Definitions

1. Opportunity Cost : The cost of choosing to use resources for one purpose measured by the sacrifice of the next best alternative for using those resources.

2. Microeconomics : Economic analysis concerned with the individual choices made by participants in the economy - also called price theory.

3. Inflation : The rate of upward movement in the price level for an aggregate of goods and services.

4. Positive analysis seeks to forecast the impact of changes in economic policies or conditions on observable items, such as production, sales, prices, and personal incomes, and then tries to determine who gains and who loses as a result of the changes.

5. Economy : The mechanism through which the use of labor, land, structures, vehicles, equipment,and natural resources are organized to satisfy the desires of those who live in a society.

6. Scarcity : The imbalance between the desires of society and the means with which those desires are satisfied.

7. Normative analysis evaluates the desirability of alternative outcomes according to underlying value judgments about what is good or bad.

8. Economics : A study of society's use of scarce resources in the satisfaction of the unlimited desires of its members.

9. Macroeconomics : Economic analysis that considers the overall performance of the economy with respect to total national production, consumption, average prices, and employment levels.

10. Unemployment Rate : Measures the ratio of the number of people classified as unemployed to the total labor force.

Economics is a study concerned with the use society makes of its (1) scarce resources in attempting to satisfy the (2) unlimited desires of its members. The economy epresents the mechanism or structure that organizes scarce resources for the purpose of producing the goods and services desired by society. (3) Scarcity is the fundamental problem facing all economies. It is also the reason decisions or choices involve (4) 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 (5) next best. 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 (6) 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. (7) Microeconomics is concerned with the economic behavior of individual decision-making units in the economy. (8) 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 (9) macroeconomics whereas the determination of prices and an analysis of markets are subjects dealt with in (10) microeconomics. Positive economic analysis seeks to determine (11) “what is”. (12) 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 (13) 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.”