Glossary

Chapter 1	
aggregate	the total amount—such as the aggregate level of output (p. 3)
bads	items that we do not desire or want (p. 10)
capital	the equipment and structures used to produce goods and services (p. 10)
causation	when one event causes another event to occur (p. 6)
ceteris paribus	holding everything else constant (p. 5)
comparative advantage	occurs when a person or a country can produce a good or service at a lower opportunity cost than others can (p. 18)
correlation	two events that usually occur together (p. 6)
economics	the study of the allocation of our limited resources to satisfy our unlimited wants (p. 1)
efficiency	getting the most from society's scarce resources (p. 20)
empirical analysis	the examination of data to see if the hypothesis fits well with the facts (p. 4)
entrepreneurship	the process of combining labour, land, and capital together to produce goods and services (p. 10)
fallacy of composition	even if something is true for an individual, it is not necessarily true for a group (p. 7)
goods	items we value or desire (p. 10)
human capital	the productive knowledge and skill people receive from education and on-the-job training (p. 10)
hypothesis	a testable proposition (p. 4)
labour	the physical and mental effort used by people in the production of goods and services (p. 10)
land	the natural resources used in the production of goods and services (p. 10)
macroeconomics	the study of the aggregate economy including the topics of inflation, unemployment, and economic growth (p. 3)
marginal thinking	focusing on the additional, or incremental, choices (p. 14)
market failure	when the economy fails to allocate resources efficiently on its own (p. 21)
microeconomics	the study of the smaller units within the economy including the topics of household and firm behaviour and how they interact in the marketplace (p. 3)
negative incentives	incentives that either increase costs or reduce benefits resulting in a decrease in the activity or behaviour (p. 17)
net benefits	the difference between the expected marginal benefits and expected marginal costs (p. 15)
normative analysis	a subjective, biased approach (p. 7)
opportunity cost	the highest or best forgone opportunity resulting from a decision (p. 12)
positive analysis	an objective, value-free approach, utilizing the scientific method (p. 7)
positive incentives	incentives that either reduce costs or increase benefits resulting in an increase in the activity or behaviour (p. 17)
price controls	government mandated minimum or maximum prices (p. 21)
resources	inputs used to produce goods and services (p. 1)
rule of rational choice	individuals will pursue an activity if the expected marginal benefits are greater than the expected marginal costs (p. 14)
scarcity	the situation that exists when human wants exceed available resources (p. 9)
service	an intangible act that people want (p. 10)
specializing	concentrating in the production of one, or a few, goods (p. 18)
the economic problem	scarcity forces us to choose, and choices are costly because we must give up other opportunities that we value (p. 1)
theory	an established explanation that accounts for known facts or phenomena (p. 4)