Basic concepts for the First Exam

Definitions: Scarcity, Economics, efficiency versus equality, positive versus normative statements, incentive, marginal change, opportunity cost, property rights, productivity, circular flow diagram (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) **Quiz #2 & Quiz #3** Economic Growth, immigration, and Technological change – shifting PPF

Chapter 3: Specialization and Trade, **absolute versus comparative advantage**, opportunity cost and the price of trade, consumption with trade versus self-sufficiency (everyone can gain from trade)

Chapter 4: P-P-P-PINT (Law of Demand and demand shifters), See Market Forces in

and P-P-PEST (Law of Supply and supply shifters), Chapter 4 (of S & D)

Make sure to study each of the 7 determinants of demand and the 6 determinants of supply. What is the difference between a change in quantity demanded (movement along the curve) and a change in demand (shift in the demand curve)? (Note the same discussion we had with supply too.)

3 conditions of a market (Surplus, shortage, or equilibrium), double shifts and ambiguous results, Chapter 4 & **Quiz #5**

NOTE: you will plot a graph as we did on **Quiz #4 & 7** (see price floor/ceiling below)

Chapter 5: Price elasticity of demand – be able to calculate these using the mid-point formula, know the "varieties": inelastic, elastic, unit elastic, perfectly elastic and perfectly inelastic definitions. Know how total revenue and price elasticity of demand are related as well as the determinants of price elasticity of demand: number of substitutes, broad vs. narrow good, luxuries vs. necessities, short vs. long run. Know how to calculate the price elasticity of demand as on **Quiz #5 and 6.** Income and cross price elasticity will be covered in the multiple choice portion of the exam (normal versus inferior for income elasticity and substitutes versus complements for cross price elasticity).

Chapter 6: Binding and non-binding price ceilings notice the case studies on gas at the pump and rent control. Price floors, when they are binding and non-binding (remember we did this one as a quiz – hint, perhaps we will do one on the exam like this – a graph, instead with a price ceiling and a shift – it may be binding or non-binding).

Taxes – tax incidence, understand the definition, note the tax can be placed on buyers (demand curve shifts) or sellers (supply curve shifts). Especially note the tax wedge, elasticity, buyer's price paid versus seller's price received.