

Chapter 1:

- Ten Principles of Economics:
 - o 1. People face trade-offs
 - o 2. The cost of something is what you give up to get it (opportunity cost)
 - explicit opp cost = monetary; implicit opp cost = whatever else it takes to give up
 - o 3. Rational people think at the margin (presume that people think rationally)
 - It's hard to model irrational thoughts
 - They think in the margin
 - Models do not necessarily have to be realistic
 - o 4. People respond to incentives
 - Incentives work
 - o 5. Trade makes us better off
 - o 6.
 - o 7.

Chapter 2:

- The role of assumptions: The underpinning of an economic model
 - o Think first what are the assumptions
 - o The PPC is linear
 - o Assumptions do not have to be realistic
 - o Models are simplifications of reality
- We assume there are only 2 goods; in reality there are more than 2 goods
- PPF = Production Possibilities Frontier
 - o Has a bowed out curve
 - o A point inside is possible but inefficient
 - o A point outside is impossible at the current time

- o Look at practice problems for ch. 2
- The bowed out shape of a PPF is the idea of diminishing returns:
 - o If we put all 100 kids into doing 1 task - each extra person isn't doing that much.
 - o However, you don't want to take out too many people because then the task will not achieve efficiency
- The main idea of comparative advantage is that countries tend to specialize in areas of their resources aka inputs to the production process
- Country with steeper slope will specialize in y-axis good
- Who's going to specialize in x = who's has the comparative adv. in x
- Do the right way of calculating the opportunity cost
- Calculating price ratio
- The price ratio will be in between autarky
- The thing that's more abundant should be cheaper than the product that's rare. Salmon is more abundant than gold and is less expensive

Chapter 6: Price ceilings and floors

- Minimum wage is a floor, not a ceiling
- If the minimum wage is set too low, nothing would happen
- At ceiling, quantity supplied would be greater than quantity demanded. This would increase unemployment
- Rent control is a ceiling, not a floor. If rent control was high, it would not do anything. If it was too low, the quantity demanded would exceed the quantity supplied.
- The incidence of tax does not depend on who you tax
- Whoever has the more inelastic supply or demand will bear the burden

Chapter 8/9:

- Demand curve is the "willingness to pay curve"
- Consumer surplus is area between Equilibrium Price and Demand Curve
- Producer Surplus is the area above the supply curve and the equilibrium price. It is what they are willing to sell at and what they actually sell

- It doesn't matter who you tax
- Welfare Loss
 - Test might not have matrix
- You can bring scratch paper
- Write initial situation without tax, then write a column with tax, then write the delta column (column 2 - column 1)
- PRACTICE THESE PROBLEMS
- A tax is inefficient aka creates dead weight loss aka a loss in welfare
- If you wanted to have a more inefficient tax, you should place a tax on inelastic goods
- To figure out imports, if quantity demanded exceeds quantity supplied, then you have imports