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Chapter 1: The Fundamentals of Economics

Check Your Answers: Section Assessment

Section 1

Review Key Concepts
1. It is something you give up to get something else.

2. You must weigh the marginal costs and marginal benefits to effectively make financial decisions.

3. Land, labor, capital, and entrepreneurship

4. Resources of producers and consumers are limited. It forces people and governments to make decisions about which goods and services to use or not use.

5. Supply is how much producers are willing and able to produce at a certain price. Demand is how much consumers are willing to buy at a certain price.

6. Elastic demand is affected by price, for example, people will generally buy the cheapest item when given a choice. Inelastic demand is not affected by price, but by necessity or brand loyalty.

7. Customs and tradition determine how goods and services are allocated in a traditional economy. In a command economy, a dictator or a central planning committee decides what products are produced and how. In a market economy, the marketplace makes decisions about product allocation.

Higher Order Thinking
8. Answers should indicate an understanding of inelastic demand. Businesses may try to create inelastic demand by making customers loyal to their products. Drug companies with prescription drug patents create inelastic demand.

English Language Arts
9. Synthesize Summaries will vary but should show an understanding of the concepts. For example, consumers may deal with scarcity by paying higher prices or choosing a substitute for a specific product. Businesses may choose to stop production on one product and increase production on another. The government may choose to spend less money on national defense and more money on health care.

Mathematics
10. Opportunity Cost Annual interest = $500 × .02 = $10; Opportunity cost = $500 + $10 = $510.

Section 2

Review Key Concepts

1. An incentive is something that encourages specific behavior, such as bonus wages for doing a good job or a fine for breaking the law.

2. Financial markets are markets that provide the means for purchasing and selling stocks, bonds, commodities, and other financial instruments.

3. Depository institutions manage money that is deposited; non-depository institutions do not handle deposits but act as a liaison between savers and borrowers. Depository institutions use deposits; nondepository institutions invest or lend collected funds.

4. Workers may be encouraged by rewards such as bonuses or threatened with losing their job.
Consumers are offered sales or loyalty programs as incentives to buy more. Producers may be offered tax relief for building energy-efficient sites. Savers and investors are offered tax savings for contributing to certain accounts. Citizens may be offered tax deductions to encourage education.

Higher Order Thinking

5. Answers will vary. Sample answers may include: because the government offers tax deductions to home owners, it may encourage more people to buy a new home which would increase the demand.

21st Century Skills

6. Make Judgments and Decisions Students may recommend that members of their generation save more money and take fewer risks when it comes to buying homes and buying on credit. They may recommend that the government take measures to oversee the financial markets and the economy to ensure stability.

Mathematics

7. Local Income Tax and Sales Tax Local income tax = $43,000 × 2.25% = $967.50;
Sales tax = $12,350 × 6.25% = $771.88