

Following are possible answers to the Reading Notes.

Section 2

Answers should address the four main functions of economics: explaining everyday mysteries and enigmas, analyzing how people use limited resources to satisfy unlimited wants, studying how people make choices (the science of decision making), and applying positive and normative economics.

Section 3

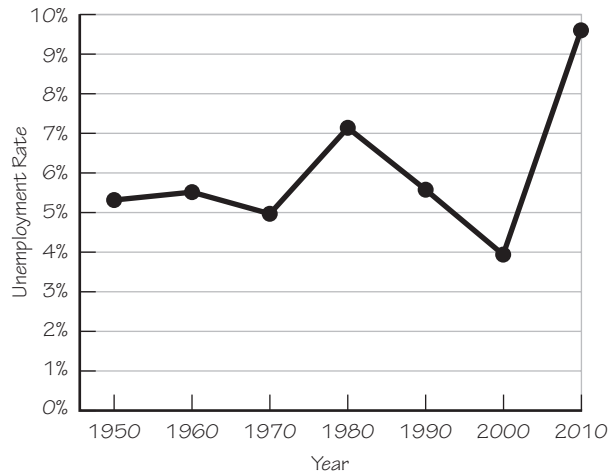
Summaries should address the following points.

- *Scarcity forces tradeoffs*: Limited resources force people to make choices and face tradeoffs when they choose.
- *Cost versus benefits*: People choose something when the benefits of doing so are greater than the costs.
- *Thinking at the margin*: Most of the decisions made each day involve choices about a little more or a little less of something.
- *Incentives matter*: People respond to incentives in generally predictable ways.
- *Trade makes people better off*: By focusing on what we do well and then trading with others, we will end up with more and better choices than by trying to do everything for ourselves.
- *Markets coordinate trade*: Markets usually do better than anyone or anything else at coordinating exchanges between buyers and sellers.
- *Future consequences count*: Decisions made today have future (and often unintended) consequences.

Section 4

1. Flowcharts should include the main steps of the scientific method: ask a question, research the question, develop a hypothesis, conduct a study and collect data, analyze the data, evaluate the hypothesis, and, if not satisfied, begin again.

2. U.S. Unemployment Rate, 1950–2010



3. Explanations will vary.
4. *Homo economicus*, or the rational-behavior model, is a tool for understanding the mystery of human behavior. It states that people behave in ways that are rational, or based on reason. They make decisions that they think will fulfill their wants and needs to the greatest extent possible. Their behavior generally serves their own interest, without taking into account the well-being of others. Examples will vary.