

GUIDED READING Activity 1-3

For use with textbook pages 19–25

E CONOMIC CHOICES AND DECISION MAKING

FILLING IN THE BLANKS

Directions: Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once. Use another sheet of paper if necessary.

trade-offs	cost-benefit analysis	maximum combinations
free enterprise economy	standard of living	decision-making grid
production possibilities frontier	opportunity cost	fully employed

Trade-Offs and Opportunity Cost

Whenever people make economic decisions, they face **1** _____, or alternative choices. Using a **2** _____ allows consumers to consider various alternatives and decide which one comes closest to meeting their needs. **3** _____ is more than the price tag on a good or service. It is the cost of the next best alternative use of money, time, or resources.

Production Possibilities

To illustrate the concept of **4** _____, economists use a diagram representing various combinations of goods and/or services an economy can produce when all productive resources are **5** _____. By showing the various alternatives, the **6** _____ allows producers to decide how to allocate limited resources. The diagram indicates the **7** _____ of goods and/or services that can be produced. If, however, for various reasons some resources are not **8** _____, the producer cannot reach its full production potential and the **9** _____ of that failure is whatever is not produced. Economic growth occurs when more resources or increased productivity causes the **10** _____ to move outward.

Thinking Like an Economist

Economists use various methods to help people make the best choices among the many wants that compete for the use of scarce resources. One is **11** _____, a way of thinking about a problem that compares the costs of an action to the benefits received. This allows a business, for example, to choose investment projects that give the highest return per dollar spent.

The Road Ahead

The study of economics can provide a more detailed understanding of a **12** _____, where consumers and privately owned businesses, rather than government, make the majority of economic decisions. It provides an understanding of a number of factors that have a bearing on our **13** _____, which is the quality of life based on the possession of the necessities and luxuries that make life easier.