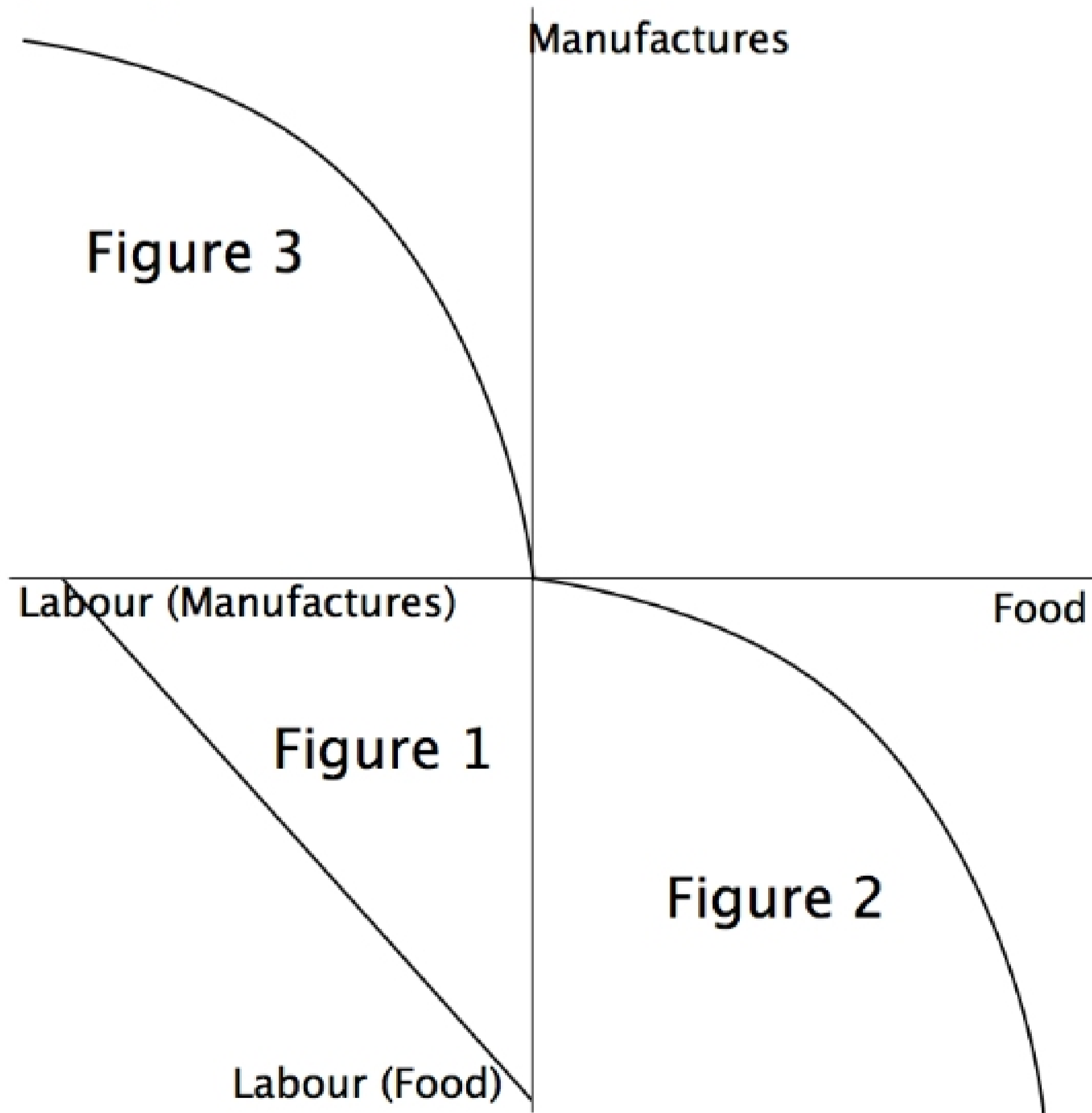


Reid's Econ Study Guide

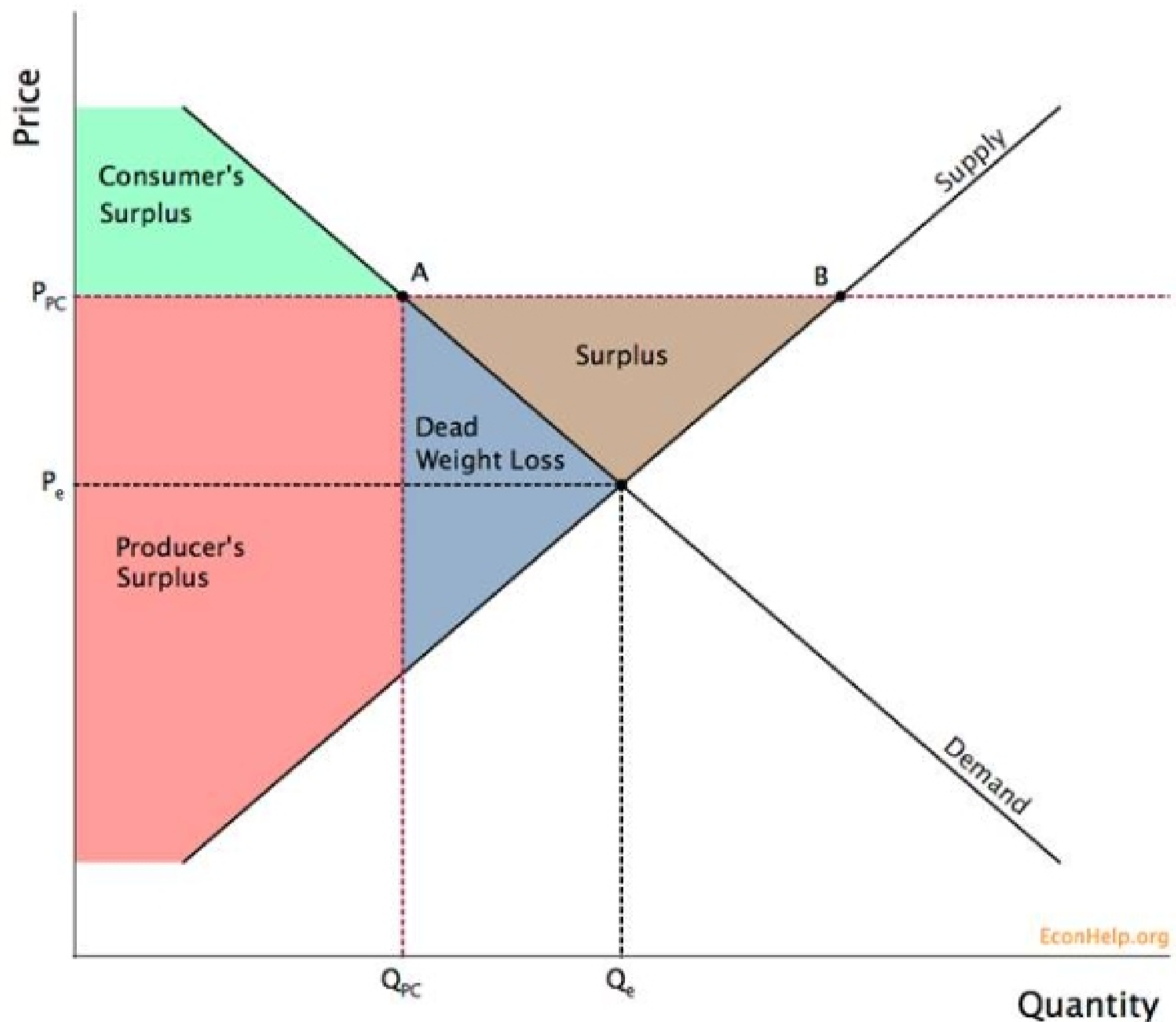
(Based off of Half Hour Exams)

- Exam 1
 - Economists assume that individuals are rational and respond to incentives
 - An increase in the price of a product that producers sell instead of milk would cause a decrease in the supply of milk
 - If an increase in income leads to a decrease in the demand for popcorn, then popcorn is an inferior good
 - The principle of opportunity cost is that the economic cost of using a factor of production is the alternative use of that factor that is given up
 - If the iPhone and Galaxy are considered substitutes, then, other things equal, an increase in the price of the iPhone increase the demand for the Galaxy
 - In 2004, hurricanes destroyed a large portion of Florida's orange and grapefruit crops. In the market for citrus fruit the supply curve shifted to the left resulting in an increase in the equilibrium price



- Exam 2
 - To affect the market outcome, a price ceiling must be set below the equilibrium price
 - Finding equilibrium price and quantity
 - Set the two equations equal to each other and solve for one variable, then plugging it back in to find the other variable
 - "I was all ready to pay \$300 for a new leather jacket , but I had ended up paying \$180 for it somewhere else" Describes the concept of consumer surplus
 - Imposing a rent ceiling results in an increase in the quantity demanded of apartments, there is a reduction in the quantity supplied of apartments, and the marginal benefit of the last apartment rented is greater than the marginal cost of supplying it
 - Supposing the demand curve for a product is vertical and the supply curve is upward sloping, if a unit tax is imposed in the market for this product, buyers bear the entire burden of the tax
 - The difference between the highest price a consumer is willing to pay for a good and the price the consumer actually pays is called consumer surplus
 - Economic efficiency is defined as a market outcome in which the marginal benefit to consumers of the last unit produced is equal to the marginal cost of production, and in which the sum of consumer surplus and producer surplus is at a maximum

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- Exam 3
 - If someone is willing to pay a certain price for something, but not any more than that, their price elasticity of demand is perfectly elastic
 - If the price elasticity of demand is -3, that means a 1 percent increase in the price of a good causes quantity demanded to decrease by 3 percent
 - When there are very few close substitutes of a good, demand tends to be relatively inelastic
 - If a firm wanted to know whether the demand for its product was elastic, unit-elastic, or inelastic, the firm could change price a little bit and observe what happens to total revenue
 - A vacation home in the Swiss Alps is likely to have a very high income elasticity of demand
 - The price elasticity of supply is equal to the percentage change in quantity supplied divided by the percentage change in price