Midterm #1 Review Sheet

General Background (First Week of Class Stuff)

- Economics
- Economic model
- Scarcity
- Risk neutrality
- Cost-benefit analysis

Production Possibilities Frontiers and Gains From Trade

- Production Possibilities Frontier (PPF)
- Production efficiency
- Opportunity cost
- Increasing opportunity cost and implications for the shape of the PPF
- Comparative advantage
- Absolute advantage
- Gains from trade

Demand

- Quantity demanded
- Demand curve
- Law of Demand
- Factors that shift demand curve
  - Price of related goods
    - complimentary goods
    - substitute goods
  - Income
    - normal goods - know what types of goods are
    - inferior goods - know what types of goods are
  - Taste
  - Information
  - Expected future prices
  - Government Regulations
  - Other things
- How to add demand curves
Supply
• Quantity supplied
• Supply curve
• Factors that shift the supply curve
  o Price of inputs
  o Changes in technology (innovation)
  o The of firms
  o Other things
• How to add supply curves

Market Equilibrium in the Supply Demand Framework
• Price and quantity combination that determines the equilibrium and why
• Factor that might lead to
  o higher prices and higher quantities
  o higher prices and lower quantities
  o lower prices and lower quantities
  o lower prices and higher quantities
• How to solve for the equilibrium given linear demand and supply equations

Elasticity
• Definitions of
  o price elasticity of demand
    ▪ elastic demand - know what types of goods have
    ▪ inelastic demand - know what types of goods have
    ▪ unitary elastic demand
    ▪ perfectly elastic demand - know what the curve looks like
    ▪ perfectly inelastic demand - know what the curve looks like
  o cross price elasticity of demand
    ▪ substitutes - know the sign
    ▪ compliments - know the sign
  o income elasticity of demand
    ▪ income elastic demand
    ▪ income inelastic demand
    ▪ income elasticity of demand for inferior goods
  o price elasticity of supply
• How to calculate
  o price elasticity of demand (arc and point formulations)
  o income elasticity of demand
  o cross price elasticity of demand
  o price elasticity of supply
• Special cases (know what the graphs look like and why)
  o Perfectly elastic demand
  o Perfectly inelastic demand
  o Perfectly inelastic supply
  o Perfectly elastic supply

Welfare Analysis
• Consumer surplus
• Producer surplus
• Total Welfare
• Deadweight loss
• Allocative efficiency

Policy Applications of the Supply and Demand Framework

Know now how the following interventions might affect market outcomes. Also be able to identify the sources of deadweight loss associated with each of the following:
  o Price Floors
  o Price Ceilings
  o Unit Taxes
  o The incidence of a unity tax (when its zero and when it 1)
  o Ban on imported goods
  o Import Quotas (a limit on how much foreign producers can sell)
  o Import Tariffs (a unit tax paid by foreign producers)