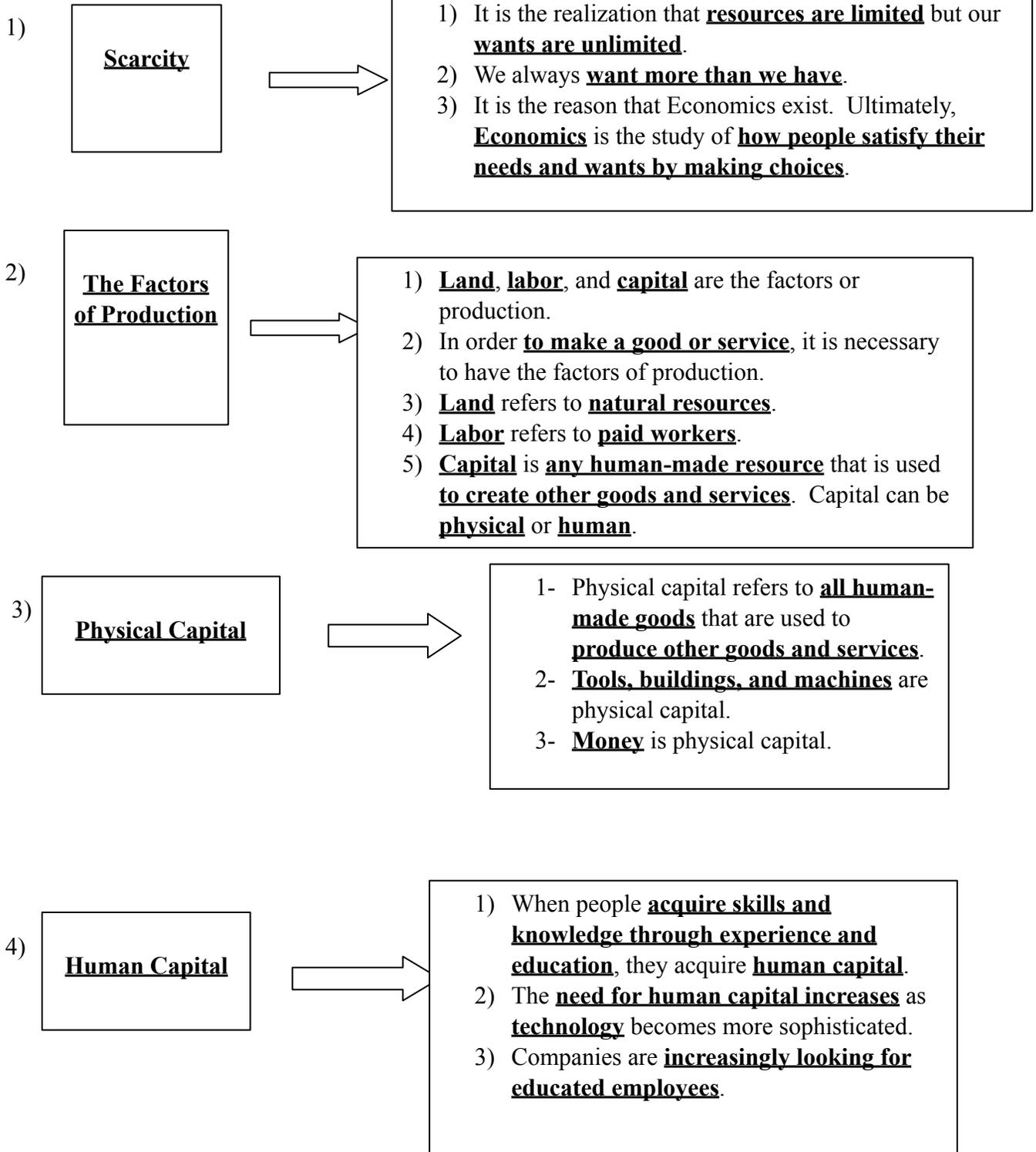
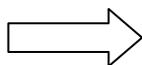


**Key Words, Key Connections:**  
**A Review of Economics**



5)

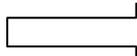
Entrepreneurs



- 1) An entrepreneur is an ambitious **leader who combines land, labor, and capital** to create and market new goods and services.
- 2) The entrepreneur combines the factors of production **to create new businesses**.

6)

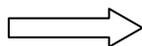
Shortage



- 1) While **every good and service is scarce** because all resources are scarce, a **shortage refers to a situation where a good or service that is normally available is suddenly unavailable**.
- 2) Scarcity is permanent but **shortages are temporary**.
- 3) **Wars or droughts** can lead to shortages.
- 4) Shortages can lead to **high prices** due to insufficient supplies.

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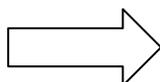
Need



- 1) A need is something like **air, food, or shelter**.
- 2) It is something that is **necessary for survival**.

8)

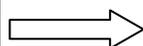
Want



- 1) A want is an item that **we desire**.
- 2) A want is **not essential** for survival.
- 3) A want is **not necessary** for survival.

9)

Goods and Services



- 1) **Goods** are **physical objects** such as clothes or shoes.
- 2) **Services** are **actions or activities** that **one person performs for another person**.
- 3) Some businesses sell goods or actual objects for purchase.
- 4) Some businesses sell services. They perform an action that hopefully improves the quality of our lives.
- 5) People can **purchase goods and/or services**.

10) **Trade-offs** →

- 1) A trade-off is an **alternative** that we **sacrifice** when we make **a decision**.
- 2) **A farmer who plants tomatoes cannot use the same land to plant corn.**
- 3) Scarcity leads to trade-offs.
- 4) Since we cannot have everything, whenever we make a decision, a trade-off occurs.

11) **Guns or Butter** →

- 1) Guns or Butter is a phrase. It refers to the **trade-offs** that **nations face** when choosing whether to **produce more or less military** or **consumer goods**.
- 2) A nation that **increases military spending** has **less money for consumer goods**.

12) **Opportunity Costs** →

- 1) An opportunity cost is **the most desirable alternative given up** as a result of the decision.
- 2) Every time a person makes a decision, he gives many other choices up. The **best choice of those he did not get** is the opportunity cost.
- 3) Here is a simple way to remember it: I have ten dollars. I buy a book. I could have used the ten dollars to buy a Compact Disc, a pizza, or a movie ticket. I bought the book. The next item I would have wanted was the pizza. Therefore, the pizza is the opportunity cost of the decision.

13) **Efficiency** →

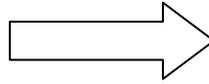
- 1) Efficiency means **using resources** in such a way as to **maximize the production** of goods and services.
- 2) Efficiency **increases profits**.

14) **Thinking at the Margins** →

- 1) Thinking at the margins is **deciding whether to add or subtract one additional unit** of some resource.
- 2) The famous economist, Alfred Marshall, used the example of a boy eating blackberries. When the boy begins to feel full, he is at the margins. Should he **eat another blackberry or stop!**
- 3) Deciding **when it is the best time to stop is**

15)

**Underutilization**



- 1) It is the **opposite of efficient**.
- 2) Underutilization is **using fewer resources** than an economy is capable of using.
- 3) Underutilization leads to **decreased profits**.

16)

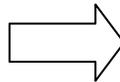
**Production Possibilities Graph**



- 1) A Production Possibilities Graph is a **graph** that **shows alternative ways to use an economy's resources**.
- 2) When using the factors of production to make one product, there will be fewer resources left to make something else.
- 3) The **line** on the Production Possibilities Graph that shows the **maximum output** is called the **Production Possibilities Frontier**.
- 4) When producing **at the frontier**, **efficiency** occurs.
- 5) When producing **beneath the frontier**, **underutilization** is occurring.

17)

**The Law of Increasing Costs**



- 1) When **resources are shifted** from making one good or service to another, the **cost of producing** the second item **increases**.
- 2) This occurs because **not all resources are equally suited for the production** of all goods and services.
- 3) Therefore, **shifting resources** can lead to

18)

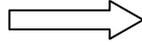
**Economic System**



- 1) An economic system is a **method used by a society to produce and distribute goods and services**.
- 2) Economic systems **address the key economic questions: What to produce? How to produce? For whom to produce?**
- 3) There are four economic systems: **a traditional economy**, **a free market economy**, **a centrally planned economy**, and **a mixed economy**.

19)

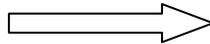
**A Traditional Economy**



- 1) A traditional economy relies on **habit, custom, or ritual** to decide what to produce, how to produce, and for whom to produce.
- 2) In a traditional economy, **sons learn the same jobs as their fathers**.
- 3) Traditional economies **do not encourage innovation or change**.
- 4) Modern economies are not traditional

20)

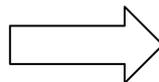
**A Free Market Economy**



- 1) A Free Market Economy is an economy based on **voluntary exchanges in markets**.
- 2) A market is an arrangement that allows buyers and sellers to exchange things.
- 3) In a Free Market Economy, economic decisions are made by individuals. **Individuals are free to buy and sell**.
- 4) The **government does not regulate or intervene in the market**. This concept is best summarized by the French term "**Laissez-faire**" or "**Let them do as they please**".

21)

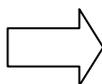
**Adam Smith**



- 1) Adam Smith was a **Scottish social philosopher**.
- 2) In 1776, his book titled **The Wealth of Nations** was published.
- 3) Adam Smith described **how the Free Market functioned**.
- 4) He explained that the **consumer is king (consumer sovereignty)** in the Free Market. If the consumer is **willing to buy something, someone will make it**.

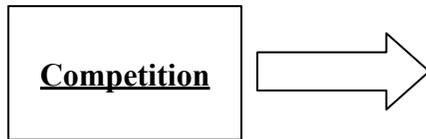
22)

**The Invisible Hand**



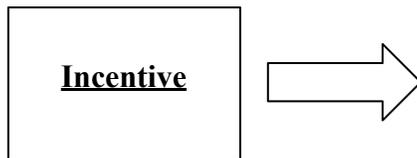
- 1) Adam Smith used this term to describe **the self-regulating nature of the marketplace**.
- 2) Over time, **a market will fix itself**.
- 3) If consumers want a product that is not available, some enterprising person will create the product out of **self-interest (the desire for personal gain)**.
- 4) Adam Smith **believed** that **government intervention in the market was harmful** because it interfered with the Invisible

23)



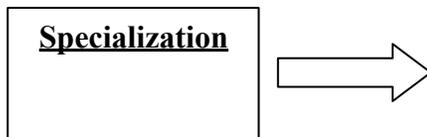
- 1) Competition is the **struggle among producers for the dollars of consumers.**
- 2) Businesses compete to **attract consumers.**
- 3) Competition leads to **lower prices, better quality,** and **decreased supply.**
- 4) Because competition benefits consumers, the government of the **United States has created laws prohibiting one company from dominating a market and eliminating competition.**

24)



- 1) Incentive is **an expectation that encourages people to behave in a certain way.**
- 2) The concept of incentive is very important in Economics.
- 3) **Grades are incentives** for students to master curriculum and complete assignments.
- 4) **Money is an incentive** for workers.

25)



- 1) Specialization is the **concentration of the productive efforts of individuals and firms on a limited number of activities.**
- 2) Think factory! In a factory, workers perform different aspects of the production.
- 3) With specialization, **workers perform different jobs.**

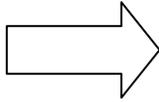
26)



- 1) Profit is the **financial gain made in a transaction.**
- 2) Profits occur **after expenses and taxes are paid.**
- 3) **Entrepreneurs** combine the factors of production to create new businesses in the **hopes of making profits.**

27)

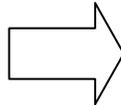
**Centrally  
Planned  
Economy**



- 1) In a centrally planned economy, the **government answers the three key economic questions.**
- 2) A centrally planned economy is found in **Communist** societies.
- 3) Government officials decide what to produce, how to produce, and for whom to produce.

28)

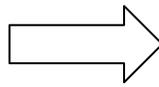
**Communism**



- 1) Communism is a political system characterized by a **centrally planned economy** with **all political power** resting in the **hands of the central government.**
- 2) It is **authoritarian** requiring **strict**

29)

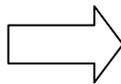
**Problems of a  
Centrally Planned  
Economy**



- 1) Since the **government owns all the factors of production, workers lack incentive.**
- 2) **Workers are not rewarded** for excellence and innovation.
- 3) **Consumer needs or wants** are frequently **not met.**
- 4) **Individual freedoms are sacrificed.**
- 5) The economy **lacks flexibility.**

30)

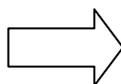
**Free  
Enterprise**



- 1) Free Enterprise is **an economic system** characterized by private or corporate ownership of capital goods; investments are determined by private decision rather than by state control.
- 2) In Free Enterprise, **individuals are generally free to buy and sell a variety of products** in the market. However, there is **limited government intervention when necessary.**
- 3) Free Enterprise exists in the **United States.**

31)

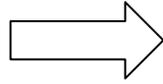
**Transition**



- 1) Transition is **a period of change** in which an economy **moves away from a centrally planned economy** toward a **market-based system.**
- 2) Transition occurs in countries that have decided to **change their centrally planned economies to market economies.**
- 3) The **former Soviet Union** experienced transition.

32)

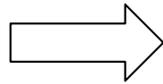
**Privatize**



- 1) Privatization occurs when **state-run factories are sold to individuals.**
- 2) Privatization occurs **when a country experiences transition.**
- 3) The **state-run factories of the former centrally planned economy** must be **sold to individuals** to

33)

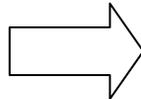
**Mixed Economy**



- 1) A mixed economy is **an economic system that combines elements of a free market, centrally planned, and even traditional economy** to meet the needs of the society.
- 2) All **mixed economies** are **not the same.**
- 3) **China's mixed economy** has more central planning than the **United States' mostly free market mixed economy.**

34)

**Laissez faire**



- 1) It is the doctrine that states that **government generally should not intervene in the marketplace.**

35)

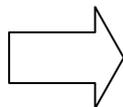
**Public Interest**



- 1) The public interest is **the concerns of the public as a whole.**
- 2) Reducing air pollution, manufacturing safer cars, and creating more effective schools are all examples of the public interest.

36)

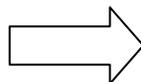
**Public Policy**



- 1) Public policy refers to **the laws and standards on topics of public interest.**
- 2) **Requiring car manufacturers to install seatbelts in automobiles** is an example of public policy.

37)

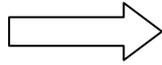
**Public Disclosure Laws**



- 1) Public disclosure laws are **laws that require companies to provide full information about their products.**
- 2) This is an example of the Free Enterprise system in the United States.
- 3) While **businesses are mostly free** to produce and sell what they want, they **must provide consumers with information regarding their products.**

38)

**Occupational Safety and Health Administration**



- 1) This agency issues regulation on **workplace safety**, conducts **workplace inspections**, and requires public disclosure **hazards** to workers.
- 2) It is commonly referred to as **OSHA**.
- 3) Workers may call this agency when employers are **violating safety regulations**.

39)

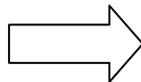
**Environmental Protection Agency**



- 1) It is a government agency that **aggressively targets polluting industries** by imposing **regulations**, **cleanup requirements**, and **penalties**.
- 2) It is commonly referred to as the **EPA**.
- 3) Citizens may call this agency if they witness an **illegal dumping** of hazardous chemicals.

40)

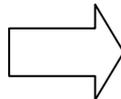
**Poverty Threshold**



- 1) It is an **income level below that which is necessary to support a family**.
- 2) Families below the poverty threshold are poor.
- 3) Government officials determine the poverty threshold each year to assess how many families are poor.

41)

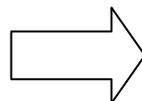
**Welfare**



- 1) It is a general term that refers to **government aid for the poor**.
- 2) It includes many types of **redistribution** programs.
- 3) **Temporary Assistance to Needy Families** or **TANF** is a **welfare program**. It provides **money to needy families** for a **limited number of years**. Able-bodied adults receiving TANF must prepare through **training programs to reenter the workforce**.
- 4) The **Federal government** gives **money to state governments**. The state governments are responsible for structuring their welfare programs.

42)

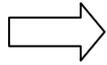
**Cash Transfers**



- 1) Cash transfers are **direct payments of money to eligible poor people, elderly people, or disabled people**.
- 2) The following programs are examples of cash transfers:  
**Temporary Assistance to Needy Families**  
**Social Security**  
**Unemployment Insurance**  
**Workers' Compensation**
- 3) Eligible people receive checks from the government.

43)

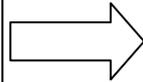
**Market Failure**



- 1) It is a situation in which the **market does not distribute resources efficiently.**
- 2) The **market fails** to provide a needed good.
- 3) The market does **not create roads.**

44)

**Public Good**



- 1- A public good is a **good or service for which it would be impractical to make consumers pay individually and to exclude nonpayers.**
- 2- **Public schools, roads, and public libraries** are examples of public goods.
- 3- Public goods are **paid for with tax dollars.**
- 4- The government creates public goods because the **total benefits to society are greater than the total costs.**
- 5- The **benefit to each individual is less than the cost.**

45)

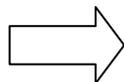
**Public Sector**



- 1- The public sector is that part of the economy that **involves the transactions of the government.**
- 2- **Public goods** are financed by the public sector.
- 3- The public sector relies on **tax dollars** for

46)

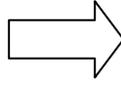
**Private Sector**



- 1- The private sector is that **part of the economy that involves the transactions of individuals and businesses.**
- 2- The private sector has **little incentive to produce public goods** because it will not financially profit from the creation of public goods.

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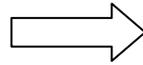
**Free Rider**



- 1- A free rider is someone who would **not choose to pay for a good or service but would benefit anyway if it were provided as a public good.**
- 2- People **pay taxes to avoid the problem of the free rider.**
- 3- Most people are free riders. They would **prefer to**

48)

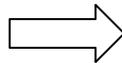
**Externality**



- 1- An externality is **an economic side effect of a good or service that benefits or costs someone else.**
- 2- Externalities are **not intended.** They happen but were not planned for.

49)

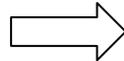
**Positive Externality**



- 1- A positive externality is **an economic side effect that creates a benefit not originally planned for.**
- 2- An example of a positive externality is tomato sauce. Scientists have discovered that **tomato sauce has properties to fight cancer cells.** This

50)

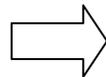
**Negative Externality**



- 1- A negative externality is **an economic side effect that creates a cost not intended by the producer of the good or service.**
- 2- An example of a negative externality is an automobile. The **automobile was not created to pollute the atmosphere. The cost of cleaning up the pollution is not the producer's responsibility.**
- 3- **Governments try to limit negative**

51)

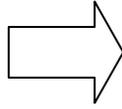
**Macroeconomics**



- 1- Macroeconomics is the **study of the behavior and decision-making of entire economies.**
- 2- In macroeconomics, **entire economies are studied rather than sectors of an**

52)

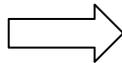
**Microeconomics**



- 1) Microeconomics is **the study of the economic behavior and decision making of small units, such as individuals, families, and businesses.**
- 2) Studying **an individual's purchasing decisions is an example of microeconomic study.**
- 3) Studying **the entire oil industry is an**

53)

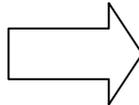
**Technology**



- 1- Technology is **the process used to produce a good or service.**
- 2- Technological progress **makes an economy more efficient and fuels economic growth.**

54)

**Law of Demand**



- 1- The law of demand is **the basic principle that consumers buy more of a good when its price decreases and less of a good when its price increases.**
- 2- **Consumers buy more at lower prices.**

55)

**Substitution Effect**



- 1- Consumers **react to an increase in a good's price by consuming less of that good and more of other goods.**
- 2- If the price of orange juice rises, then consumers will seek an **alternative** like apple

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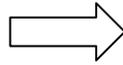
**Income Effect**



- 1- The income effect is **a change in consumption resulting from a change in real income.**
- 2- **As prices rise, money buys less.**
- 3- Economists **measure consumption in the amount of a good that is bought, not the amount of money spent to buy**

57)

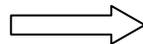
**Demand Schedules and Demand Curves**



- 1- A **demand schedule** is a table that lists the quantity of a good a person will buy at different prices.
- 2- A **market demand schedule** is a table that lists the quantity of a good all consumers in a market will buy at different prices.
- 3- A **Demand curve** is a graphic representation of a demand schedule.
- 4- **Graphs allow economists to readily see a principle in action.**

58)

**Ceteris Paribus**



- 1- Ceteris Paribus is a **Latin phrase** that means “**all other things held constant**”.
- 2- A **demand curve** assumes Ceteris Paribus because it **only takes price into account**.
- 3- A **demand curve** assumes that the **only factor affecting the purchase is price**. The consumer wants and can afford the good.
- 4- **Price cannot shift the demand curve. Price is in the demand curve.**

59)

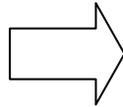
**A Shift in the Demand Curve**



- 1- A **change in price cannot shift a demand curve because the effects of changes in price are already built into the demand curve**.
- 2- However, **factors other than price can shift the demand curve**.
- 3- **Population growth** can shift the demand curve. A greater population has a greater demand for all goods and services at every price.
- 4- **Consumer tastes, advertising, the price of substitutes, the price of complements, and consumer expectations about future prices can shift the demand curve**.
- 5- **If the curve shifts right, demand increases. If the curve shifts left, demand decreases. Right is**

60)

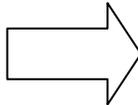
**Elasticity of Demand**



- 1- **Elasticity of demand is a measure of how consumers react to a change in price.**
- 2- **If demand is inelastic, it is not very sensitive to a change in price.**
- 3- **With inelastic demand, consumers keep buying despite the price increase. Think gasoline.**
- 4- **With elastic demand, consumers change their purchases based on price. Think apple juice.**
- 5- **If demand is elastic, consumers will stop buying a good or service and look for substitutes.**
- 6- **The following are factors affecting the elasticity of a good or service: Availability of substitutes, relative importance of the good or service, necessities versus luxuries, and the time it takes to find substitutes.**

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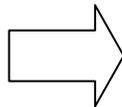
**Fixed Costs, Variable Costs, and Total Costs**



- 1- **A fixed cost is a cost that does not change, no matter how much of a good is produced... Think rent.**
- 2- **A variable cost is a cost that rises or falls depending on how much is produced... Think raw materials.**
- 3- **Fixed costs + Variable Costs = Total Costs**

62)

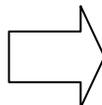
**Marginal Product of Labor**



- 1- **The marginal product of labor is the change in output from hiring one additional unit of labor**
- 2- **It measures the change in output at the margin, where the last worker has been hired or fired**
- 3- **The marginal product of labor can increase or decrease production**

63)

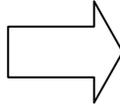
**Increasing Marginal Returns**



- 1- **It is a level of production in which the marginal product of labor increases as the number of workers increases.**
- 2- **Hiring one additional worker leads to an increase in production.**
- 3- **As the number of workers increases, the marginal product of labor increases.**

64)

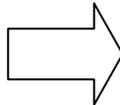
**Diminishing  
Marginal  
Returns**



- 1- It is a level of production in which the **marginal product of labor decreases as the number of workers increases.**
- 2- **Hiring one additional worker leads to less output.**
- 3- As the **number of workers increases, the marginal product of labor decreases.**
- 4- The marginal product of labor **decreases because workers are working with a limited amount of capital, machines, tools, etc.**
- 5- **“Too many cooks spoil the soup”...** workers get in each other’s way

65)

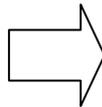
**Marginal Cost**



- 1- The marginal cost is **the cost of producing one more unit of a good.**
- 2- Producers examine marginal costs to **determine whether or not it is profitable to produce one more unit of a good.**
- 3- The **ideal level of output is where marginal revenue is equal to marginal**

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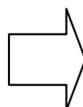
**Marginal  
Revenue**



- 1- Marginal revenue is **the additional income from selling one more unit of a good.**
- 2- **Sometimes marginal revenue is equal to price.**
- 3- Producers examine marginal revenue to **determine whether it is profitable to sell one additional unit of a good.**

67)

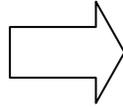
**The Law of  
Supply**



- 1- The law of supply is **the tendency of suppliers to offer more of a good at higher prices.**
- 2- Conversely, **suppliers will offer less of a good at lower prices.**
- 3- A **supply schedule is a chart that lists how much of a good or service a supplier will offer at different prices.**
- 4- A **supply curve is a graph of the quantity supplied of a good at different prices.**
- 5- **Elasticity of supply is a measure of the way quantity supplied reacts to a change in price.**

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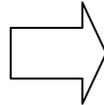
**Subsidy**



- 1- A subsidy is a **government payment that supports a business or market.**
- 2- Subsidies are **designed to protect domestic industries; to protect young and growing businesses; and to protect domestic industries in case imports are ever cut off.**
- 3- By **lowering marginal cost at all levels of output, subsidies allow the supply of a good to grow.**

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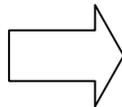
**Excise Tax**



- 1- An excise tax is a **tax on the production or sale of a good or service.**
- 2- A government can **reduce the supply of a good by placing an excise tax on it.**
- 3- Generally, excise taxes are **placed on harmful items such as cigarettes.**
- 4- Excise taxes **shift the supply curve to the left.**

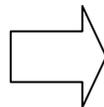
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**Regulation**



- 1- Regulation is a **government intervention in the market that affects the price, quantity, or quality of a good.**
- 2- An example of regulation is when the **government requires car manufacturers to install technology to reduce pollution.**

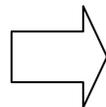
**Equilibrium**



- 1- Equilibrium is the point at which **quantity demanded and quantity supplied are equal.**
- 2- It is **the point of balance between price and quantity.**
- 3- At equilibrium, the **market for a good is stable.**
- 4- **Quantity supplied equals quantity**

104)

**Disequilibrium**



- 1- Disequilibrium describes **any price or quantity that is not at equilibrium.**
- 2- **Quantity demanded does not equal quantity supplied.**
- 3- **Excess demand or a shortage** is an example of disequilibrium. **Quantity demanded is greater than quantity supplied.**
- 4- **Excess supply or a surplus** is an example of disequilibrium. **Quantity supplied is greater than quantity demanded.**
- 5- To fix a market in disequilibrium, the **price must be raised.**

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**Price Ceiling**

- 1- A price ceiling is a **maximum price that can be legally charged for a good or service.**
- 2- **Rent control is an example of a price ceiling.**
- 3- Sometimes the government **imposes a price ceiling on rent (rent control).**
- 4- An effect of a price ceiling is that it **reduces consumer costs but lowers supply as suppliers exit the market or neglect the**

**Price Floor**

- 1- A price floor is a **minimum price that can legally be charged for a good or service.**
- 2- **Minimum wage is an example of a price floor.**
- 3- The **government determines a minimum price that employers can pay a worker for an hour of labor.**
- 4- The minimum wage can **decrease employment if it is above the equilibrium wage.**

117

**Supply Shock**

- 1- It is a **sudden shortage of a good.**
- 2- A supply shock creates a **problem of excess demand because suppliers can no longer meet the needs of consumers.**
- 3- A supply shock can lead to **higher prices as suppliers seek to bring the market to equilibrium.**

118

**Rationing**

- 1- Rationing is a **system of allocating scarce goods and services using criteria other than price.**
- 2- **Centrally planned economies frequently use rationing to distribute goods and services.**
- 3- **During World War II, some goods were rationed by the United States government to ensure that all civilians maintained a minimum standard of living.**
- 4- Rationing is **more expensive than a price based system because it takes time to organize. It also can lead to abuses.**
- 5- **Government officials determine the quantity of**

119)

**Spillover Costs**

- 1- A spillover cost is a **cost of production that affects people who have no control over how much a good is produced.**
- 2- An example of a spillover cost is **pollution.**
- 3- Another term for a spillover cost is

120)

**Perfect Competition**

- 1- Perfect competition is a **market structure in which a large number of firms all produce the same product.**
- 2- There are **four conditions of perfect competition: many buyers and sellers, sellers offer identical products, buyers and sellers are well informed about products, and sellers are able to enter and exit the market freely.**
- 3- In a perfectly competitive market, **price and output reach their equilibrium levels.**

121)

**Barrier to Entry**

- 1- A barrier to entry is **any factor that makes it difficult for a new firm to enter a market.**
- 2- Barriers to entry **can lead to imperfect competition.**
- 3- **High start-up costs** are barriers to

122)

**Commodity**

- 1- A commodity is a **product that is the same no matter who produces it.**
- 2- **Petroleum and milk** are commodities.
- 3- Generally, commodities are **natural resources or agricultural products.**
- 4- Organic produce is not a commodity because it is raised in a manner that differentiates it from other produce.
- 5- **Regardless of the producer, the product is the same**

124) Monopoly

- 1- A monopoly is a **market dominated by a single seller.**
- 2- Monopolies lead to **higher prices, decreased supply, and lower quality due to the absence of competition.**
- 3- **Most monopolistic practices are illegal** in the United States.
- 4- However, **natural monopolies are permitted.** A **natural monopoly is a monopoly that runs most efficiently when one firm supplies all of the output. Public water is an example.** The government regulates price in a natural monopoly.

125) Patent

- 1- A patent is a **license that gives the inventor of a new product the exclusive right to sell the product for a period of time.**
- 2- **Patents are incentives for**

126) Price Discrimination

- 1- Price discrimination occurs **when customers are divided into groups based on how much they will pay for a good or service.**
- 2- Charging **Senior Citizens and children** less for a good or service is an example of price discrimination
- 3- However, **race cannot be a ground**

Monopolistic Competition

- 1- Monopolistic competition is a market structure in which **many companies** sell products that are **similar but not identical.**
- 2- **Products are slightly different.** Ice cream is an example. Turkey Hill Ice Cream is slightly different from Ben and Jerry's Ice Cream.

12)

**Differentiation**

- 1- Differentiation is the process of **making one product slightly different from other similar products.**
- 2- Turkey Hill Ice Cream is an example. It is

128)

**Nonprice Competition**

- 1- Nonprice competition is a way to **attract customers through style, service, or location, but not a lower price.**
- 2- An example of Nonprice competition is **a diner on a highway. It may be more expensive to eat at the diner but it is**

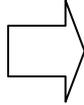
129)

**Oligopoly**

- 1- An oligopoly is a **market structure in which a few large firms dominate a market.**
- 2- Economists usually call an industry an oligopoly if the **four largest firms produce at least 70 to 80 percent of the output.**
- 3- The market for **cereal** is an example of an oligopoly.
- 4- **Four companies dominate 70 to 80 percent of the market's output.**

**Price Fixing**

- 1- Price fixing is **an agreement among firms to charge one price for the same good.**
- 2- It is **illegal** in the United States.
- 3- Collusion leads to price fixing. **Collusion is an agreement among firms to divide the market, set prices, or limit production.**



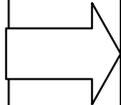
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Antitrust Laws



- 1- Antitrust laws are **laws that encourage competition in the marketplace.**
- 2- Antitrust laws are **laws that prevent monopolistic practices in the market.**
- 3- A trust is a **cartel, an illegal grouping of companies into a single firm.** Antitrust laws prevent the formation of trusts.

Deregulation



- 1- Deregulation is **the removal of some government controls over a market.**
- 2- Deregulation can occur when a **natural monopoly is broken up and an increasing number of firms are brought into the market.**

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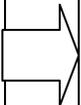
Merger



- 1- A merger is a **combination of two or more companies into a single firm.**
- 2- The **government sometimes blocks mergers that might reduce competition and lead to higher prices.**
- 3- **Similar companies might be prevented from merging but companies that sell different products would probably be**

132)

Business Organization

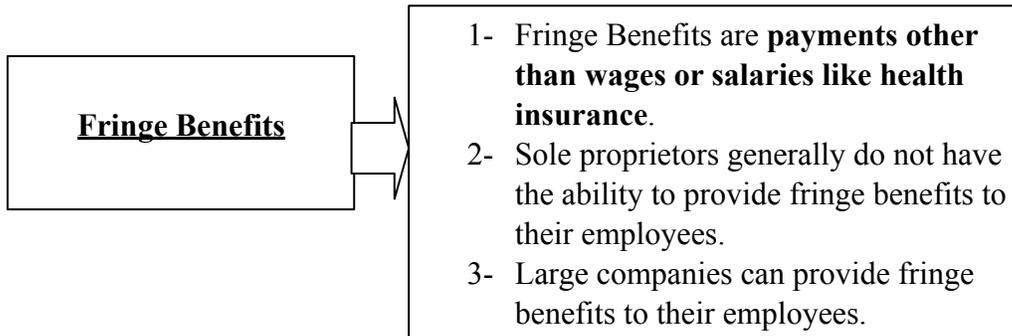


- 1- A business organization is an **establishment formed to carry on commercial enterprise.**
- 2- A business organization is a **company or firm.**

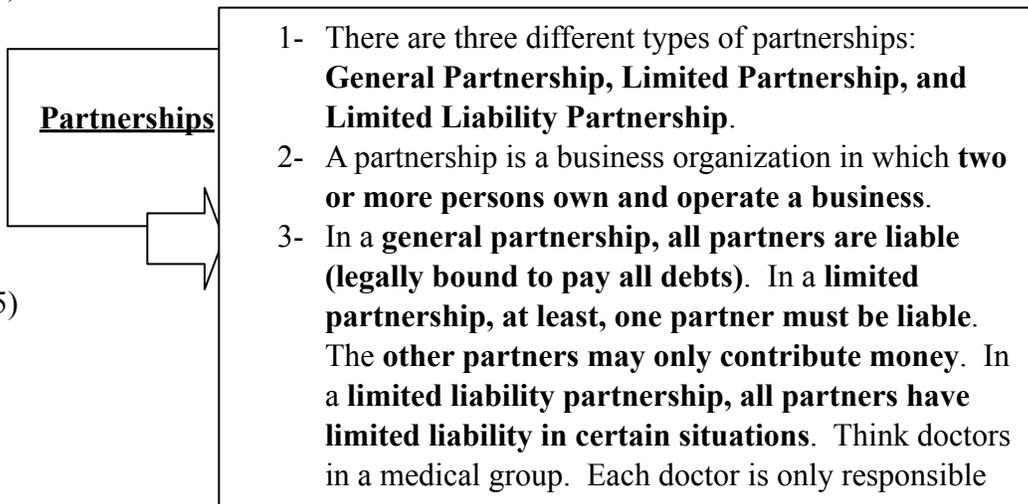
Sole Proprietorship



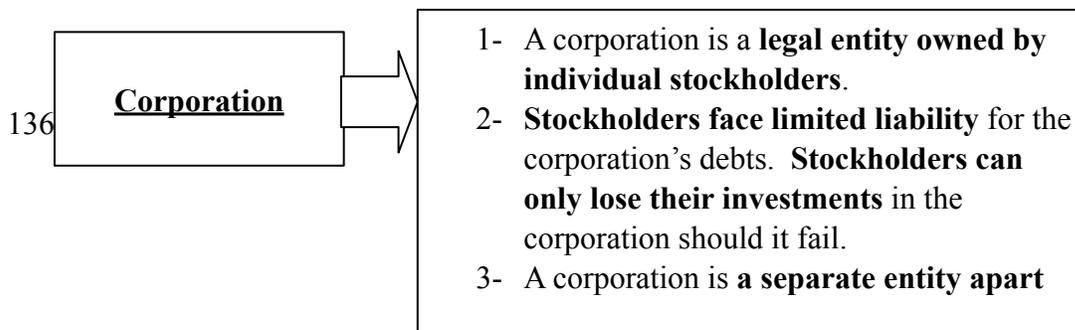
- 1- A **sole proprietorship is a business owned and managed by a single individual.**
- 2- It is the **least-regulated business organization.**
- 3- The sole proprietor has **unlimited liability or the legally bound**



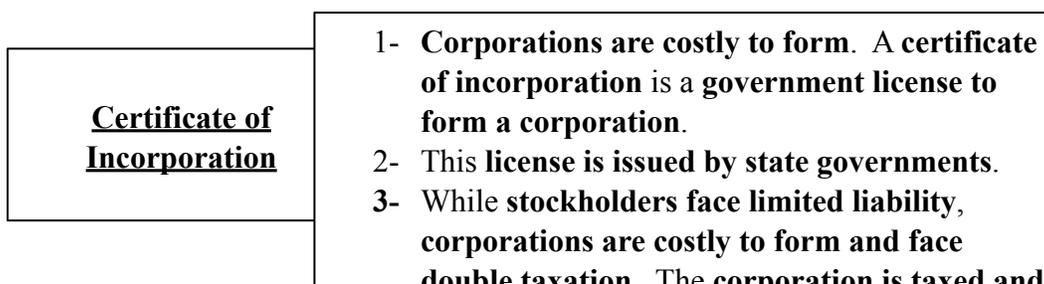
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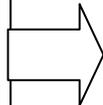
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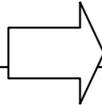
**Types of Corporations**



- 1- There are **two types of corporations: closely held corporations and publicly held corporations.**
- 2- **Closely held corporations** issue stock to only a few people. They are **privately held corporations.**
- 3- **Publicly held corporations** sell their **stocks on open markets.** This a way to **raise needed capital** for corporations.

139)

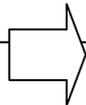
**Cooperative**



- 1- A cooperative is a **business organization owned and operated by a group of people for their own benefit.**
- 2- Cooperatives allow members to benefit from **lower prices and increased services.**
- 3- There are **consumer, service, and producer cooperatives.**

140)

**Business Franchise**



- 1- A business franchise is a **semi-independent business. Owners pay fees to a parent company in exchange for the right to sell the parent company's products.**
- 2- **Burger King** is an example of a franchise.

**Nonprofit Organization**



- 1- A nonprofit organization is an **institution that functions much like a business, but does not operate in order to generate profits.**
- 2- Nonprofit organizations **usually benefit society and are exempt from income taxes.**
- 3- The **American Red Cross** is a nonprofit

**Labor Union**

- 1- A labor union is an **organization of workers that tries to improve working conditions, wages, and benefits.**
- 2- Labor unions can organize **strikes or organized work stoppages to pressure employers or labor unions can negotiate for improved conditions.**

**Work and Union Membership**

- 1- A **closed shop** is a workplace that **only hires union members.** It is **illegal** today.
- 2- A **union shop** is a workplace that **will hire nonunion members but requires employees to eventually join the union.**
- 3- An **agency shop** is a workplace that **will hire nonunion members and does not require them to join the union but does require them to pay union**

142)

**Collective Bargaining**

- 1- It is the **process whereby union and company representatives meet to negotiate a**

**Mediation and Arbitration**

- 1- **Mediation** is a **settlement technique** in which a **neutral mediator meets with both sides and offers a solution.** It can be rejected.
- 2- **Arbitration** is a **settlement technique** in which a **third party reviews the case and imposes a decision that is legally binding for both sides.**
- 3- **Mediation, you can reject but arbitration, you**

143)

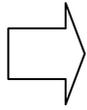
**Wage and Labor**

- 1- A worker's **wage increases** as his **skill level increases.**
- 2- **Professional workers have advanced skills and education.** They, generally, receive the **highest wages.**
- 3- **Skilled workers have specialized skills.**
- 4- **Semi-skilled workers have minimal skills.**
- 5- **Unskilled workers have no specialized skills.**

144)

**Affirmative Action**

- 1- Affirmative action is the use of **policies, programs, and procedures to ensure the inclusion of minorities and women in job hiring, college admissions, and the awarding of government contracts.**
- 2- It exists to **remedy past injustices and**



**Glass Ceiling**

- 1- The glass ceiling is an **unofficial, invisible barrier that prevents women and minorities from advancing in businesses dominated by white men.**
- 2- The glass ceiling exists due to **prejudice and discrimination.**

146)

**Learning Effect and Screening Effect**

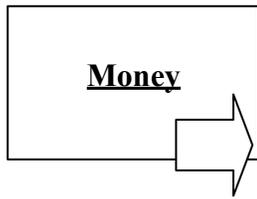
- 1- The **learning effect** is a theory that **education increases productivity and results in higher wages.**
- 2- The **screening effect** is the theory that the **completion of college indicates to employers that a job applicant is intelligent and hard-working.**

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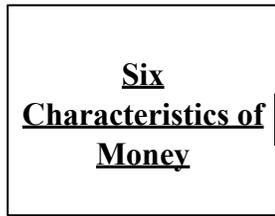
**Contingent Employment**

- 1- Contingent employment is **temporary or part-time employment.**
- 2- It is becoming **more common.**
- 3- A person is **paid for a specific project.**
- 4- The worker **may earn less and may not receive fringe benefits or payments other than salaries, such as medical insurance or paid sick days.**
- 5- The **increase** in contingent employment **may be due the cost of rising health insurance benefits.**

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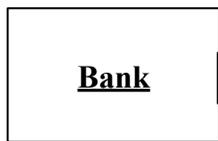


- 1- Money is anything that serves as a **medium of exchange, a unit of account, and a store of value.**
- 2- **Without money, there would be barter. Barter is the direct exchange of one set of**



- 1- Money should be **durable**. It should last.
- 2- It should be **portable** or easily carried.
- 3- It should be **divisible**.
- 4- It should be **uniform** or each unit of money should be the same.
- 5- It should have a **limited supply**.
- 6- It should be **accepted by everyone** in the economy.

150)



- 1- A **bank** is an institution for **receiving, keeping, and lending money.**
- 2- In American history, **Federalists** wanted a **centralized banking system** to ensure stability in banking.
- 3- Antifederalists wanted a **decentralized banking system**. States would establish and regulate banking within their borders.
- 4- Eventually, a **centralized banking system was established.**
- 5- A **central bank can lend to other banks in time of need.**

151)

152)

**Bank Run**

- 1- A bank run is a **widespread panic in which a great number of people try to redeem their paper money.**
- 2- During the **Great Depression**, there were **many bank runs** as banks

**Federal Reserve System**

- 1- The Federal Reserve System is the **nation's central banking system.**
- 2- It is the **nation's first true central bank.**
- 3- It has the **power to lend to other banks in times of need.**
- 4- A **Federal Reserve Note** is the **national currency we use today in the U.S.A.**
- 5- The Federal Reserve System is frequently referred to as the **"Fed"**.
- 6- It has the power to **raise the prime rate or**

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**Federal Deposit Insurance Corporation**

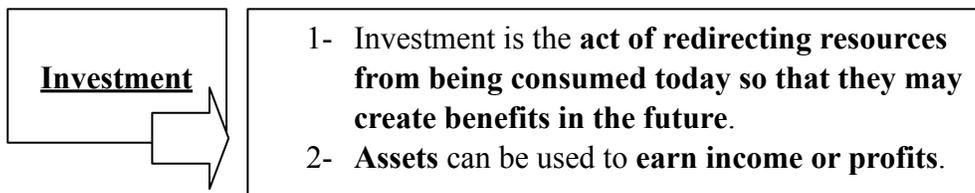
- 1- The **Federal Deposit Insurance Corporation or (FDIC)** is a **government agency that insures customers' deposits if a bank fails.**
- 2- Bank accounts are **insured for a certain amount of money.** Currently, each bank account is insured up to \$100,000.

- 1- To **default** on a loan means that an **individual has failed to pay back a loan.** This leads to a **bad credit report.** Once a person defaults, he may not be eligible for another loan or may find that banks will only loan him money at very high interest rates.

155)



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