## Key Terms

circular flow diagram

a diagram that views the economy as consisting of households and firms interacting in a goods and services market and a labor market

command economy

an economy where economic decisions are passed down from government authority and where the government owns the resources

division of labor

the way in which different workers divide required tasks to produce a good or service

economics

the study of how humans make choices under conditions of scarcity

economies of scale

when the average cost of producing each individual unit declines as total output increases

exports

products (goods and services) made domestically and sold abroad

fiscal policy

economic policies that involve government spending and taxes

globalization

the trend in which buying and selling in markets have increasingly crossed national borders

goods and services market

a market in which firms are sellers of what they produce and households are buyers

gross domestic product (GDP)

measure of the size of total production in an economy

imports

products (goods and services) made abroad and then sold domestically

labor market

the market in which households sell their labor as workers to business firms or other employers

macroeconomics

the branch of economics that focuses on broad issues such as growth, unemployment, inflation, and trade balance

market

interaction between potential buyers and sellers; a combination of demand and supply

market economy

an economy where economic decisions are decentralized, private individuals own resources, and businesses supply goods and services based on demand

microeconomics

the branch of economics that focuses on actions of particular agents within the economy, like households, workers, and business firms

model

see theory

monetary policy

policy that involves altering the level of interest rates, the availability of credit in the economy, and the extent of borrowing

private enterprise

system where private individuals or groups of private individuals own and operate the means of production (resources and businesses)

scarcity

when human wants for goods and services exceed the available supply

specialization

when workers or firms focus on particular tasks for which they are well-suited within the overall production process

theory

a representation of an object or situation that is simplified while including enough of the key features to help us understand the object or situation

traditional economy

typically an agricultural economy where things are done the same as they have always been done

underground economy

a market where the buyers and sellers make transactions in violation of one or more government regulations