gas — which is another trade-off.

- The benefits lost when making an economic decision are known as the opportunity cost of that decision.
- **Cost-benefit analysis** is a decision-making tool used to evaluate the strengths and weaknesses of different alternatives.
- **Marginal Costs** is the change in production cost that results from a business producing one additional item.
- **Marginal Benefits** is the maximum amount that a consumer will pay for using an additional unit of a product or service.

### Types of Economic Systems

- **Economic System** is the way in which a society allocates resources, organizes production, and distributes goods and services.
- **Allocate(ing)** in an economic system, is to direct resources to uses that satisfy people's wants and needs.
- A **traditional economy** is the oldest type of economy. In this type of system, people rely on customs, history, and beliefs passed down from generation to generation. Decisions about what to produce, how to produce it, and who gets it are based on how previous generations have answered these questions.
- A **command economy** is one that is dominated by government control. Command economies do not let market forces like supply and demand determine what to produce or how much to produce. Instead, government officials decide how to respond to these basic economic questions, with little or no input from consumers or businesses.
- A **market economy** is a system in which the basic economic questions of what to produce, how to produce it, and who gets it are answered by the interactions of individual producers and consumers in the marketplace. It is a system in which the laws of supply and demand direct what goods and services are produced.
- A **mixed economy** is an economic system that combines elements of traditional, command, and market economies. It allows for a level of economic freedom, but it also allows governments to interfere with the economy for the good of society.
- **Standard of living** is the level of wealth, comfort, and goods and services available to someone at a given income level within a society.
- **Profit motive** is the desire to make money out of production.