# Homework – Chapter 1

Please type answers, save and e-mail to dmcgare@usna.edu

* In your own words, what is Economics all about? Economics is how people allocate resources based off of people’s wants and needs.
* Explain this statement: “If there was no scarcity in the world, we would not study Economics” This statement is true because if all resources were abundant than there would not be a need to allocate resources, however even items like air and water are not abundant everywhere so there is a need for the study of economics.
* What is the difference between microeconomics and macroeconomics (we will study both) the difference is Microeconomics focuses on individuals or families. Macroeconomics is the overall aspect of an economy.
* Describe what is meant by Opportunity Cost. Opportunity Cost is highest valued alternative that must be sacrificed in order to get something else.
* Explain the statement “Decisions are made at the margin” Economics focuses a process that breaks down decisions into smaller parts.
* Explain the statement “Incentives are important to drive behaviors, but leaders must be aware that incentives can create unintended consequences” Incentives are important because they drive people to either make good or bad choices. As a leader we must look at incentives because a potential negative consequence can individuals to take negative actions.
* How does the principle of “Comparative Advantage” support the concept of trade among nations? Comparative Advantage can cause other nations to produce products at a lower opportunity cost than a competitor can. This is seen with China produce most goods because they have the people that can produce at a low cost.
* Who is Adam Smith and what is his contribution to Economics? Adam Smith is known as the father of economics, he built a coherent and logical theory of how economics works.
* What is the name of Adam Smith’s most famous book on the topic of Economics? Adam Smith’s most famous book on the topic of economics was *The Theory of Moral Sentiments*.
* Who is John Maynard Keynes and what is his contribution to Economics? John Maynard Keynes contribution to economics was that the government should help boost the economy when needed.