getting better at it as a result.

Voluntary Exchange occurs when a consumer and producer agree to exchange a product for money willingly, and they both consider themselves to be better off as a result of the transaction.

### SSEF4

Private Property means that people and businesses can own land for themselves.

Profit is the reason why entrepreneurs go into business for themselves.

Consumer Sovereignty is the term that refers to the fact that buyers in our economy have the power to choose which products to buy, which in turn helps producers answer the key question of what to produce.

Competition is the term that refers to the fact that businesses must outperform each other in both quality and/or price in order to sell their product/service to consumers on a consistent basis.

Regulations is when the government puts laws into place that businesses must abide by. These laws can be put into place to protect the consumer or to add security/stability to a particular industry.

List the 3 Broad Goals of the following two major types of economic systems.

- o Market Economy: 1. Growth 2. Efficiency 3. Freedom
- o Command Economy: 1. Equity 2. Stability 3. Security

### SSEF5

Public Goods are things that the government provides for the general public because if they didn't they probably wouldn't be produced. (Some examples are schools, roads, parks etc.)

Welfare, unemployment benefits, food stamps, and WIC are all examples of transfer payments (entitlement spending). Since taxes pay for these things they are considered to be a form of income redistribution.

Sometimes when markets fail for one reason or another, who/what do we look to in order to resolve these market failures? Govt

When the government adds more laws that an industry has to follow it is considered Regulation

When the government takes away laws that an industry has to follow is considered De regulation

Productivity is defined as the relationship of inputs to outputs

Think back to the pizza activity... there are 5 ways to increase productivity. List them.

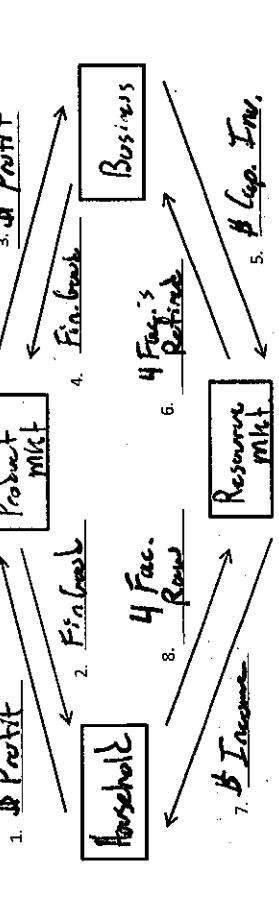
1. Specialization 2. Division of labor 3. Inv in Human Capital 4. Inv in Human Capital 5. Incentives

When you invest in Education you are specializing in something and making yourself a scarce resource. When the job skills you possess are more scarce employers will pay more. Therefore investing in Education leads to a higher Standard of Living.

**Microeconomics**

Households, business, and government are connected in that what happens to one inevitably impacts the other. This illustrates the concept of interdependence

Fill in the circular flow chart below using the following words from the word bank.



\*\*Hint for the circular flow... money always flows in one direction while resources and finished goods flow in the other direction.

Use the circular flow chart that you filled in to answer the following questions...

Example: Where in the circular flow are finished goods moving from businesses to households?

Answer 4 to 2.

Where in the circular flow are raw materials moving from household to business? 8 to 6

Where in the circular flow is income converted to consumer spending? 7 to 1

Where in the circular flow is profit converted into capital investment? 3 to 5

Where in the circular flow does consumer spending become profit? 4 to 3

Where in the circular flow are resources converted to finished goods? 6 to 4

List the 3 roles of money

1. Unit of Account 2. Store of Value 3. Medium of Exchange

SSEM2

The Law of Demand states that as Price goes up Qd goes down.

And as Price goes down Qd goes up.

The Law of Supply states that as Price goes up Qs goes down.

And as Price goes down Qs goes up.

According to the laws of supply and demand, if the price of gum goes from \$1.00 to \$1.50...

Qd will ↓ and Qs will ↑

If the price of gum goes from \$1.00 to \$1.50, Qd will ↑ and Qs will ↓

Market clearing prices are determined by the interaction between Consumers and Producers

Prices, salary raises, and interest rates all serve as strong incentives in a market economy because people react predictably to these things.

SSEM3

List the 6 determinants of demand

- Δ in preference
- Δ in income
- Δ in price of sub goods
- Δ in price of comp goods
- Δ in cons. price expectations
- Δ in # of consumers

When a determinant causes an increase in supply/demand it causes the curve to shift to the right

When a determinant causes a decrease in supply/demand it causes the curve to shift to the left

Use the graph to the left to answer the following questions.

1. What is the market clearing price for gasoline? 4.50

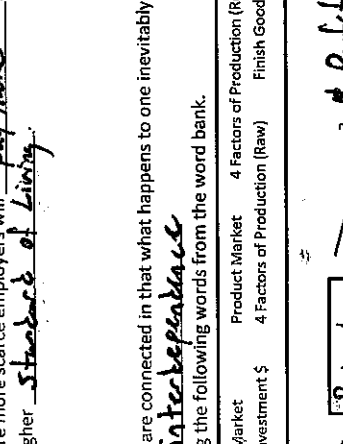
2. If the government set the price of gas at \$5.00 this would be called a price floor which would cause a surplus

And the Qd 10,000 Qs 20,000

3. If the government set the price of gas at \$3.50 this would be called a price ceiling

And the Qd 20,000 Qs 10,000 which would cause a shortage

(IROL)



SSEM14

- List the 3 forms of business organizations and give one advantage of one disadvantage of each.
  1. SOLE PROPRIETORSHIP
  2. PARTNERSHIP
  3. CORPORATION
- List the 4 types of market structures
  1. PERFECT COMPETITIVE
  2. MONOPOLISTIC COMP.
  3. OLIGOPOLY
  4. MONOPOLY
- Which type of market structure is the most competitive? PERFECT/COMP.
- Which type of market structure is the least competitive? MONOPOLY
- Which type of market structure has the most price setting power? MONOPOLY
- Which type of market structure has many sellers, selling slightly differentiated goods, and a high level of competition? MONOPOLISTIC COMP.
- Which type of market structure has only a few sellers who are interdependent, and sometimes engage illegally in collusion? OLIGOPOLY

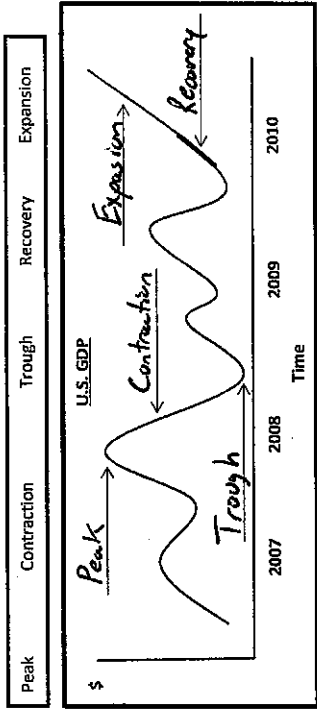
Macroeconomics

SSEM11

- The total worth of all goods and services produced within a country's borders during a given year is known as GROSS DOMESTIC PRODUCT
- The formula for Gross Domestic Product is CONSUMPTION + INVESTMENT + GOV'T SPENDING + NET EXPORTS = GDP
- \*\*Hint: if any of these factors increase then GDP will increase and vice versa.
- Unemployment is defined as...all people 16 years of age or older that WANT a job, but do not have a JOB.
- CPI stands for CONSUMER PRICE INDEX and it measures INFLATION
- INFLATION is an increase in the overall prices of goods and services in an economy.
- Inflation is calculated by comparing a BASKET OF GOODS from one year to a BASKET OF GOODS in another year.
- STAGFLATION is the condition where the GDP remains the same but the economy is still experiencing inflation.
- The overall demand for goods and services in an economy is known as AGGREGATE DEMAND.
- List the FOUR things that impact/shift aggregate demand.
  1. CONSUMPTION
  2. INVESTMENT
  3. GOV'T SPENDING
  4. NET EXPORTS
- If any of these four things increases then the aggregate demand will shift to the RIGHT, and if any of these four things decreases then aggregate demand will shift to the LEFT.
- The overall supply of goods and services in an economy is known as AGGREGATE SUPPLY.
- List the TWO things that impact/shift aggregate supply.
  1. TECHNOLOGY
  2. RESOURCES
- List the 3 types of unemployment: 1. FRICTIONAL 2. CYCICAL 3. STRUCTURAL
  4. SEASONAL

When people are between jobs for 'normal' reasons like moving or just graduating they are experiencing FRICTIONAL unemployment.  
 When people are being laid off because of a recession or depressed economy they are experiencing CYCICAL unemployment.  
 When people are laid off because their skills no longer match the skills employers are looking for (ie: a machine replaces your job) they are experiencing STRUCTURAL unemployment.

Use the work bank below to label the business cycle.



- A RECESSION is defined as contraction in the GDP for a period of 6 consecutive months or more.
- A DEPRESSION is a prolonged period of economic contraction and recession.
- BUDGET DEFICIT is the amount of debt that a country accumulates over the course of 1 fiscal year.
  - o If a country spends more revenue than it brings in over the course of one year they have a BUDGET DEFICIT
  - o If a country makes more revenue than it spends over the course of one year they have a BUDGET SURPLUS
- NATIONAL/PUBLIC DEBT is the total amount of debt that a country accumulates over the course of many years.

SSEM2

- List the 3 major branches of the Federal Reserve Bank (The Fed).
  1. BOARD OF GOVERNORS
  2. REGIONAL BANKS (12)
  3. FOMC
- FOMC refers to THE FED'S ability to control the nation's money supply in order to promote price stability, full employment, and economic growth.
- List the 4 tools that the Fed. uses to control the money supply.
  1. OPEN MKT. OPERATIONS
  2. DISCOUNT RATE
  3. RESERVE REQUIREMENT
  4. INTEREST ON RESERVES
- If the country is in a recession or experience contraction in our GDP, which type of monetary policy would we expect the Fed. to implement? EXPANSIONARY MONETARY POLICY
- If the country is experiencing high rates of inflation, which type of monetary policy would we expect the Fed. to implement? CONTRACTIONARY MONETARY POLICY

- How would the Fed. use their 4 tools under the following conditions?

	Open Market Operations	Discount Rate	Reserve Requirement	Interest on Excess Reserves
Expansionary Monetary Policy	Buy Bonds	Lower	Lower	Lower
Contractionary Monetary Policy	Sell Bonds	Raise	Raise	Raise

SSEMA3

- Fiscal Policy refers to how the government uses their power to promote price stability, full employment, and economic growth.

List the 2 tools of fiscal policy.

1. Taxes
2. Gov't Spending

- How would the government use their 2 tools under the following conditions?

	Taxes	Government Spending
Expansionary Fiscal Policy	Lower	Increase
Contractionary Fiscal Policy	Raise	Decrease

### International Economics

SSEIN1

- Comparative Adv. is when one country can produce a good/service at a lower opportunity cost than another country.
- Absolute Adv is when one country can produce more of a good/service using the same amount of resources.

\*\*Hint: Remember that comparative advantage is the basis for successful international trade. It relies on the concept of specialization. Ex: if country A will focus on producing cheese and country B will focus on producing peanuts, they can then trade, and both countries will end up with more of both than if they tried to make cheese and peanuts themselves.

- Balance of Trade refers to the total record of imports and exports that are traded between nations.

- Balance of Payments is a record of ALL transactions that take place between two countries. This includes imports and exports, but also many other things like interest payments etc.

SSEIN2

Barriers to Trade

- Tariff is when a country charges another country tax on imported goods
- Quota is when a country places a limit on the amount of a good that can be imported
- Embargo is when a country forbids any trade with a particular country, usually for political reasons
- Standards is when a country implements laws that prohibit importing certain kinds of goods, usually for safety reasons
- Subsidies is when a country offers money or resources at a reduced cost to an industry in order to give them an advantage in international trading.
- When a country implements barriers to trading they are changing the number of sellers in the market which ultimately reduces the supply of the good, thus causing the price to rise.
- When a country erects barriers to trade it is known as protectionism because domestic businesses are being protected from foreign competition.
- Lower prices, better quality, and improved international relations are (benefits OR costs) of free trade.

- Protecting domestic business, preventing outsourcing of jobs, and decreasing dependency on foreign goods are all arguments (for OR against) free trade?

- A Trading bloc is when two or more countries agree to engage in free trade with one another.

- List the 3 trading blocks from your standards.

1. NAFTA
2. European Union
3. ASEAN

SSEIN3

- When you define the price of one nation's currency in terms of another nation's currency you are stating the exchange rate.

Use the exchange rate table below to answer the following questions.

Currency Value

2010

1	
GBP	0.62
CAD	1.09
EUR	0.73
AUD	1.41

- What is the strongest currency on the chart? GBP Which currency is the weakest? AUD
- Who is helped by a strong dollar? 1. Importers 2. Domestic Consumers
- Who is hurt by a strong dollar? 1. Exporters 2. Foreign Consumers
- What country should the US citizens travel to gain the most for their dollar? Australia
- What country should buy the most US exports? GBP (Britain)

### Personal Finance

SSEPP1

- People respond to positive and negative incentives in predictable ways.
- A Cost-benefit Analysis is a rational decision making model that economists use to make decisions.

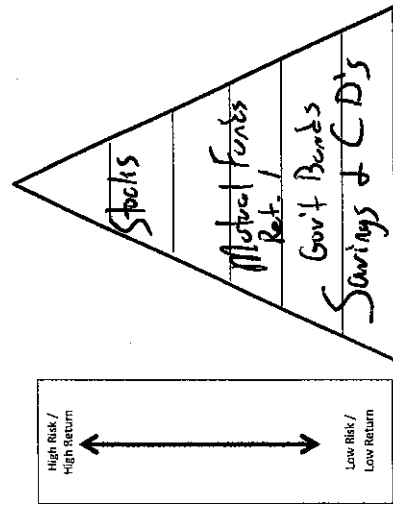
Fill in the Cost-Benefit Chart below. Choice: Where to go to college. Rate each choice 1 - 10 based on the criteria...1 being the worst and 10 being the best.

SSEPF2

Criteria Choices	Campus Life (Parties etc.)	Student Housing	Size (Number of Students)	Location	Total
UGA	10	5	9	6	30
Kennesaw	8	8	8	8	32
Piedmont	2	3	4	2	11
Oglethorpe	4	6	3	10	23

- Banks are institutions that channel funds from savers to investors.
- Banks make money by charging interest.
- Interest charged from investors is always higher than interest earned by savers. This is how banks make money.
- What is the relationship between risk and return? High Risk - High Return, Low Risk - Low Return
- A Bond is when you allow the government to borrow your money as an investment, and they promise to pay you back at a predetermined time with a predetermined amount of interest.
- A Stock is when you purchase shares and become part owner of a company as a result.
- A Mutual Fund is when you diversify and put money into a combination of stocks and bonds all at the same time, thus reducing the amount of risk you are taking.

Fill in the pyramid below with investment options from the word bank that are consistent with risk and return. Low risk investments go towards the bottom and higher risk investments do towards the top.



SSEPF3

- List 3 groups that are helped by inflation and 3 groups that are hurt by inflation.

Helped by Inflation  
 1. Homeowners  
 2. People holding assets  
 3. Leasers

Hurt by Inflation  
 1. Folks on fixed incomes  
 2. America's Income Tax  
 3. Sales Tax

- List the 3 types of Tax Systems and give an example of each  
 1. Progressive  
 2. Regressive  
 3. Proportional

- What type of tax system always hurts a low income earner more than a high income earner? Regressive  
 - What type of tax is on property? Flat Tax  
 - How can a low income group be hurt? Property Tax

SSEPF4

- List the 3 C's of credit.  
 1. Character 2. Capacity 3. Collateral

- Between all of the different types of loans and credit, what type usually carries with it the highest rates of interest that have to be paid back? Credit Cards

- Simple interest is interest that is paid on the principal only.  
 - Compound interest is interest that is paid on the principal AND money earned in prior periods from interest already earned. Compound interest always makes more than Simple.

SSEPF5

- List the 5 types of insurance listed in your standards.  
 1. Life 2. Auto 3. Home 4. Disability 5. Health

- Premium are what you have to pay in order to obtain an insurance policy.  
 - Deductible are what you have to pay out of pocket even with insurance when you file a claim.

SSEPF6

- How are earnings of workers determined in the market place? Job Skills / Abilities (Scarcity)  
Learn more Fast more.

