

Chapter 1

After completing this chapter, you should be able to

- Define economics and discuss economic naturalism
- Understand why scarcity implies tradeoffs
- Define the Cost-Benefit Principle and illustrate its relationship to scarcity
- Understand how rationality relates to the Cost-Benefit Principle
- Define marginal benefit and marginal cost
- Define opportunity cost
- Calculate marginal benefit and marginal cost
- Graph marginal benefit and marginal cost
- Define economics
- Discuss the topics covered in microeconomics
- Understand the efficient allocation of resources
- Identify which costs matter in making decisions
- Identify the opportunity cost of an activity
- Define sunk costs
- Identify sunk costs
- Apply the concept of sunk costs to cost-benefit analysis
- Define average cost
- Identify which costs matter in making decisions