

1 Economics: What It's All About

Drag a term below to its definition on the right.

behavioral assumption	The additional value obtained when one extra unit of an item is obtained.
marginal benefit	Establishes people's motivation for the purpose of understanding cause-and-effect relationships among economic variables.
microeconomics	"Other things being equal"--used to acknowledge that influences other than the one whose effect is being analyzed must be controlled in testing a
ceteris paribus	Evaluates the desirability of alternative outcomes according to underlying value judgments.
normative analysis	Analysis of the effects of changes in conditions or policies on observable economic variables.
macroeconomics	The imbalance between the desires of people in a society and the means of satisfying those desires.
scarcity	A simplified way of expressing economic behavior or how some sector of the economy functions.
positive analysis	A quantity or dollar amount that can have more than one value.
economic model	An abstraction or simplification of actual relationships; establishes cause-and-effect relationships.
variable	
marginal analysis	
rational behavior	
economics	
marginal cost	
theory	

Fill in the blanks to summarize lecture content.

Economic analysis helps us understand the world around us. It helps us understand the functioning of the various sectors in the economy and the choices made by individual decision-making units. (1) (Assumptions Economic theories) simplify reality so that the underlying cause-and-effect relationships among variables can be understood. (2) (Economic variables, Data) are quantities or dollar amounts that have more than one value. Theories are necessary in order to better understand the complexities of reality. (3) (A bar graph, An economic model) is a simplified way of expressing a theory. It can be expressed verbally, graphically, in tables, or mathematically. Assumptions underlie a theory because theories are (4) (depictions of/abstractions from) from reality, and it is necessary to establish the environment and motivation of people for which the theory holds. Economic models can be used to develop hypotheses. (5) (A assumption A hypothesis) is a statement of relationship between two variables that can be tested by empirical verification. Deductive reasoning is used whe-taking a general body of knowledge or theory and using implications of the theory to construct hypotheses. Hypotheses that have been subjected to repeated empirical verification and have withstood the test of time become (6) (hypotheses, economic principles or laws). A good model is one that can generate accurate predictions. But even a model that does not predict perfectly can still be useful in helping us understand the causal relationships among variables and the consequence of the assumptions underlying the model. The causal relationships that we want to understand are difficult to isolate unless we make the assumption of (7) (ceteris paribus, invisible hand).