

Section 1: Guided Reading and Review

Scarcity and the Factors of Production



A. As You Read

As you read Section 1, supply in the space provided an explanation an economist might give showing why each statement is true.

Statement	Explanation
1. People must make choices to satisfy their needs and wants.	1. _____ _____
2. Scarcity always exists.	2. _____ _____
3. Physical capital is an important factor of production.	3. _____ _____
4. All goods and services are scarce.	4. _____ _____
5. Entrepreneurs are important to the production of goods and services.	5. _____ _____

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

6. A CD player is a _____ rather than a need because it is not necessary to survival.
7. The study of how people seek to meet their needs and wants by making choices is _____.
8. Persons who perform such actions as cutting hair or teaching school are providing _____.
9. When producers will not or cannot offer goods and services at current prices, a _____ occurs.
10. Land, labor, and capital make up the _____.
11. When people make resources for producing other goods and services they are creating _____.
12. The term _____ refers to water, forests, and all other natural resources used to produce goods and services.
13. The two categories of capital are physical and _____.
14. Factories, machinery, and pencils are all examples of _____ capital.
15. Leaders who take risks to develop original ideas and start new industries are called _____.



Section 2: Guided Reading and Review

Opportunity Cost

A. As You Read

As you read Section 2, fill in two supporting facts or details under each main idea by answering each question.

Main Idea: Trade-offs are alternatives that people give up when they choose one course of action over another.

1. Who makes trade-offs? _____
2. Why do decisions involve trade-offs? _____

Main Idea: Opportunity cost is the most desirable alternative given up as the result of a decision.

3. How does opportunity cost vary? _____
4. Why does opportunity cost vary? _____

Main Idea: Deciding whether to do or use one more or one less unit of some resource is thinking at the margin.

5. What does thinking at the margin help with? _____
6. What does thinking at the margin help compare? _____

B. Reviewing Key Terms

Answer each of the following questions.

7. In what way are trade-offs and opportunity costs alike?

8. How does an opportunity cost differ from a trade-off?

9. What are “guns or butter” decisions?

10. How does thinking at the margin change the decision-making process?

Section 3: Guided Reading and Review

Production Possibilities Curves



A. As You Read

As you read Section 3, complete the chart by indicating where on a production possibilities curve the following information is shown.

Reading a Production Possibilities Curve

1. Categories or specific goods or services to be compared

2. Range of choices in the combination of goods or services produced

3. Production possibilities frontier

4. An economy working at its most efficient production levels

5. An economy working below its most efficient production levels

6. Future production possibilities frontier if more land, labor, or capital resources become available

B. Reviewing Key Terms

Define the following terms.

7. production possibilities curve _____
8. production possibilities frontier _____
9. efficiency _____
10. underutilization _____
11. cost _____
12. law of increasing costs _____