**Basic concepts for the Midterm Exam on the 8th week**

**Definitions:** Scarcity, Economics, 4 resource categories & payments, positive versus normative statements, ceteris paribus assumption, marginal analysis, opportunity cost (Chapters 1 and 2)

**Production Possibilities Frontier:** be able to draw a PPF, explain efficiency versus unattainable and inefficient (unemployment of resources) on the graph. Why is the PPF bowed out? (the law of increasing opportunity costs) Economic Growth (Technological change)?

**Chapter 3:** P-P-P-PINT (Law of Demand and demand shifters), pp. 59-60

 and P-P-PEST (Law of Supply and supply shifters), p. 67

 3 conditions of a market (Surplus, shortage, or equilibrium, p. 70) and Double shifts

**Chapter 5:** Price elasticity of demand – be able to calculate these and know the inelastic, elastic, unit elastic, perfectly elastic and perfectly inelastic definitions (p. 107). Know the total revenue test of price elasticity of demand (p. 109), and 3 determinants of price elasticity of demand.

**Chapter 6:** Explicit and Implicit cost definitions, Economic and Accounting profit too (not normal profit), fixed versus variable inputs – short-run versus long-run, marginal product and the law of diminishing returns. Know the formulas for the costs as well as how to graph the average and marginal cost curves: AVC, AFC, ATC, MC. Remember that graphing AFC is done without drawing the line (the distance between AVC and ATC is critical for this). You won’t need to know how to graph the long run cost curves, however knowing that the LRAC is the envelope of the SRAC curves for different sizes of factory is important. Also know what economies and diseconomies of scale mean as well as constant returns to scale.

**Chapter 7:** Know the Characteristics of Perfect Competition, price taker and the MR=MC method. Be able to graph SR profit, loss, breakeven and shutdown for a PC firm. Also be able to graph the two parts of the supply curve for a PC firm. Finally, what is the long-run condition for PC firm (breakeven or zero economic profit). Free entry and exit for a perfect competitor means what in the long-run?

**Chapter 8:** Characteristics of a Monopoly – know how Natural Monopolies exist. What are the output and price decisions for a Monopolist. Be able to graph the MR=MC monopolist making a profit or loss. What is price discrimination and arbitrage? Finally, be able to compare a monopolist and a perfect competitor.

**Chapter 9:** Characteristics of a Monoplistic Competitor and the conditions for short-run profit being made. You will not be required to graph a MC or know anything about Oligopolists (there is just not enough time).