

## **Fill in the blanks**

Economics is a study concerned with the use society makes of its **scarce** resources in attempting to satisfy the **unlimited** desires of its members. The economy represents the mechanism or structure that organizes scarce resources for the purpose of producing the goods and services desired by society.

**Scarcity** is the fundamental problem facing all economies. It is also the reason decisions or choices involve **opportunity costs**.

The real cost or opportunity cost of any choice is the value of the sacrifice required in making that decision. That sacrifice represents the foregone opportunity to pursue the **next best** decision. A fundamental problem confronting an economy is how to best meet the desires of individuals in a world of scarcity. Economies do this by addressing several basic questions: (a) What will be produced? (b) How will goods and services be produced? (c) To whom will goods and services be distributed? An economy's answers to the first two questions reveal the **efficiency** with which resources are used to satisfy the desires of society. The third question requires that society make value judgments regarding the distribution of income.

The two major branches of economic analysis are macroeconomics and microeconomics.

**Microeconomics** is concerned with the economic behavior of individual decision-making units in the economy. **Macroeconomics** is concerned with the effects of the aggregate economic behavior of all individuals, firms, and institutions. Inflation and unemployment are two topics that are studied in **macroeconomics**, whereas the determination of prices and an analysis of markets are subjects dealt with in **microeconomics**.

Positive economic analysis seeks to determine "**what is**". **Normative** economic analysis emphasizes the "should" or "ought to" approach. Positive analysis tries to uncover cause-and-effect relationships that are subject to empirical observation and verification. In contrast, normative analysis depends upon the analyst's **value judgment**.

Disagreements arise among practitioners in any discipline. With positive analysis, it is possible to resolve disagreements empirically. With normative analysis, disagreements stem from different value systems and must be resolved in ways other than looking at the "facts."