ECO2013 Final Exam Study Guide
Dr. Lora Holcombe's Class
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Side Note:

The final will be about 50/50.
About half is the stuff that was on midterms 1 and 2 and the other half on what was covered after midterm 2.

Ch 1: What is economics?

- Study of how people make choices under constraints

1. Positive - testable
   Normative - opinion-based
2. Pitfalls in economics
   Ceteris paribus: all else equal
   Good intentions do NOT necessarily make good policy
   Fallacy of Composition: just because it is good for one does not mean it is good for all
3. Micro-economics vs Macro-economics
   Micro: individual (studying unemployment of just agricultural)
   Macro: big-picture (studying unemployment of whole US)
4. Poverty vs Scarcity
   Poverty:
   - if they are under the "standard of living"/"Poverty line"
   - Poverty is defined as people who do not meet the value added up of the total cost of all the necessities of a household and life.

   Scarcity: not enough goods, it needs to be chosen who gets it
   The only three non-scarce goods (free-goods) are: dirty air, salt water, and sunshine
5. 6 guideposts to economic thinking
   1) Opportunity cost: one most highly valued thing that you give up when you decide to do one thing rather than another.
   2) Choosing purposefully: trying to get the most for the least
   3) Incentives matter: people respond to incentives in a predictable way
   4) Marginal thinking: people make decisions at the margin
      :the additional thing added after
      EX: if at wends you finish your burger and fries and then start thinking about and buy a frosty. Marginal thinking would NOT be if the person bought it along with when they ordered the burger and fries
   5) Information is costly: rational ignorance?
      :the cost of educating on an issue exceeds the potential benefit that the knowledge would provide
      :the cost of knowing vs benefit of knowing it
      :if I don't specifically NEED to know it there is no point in learning it if I can just look it up whenever I want to

      EX: who is the secretary of the treasury?
      I could find out by just looking it up however I do not need to know it so I don't worry about learning it because I can look it up whenever I want to/need to.
      EX: when is the final exam?

The benefit of knowing is worth more than the cost of learning it because if it is on Thursday, come Friday, if I was to look it up then and figure it out Thursday I would be out of luck for taking it. Missing it on that Friday because I didn't want to learn it would just be ignorance, not rational ignorance.

6) Remember the secondary effects: effects something changes later on, either expected or unexpected

: People tend to ignore the long run secondary effects and focus on the short run

Ch 2: Tools of the Economist

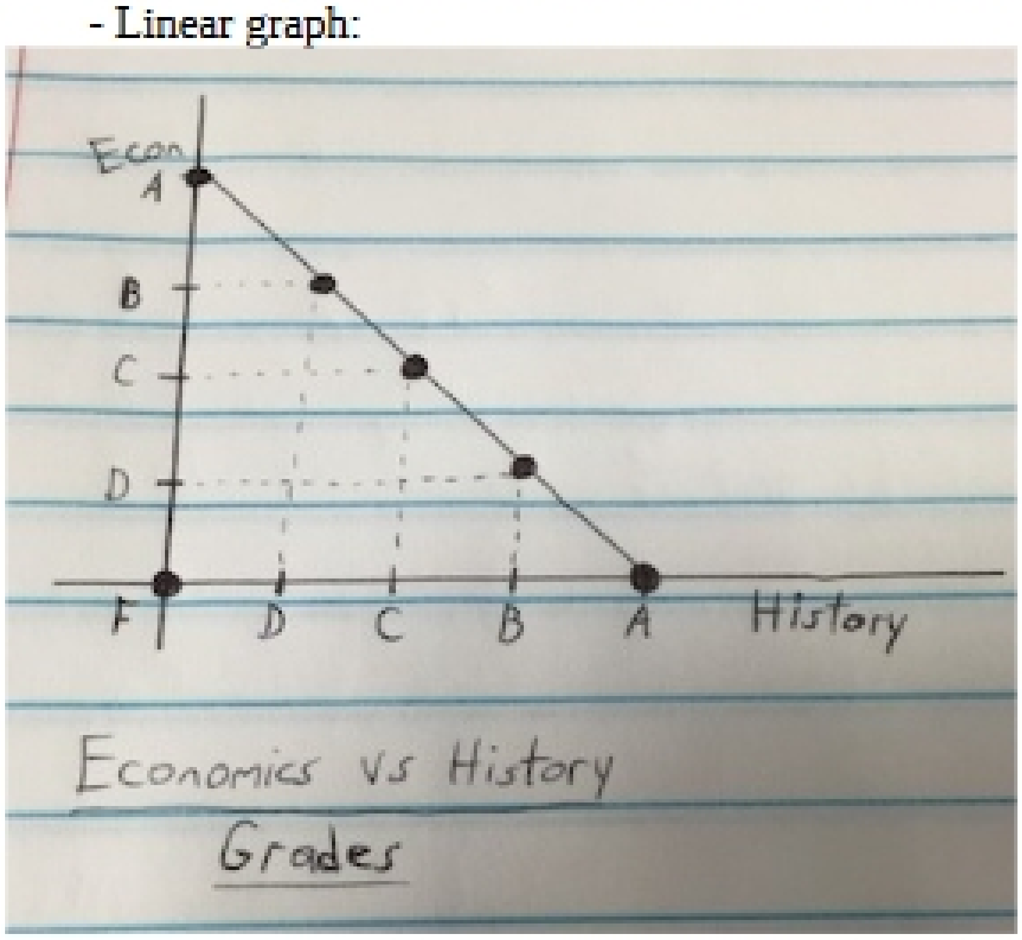
1. Trade creates value: only voluntary trade does meaning both people want to
2. Private Property
   1) Incentive to use property for society's benefit, not just their own
   2) Incentive to conserve: if your property (at your cost) goes up, you want to conserve to spend less

      EX: son of parents never turns off lights because he isn't paying bills, yet once he moves out to his own place, he is always turning off the lights and electronics to conserve so there will be no extra costs to his bill since he is now paying and it is at HIS cost.
   3) Incentive to care for their property and increase it's value: take care of your property to protect the value

      - Tragedy of the Commons: if everybody owns it nobody takes care of it
3. Production Possibilities: a graph of how much/many goods can be produced
   1) Linear vs Non-linear

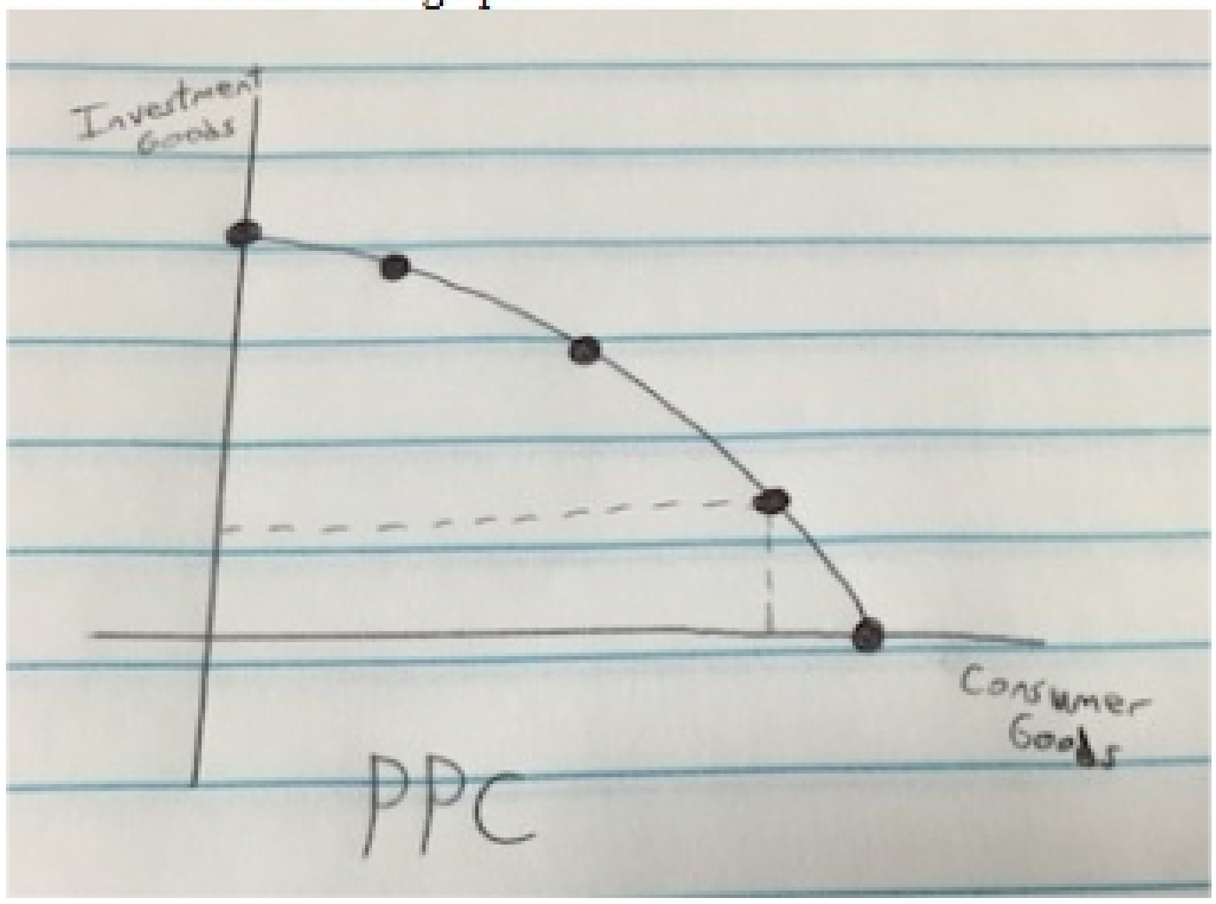
      Linear: opportunity cost is constant and resources are interchangeable

      - Linear graph:



Non-linear: opportunity cost is increasing because resources are NOT interchangeable

- Non-linear graph:



2) Limits PPC: fewer resources
   it is fewer because it is countable
3) Causes it to grow: increases in technology and/or resources

4. Gains from Specialization and trade
   1) Comparative advantage: the entity who produces with a lower opportunity cost
   2) Absolute advantage: the entity who does it better, they either have the same resources yet have a better outcome or have the same outcome but use fewer resources