

Basic concepts for the First Exam 4th week

Definitions: Scarcity, Economics, efficiency versus equality, **4 resource categories & payments**, 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) 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) – **Quiz #3**

Chapter 4: P-P-P-PINT (Law of Demand and demand shifters), pp. 67-71
and P-P-PEST (Law of Supply and supply shifters), p. 73-76

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, p. 76-78), 3 steps for analyzing changes in equilibrium, Double shifts and ambiguous results, changes in equilibrium quantity and price, p. 82.

NOTE: you will plot a graph as we did on **Quiz #4 & 5** (see price floor/ceiling below)

Chapter 6: Binding and non-binding Price Ceilings (pp. 112-116) 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). Minimum wage will be saved for the short paper assignment (pp. 118-120).

Taxes – tax incidence, understand the definition, what are the 3 steps, note the tax can be placed on buyers (demand curve shifts) or sellers (supply curve shifts). Especially note the tax wedge, see page 126. **Quiz #6**