Unit 1: The Economic Fundamentals
Test Study Guide

Directions: Answer the following questions or complete the statements based on the information from chapters 1-4.

Chapter 1: An Economic Way of Thinking
1. Define microeconomics -

2. Define macroeconomics –

3. Define positive economics -

4. Define normative economics -

5. List the seven principles that guide economic thinking and explain them.
   a. 
   b. 
   c. 
   d. 
   e. 
   f. 
   g. 

6. What are the limitations of graphs?

Chapter 2: Economic Decision Making
1. Define scarcity -

2. What is a shortage?

3. What are the three factors of production and explain them.

4. What is the production equation?

5. How do we calculate productivity? Productivity =

6. What is an opportunity cost?

7. What is the law of marginal utility?

Chapter 3: Economic Systems
1. What are the three fundamental economic questions?
2. Fill in the following chart describing the three economic systems.

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<th>How to produce</th>
<th>For Whom to produce</th>
<th>Goals</th>
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3. What is the government’s role in a pure free market system?

4. What type of economic system is most common today?

5. Explain the concept of the “invisible hand” as described by Adam Smith.

Chapter 4: Gains from Trade

1. Define specialization -

2. How does division of labor increase productivity?

3. Why don’t all societies specialize?

4. Why do people trade?

5. How does trade increase the value of an item?

6. Why would a nation hold a comparative advantage in producing raw materials?

7. Define economic interdependence -

8. Define absolute advantage -

9. Define comparative advantage -