Cycle Two Supplemental

Name:____________________

Answer the fill-in questions on a separate sheet using the terms below.

Study the following terms for the Cycle Two SuperTest:

- ✓ PRODUCER: Someone whose occupation involves the 'bringing forth' of a product to a consumer.
- ✓ SERVICE: Someone who cares for or maintains a product already in the hands of a consumer, or whose occupation involves providing some other non-material satisfaction, such as a doctor, teacher, entertainer, athlete, or police officer.
- ✓ CONCEPT: An idea, or mental construct.
- ✓ DEFINITION: A concept with an assigned meaning or 'fence around it.'
- ✓ IMAGINATION: A thinking tool used by social scientists.
- ✓ NATURAL RESOURCES, PEOPLE, and PRODUCTS: Basic conceptual classes used in the Science of Political Economy.
- ✓ LAND, LABOR, AND CAPITAL: The Classical Factors of Production.
- ✓ NATURAL RESOURCES: Everything in the universe except People and the Products that People make.
- ✓ PRODUCTS: Any result of human exertion applied to natural resources with exchange value.
- ✓ ANIMALS: In Classical Analysis, an animal may be a Natural Resource, or a Product, depending on whether humans played a role in raising the animal. (People are not classified as Animals in the Science of Political Economy.) When an animal is raised for food, or to perform work such as plow a field, it is Capital. When it is owned as a pet, or consumed, it is Wealth.
- ✓ CAPITAL: A product in production, not yet in the hands of the consumer.
- ✓ WEALTH: A product in the hands of a consumer. Wealth is the object of production.
- ✓ LAND: A Natural Resource with a specific address or location.
- ✓ LABOR: Human physical and mental exertion in the production of goods with exchange value.
- ✓ LOCATION: The key characteristic of Land. A Natural Resource with an address.
- ✓ EXERTION: The key characteristic of Labor including mental and physical energy.
- ✓ TIME: The key characteristic of Capital, and the important reason why the owner of Capital is compensated with Interest.
- ✓ ECONOMIC RENT: The worth of site, depending on its location.
- ✓ WAGES: Labor's return for exertion.
- ✓ INTEREST: The classical term for the return to Capital for the time that Capital is in production. Nowadays, Interest also refers to the cost of borrowing a sum of money over time. Essentially, Capital won't be lent unless there is compensation for 'delayed satisfaction' for the *time* the owner is without the value of the Capital put into production.
- ✓ MAINTENANCE: Tasks that must be done before one can make progress. These tasks include food, clothing, shelter, and whatever is generally considered 'necessities.' Progress is made when time spent on Maintenance is reduced.
- ✓ COOPERATION: Voluntary action, or doing things for mutual advantage.
- ✓ COERCION: Force, or the threat of force. This is 'involuntary cooperation.'
- ✓ COERCION (A. J. Galambos): "Coercion is an attempted, intentional interference with property." (See PROPERTY, CYCLE ONE SUPPLEMENTAL)
- ✓ UNCONSCIOUS COOPERATION: This takes place at the market where no contract is actually made. A consumer may choose to buy or not to buy. Someone with a product may choose to sell or not to sell.
- ✓ CONSCIOUS COOPERATION: Doing things according to specific agreement or contract.
- ✓ CHARITY: Voluntary assistance.
- ✓ WELFARE: Assistance supported through taxation.
- ✓ CIVILIZATION: Widespread international cooperation through trade that cuts across racial, cultural, and national boundaries.
- ✓ DEMAND: This is demonstrated by the willingness to purchase something at various prices over a period of time. The act of exchange is demand.
- ✓ LAW OF DEMAND: People tend to purchase a lesser quantity of something as the price rises, and a greater quantity as the price falls. There is an inverse relationship between price and the quantity demanded.
- ✓ SUPPLY: This is demonstrated by the willingness to make something available for sale at various prices. The act of exchange is supply.
- ✓ LAW OF SUPPLY: People tend to produce a greater quantity as the price rises, and a lesser quantity as the price falls. There is a direct relationship between price and the quantity supplied.
- ✓ DEMAND CURVE: Generally, a downward sloping curve from left to right.
- ✓ SUPPLY CURVE: Generally, an upward sloping curve from left to right.
- ✓ SUBSTITUTION EFFECT: The tendency of consumers to substitute a similar, lower-priced product for another relatively higher-priced product.
- ✓ DETERMINANTS OF DEMAND: Factors that influence market demand include: consumer preferences, market size, income, prices of related goods, and consumer expectations.
- ✓ DETERMINANTS OF SUPPLY: Factors that influence market supply include: prices of resources, government tools (taxes, regulations, and subsidies), technology, competition, prices of related goods, producer expectations.
- ✓ SHIFTS IN DEMAND/SUPPLY: A graphical illustration of changing determinants of demand or supply that influence overall demand and/or supply.
- ✓ COMPLEMENTARY GOOD: Goods that are commonly used with other goods. When the price of one increases or decreases, the demand for the other decreases or increases.
- ✓ ELASTIC DEMAND: When a small change in a good's price results in a major, opposite change in the quantity demanded there demand is elastic. Products that are not 'necessities' with readily available substitutes, or which if purchased would represent a significant portion of a persons' income often have elastic demand.
- ✓ INELASTIC DEMAND: When a change in a good's price has little impact on the quantity demanded it is inelastic demand. Products considered 'necessities' with few or no readily available substitutes, or which represent a relatively insignificant portion of a person's income often have inelastic demand.
- ✓ PROFIT: In conventional usage, profit is whatever is left over after costs have been paid. This term is ambiguous for economic analysis. The conventional usage suggests that profit is actually an accounting term. A profit may consist of wages, rent, interest, or some combination of the three.
- ✓ ELASTIC SUPPLY: When a small change in a good's price result in a major, opposite change in the quantity supplied there is elastic supply. This would tend to exist if the product could be made quickly, cheaply, and with a few, readily available resources.
- ✓ INELASTIC SUPPLY: When a change in a good's price has little impact on the quantity supplied there is inelastic supply. If a product requires a great deal of time, money, or resources are not readily available, inelastic supply exists.
- ✓ PERFECTLY INELASTIC SUPPLY: If a producer cannot increase production regardless of price, supply is perfectly inelastic. Land is an example. The supply of Land is fixed. Each location is unique. Another example is gold. In the short-run, gold is inelastic. In the long run, more can be extracted from the earth, however the quantity tends to be small compared to the existing stock.
- ✓ SUBSIDY: A government handout to a business such as a farmer. The subsidy lowers the farmer's costs at the expense of taxpayers.
- ✓ REGULATION: A government rule that controls how business must be conducted.
- ✓ TAX: Something one must pay to help fund government services. Most taxes hamper production by increasing costs in one form or another. In contrast, a tax on Land-values makes more land available for production by decreasing the incentive to hold it out of use for speculation. Tax money used for welfare or subsides are known as Transfer Payments, or Privileges.
- ✓ MARGINAL PRODUCT: The change in output generated by adding one more unit of input. Example: An extra worker increases hamburger production from 100 to 125 per hour. A Marginal Cost is the cost of increasing one more unit of output.
- ✓ LAW OF DIMINISHING RETURNS: As more of one input is added to a fixed supply of other resources, productivity increases up to a point. At the point the marginal product begins to decrease we say the law of diminishing returns has set in. Eventually, the marginal product will become a negative marginal product. Example: A second worker reduces the marginal product from 125 hamburgers per hour to only an extra 105 per hour. A third worker actually reduces the total product to only 95 hamburgers per hour. An additional third worker is clearly "in the way."
- ✓ FIXED COSTS: Production costs that do not change as the level of output changes. Examples would include: rent, interest on loans, property insurance premiums, and contracted salaries.
- ✓ DEPRECIATION: A lessening in value of capital goods used in production.
- ✓ ECONOMIC RECIPROCITY: Doing things for mutual advantage.
- ✓ BASIC LAWS OF HUMAN BEHAVIOR: Two Assumptions of Hum. Behavior.
- ✓ PRICE: The value of something in terms of money.
- ✓ QUALITY OF LIFE: Reducing time and exertion spent on Maintenance. The time and exertion saved gives one the opportunity to make progress.

1. The three basic conceptual classes are ___.
2. Human exertion in the production of goods is classified as ___.
3. A product in the hands of a consumer is ___.
4. The owner of Capital expects to gain compensation for the delayed satisfaction of going without the capital he puts into production. The 'reward' or return to Capital is called ____.
5. Someone who borrows capital saves time and the one who lends it expects compensation for the ___ he is without it. Therefore, ___ is the key characteristic of Capital.
6. The key characteristic of Land is ___.
7. The type of cooperation that takes place at the market without a contract is ____.
8. Tax-supported assistance is called ___.
9. Voluntary assistance is called ____.
10. The tendency to purchase more of a good as the price falls is the ___.
11. The tendency to offer more of a good for sale at a higher price is the ___.
12. Time and exertion spent on the 'basic necessities' is called ___.
13. Over time, consumer preferences may change. This is a ___.
14. The price of resources and technology are among the ___.
15. Goods that are used together are known as ___.
16. What is the difference between elastic and inelastic demand?
17. ___ is an accounting term that may include rent, wages, and interest.
18. Something with _____ supply would likely require a great deal of time, money, and resources to produce.
19. Government 'tools' are taxes, regulations, and subsidies. They are included in the determinants of ___.
20. When more inputs begin to hamper production an economist would say the ___ has set in.
21. The act of purchasing a good is referred to as ____.
22. The act of selling a good is referred to as ____.
23. When one is forced to do something this is ____.
24. A ___ curve is generally upward sloping from left to right.
25. A __ is a government handout (welfare) to a business, but at the expense of Joe Taxpayer.