- Scarcity exists because we have limited resources and unlimited wants. No society has ever had enough resources to produce all the goods and services its members wanted.
- Goods and services are produced from resources. These resources—land, labor, capital, and entrepreneurship—are limited.
- Scarcity requires people to make choices. If we use scarce resources for one purpose, we cannot use them for another.
- Opportunity cost is the forgone benefit of the next best alternative when resources are used for one purpose rather than another.
- Because of scarcity, every decision has an opportunity cost.
- Economic costs take account of the opportunity cost of doing one thing rather than another.
- Economic costs include explicit costs and implicit costs. Explicit costs are expenditures for something. Implicit costs are the opportunity costs of using your own resources rather than selling them to someone else. Both implicit and explicit costs are opportunity costs.
- Using free goods does not involve opportunity cost because free goods are available in unlimited quantities.
- Economics is concerned with marginal decision making. In economics, "making decisions at the margin" is very important. Marginal choices involve the effects of additions and subtractions from the current situation. We compare the marginal benefit of an extra unit of an activity with that unit's marginal cost.
- A production possibilities curve can be used to illustrate scarcity, choice, and opportunity cost graphically.
- The slope of a production possibilities curve shows the opportunity cost of producing another unit of one good in terms of the amount of the other good that must be given up.
- Because resources are scarce, using them efficiently allows us to get the most from them. Efficiency is increased through specialization and trade. Economists use the concept of comparative advantage to explain why trade takes place between countries and between individuals. This concept is based on the differences in producers' opportunity costs of producing goods and services.
- The law of comparative advantage shows how everyone can gain through trade.
- Economic theory is useful in analyzing and understanding the world around us.
- The test of an economic theory is its ability to predict correctly the future consequences of economic actions.
- The broad social goals of a society influence decisions about how best to use resources.
- Markets bring together buyers and sellers of a good or service.
- The law of demand states that buyers will want more of an item at a low price than at a high price, other things being equal.
- The law of supply states that sellers will provide more of an item at a high price than at a low price, other things being equal.
- The equilibrium price is the price at which the quantity demanded of an item equals the quantity supplied. That quantity is called the equilibrium quantity.
- Shifts in the market demand and supply curves result in new values of the equilibrium price and quantity. Understanding what causes shifts in the

demand and supply curves is an important part of knowing how a market operates.

- There are three important goals for the macroeconomy: full employment, price stability, and economic growth.
- A business cycle describes the ups and downs of economic activity over a period of years.
- The phases of the business cycle are expansion (recovery), peak, contraction (recession), and trough.