## Review Questions

8.

Explain why scarcity leads to tradeoffs.

9.

Explain why individuals make choices that are directly on the budget constraint, rather than inside the budget constraint or outside it.

10.

What is comparative advantage?

11.

What does a production possibilities frontier illustrate?

12.

Why is a production possibilities frontier typically drawn as a curve, rather than a straight line?

13.

Explain why societies cannot make a choice above their production possibilities frontier and should not make a choice below it.

14.

What are diminishing marginal returns?

15.

What is productive efficiency? Allocative efficiency?

16.

What is the difference between a positive and a normative statement?

17.

Is the economic model of decision-making intended as a literal description of how individuals, firms, and the governments actually make decisions?

18.

What are four responses to the claim that people should not behave in the way described in this chapter?