

MIDTERM #1 REVIEW

Multiple choice 16 questions 3 points each

3 short answers with at least 2 subsections each, 10 points each

put your name on each page.

- **How to study**
 - o Review MyEcon lab questions
 - Look for errors you made and understand why they are wrong or right
 - o Use your notes. The course is based on the lectures and notes not on the textbook. Only use the text for fuller explanations.
- **Preliminary material-**
 - o **Opportunity costs-** Highest-valued alternative that must be given up to engage in an activity
 - Value of next best activity
 - What would you have done
 - o Underlies notion of PPF (**P**roduction **P**ossibilities **F**rontier - A curve showing the maximum obtainable combinations of 2 products that may be produced with available resources and current technology.)
 - 3 different shapes reflect different costs
 - Constant- straight line
 - Increasing- Arch that looks like top right of a circle
 - Decreasing- arch that looks like bottom left of circle
 - o Comparative Advantage
 - Being best is not necessarily good enough
 - EVERYBODY has one

- **Supply and demand**
 - o Why do curves look like they do ?
 - Demand Curve slopes down
 - Price is a cost
 - Supply Curve slopes up
 - Price is a reward
 - Equilibrium
 - "Everyone" is happy.
 - How do they move?
 - Prices of inputs
 - Technological Change
 - Prices of substitutes in production
 - Number of firms in the market
 - Expected future prices
 - What happens when they move?
 - Demand Curve slopes down -
 - o Income Effect-
 - You can now buy more of everything
 - o Substitution Effect-
 - You buy more of one thing and fewer of another
 - Supply Curve slopes up -
 - o Current producers make more
 - o New producers are attracted
 - Equilibrium -
 - o No tendency to change
- o **Equilibrium**
 - What it means to be at equilibrium.
 - Where quantity supplied equals quantity demanded.
 - What it means to be away from equilibrium

- Prices Below Equilibrium-
 - o Consumers are frustrated - willing and able to buy Q1, can only buy Q2
 - Prices above Equilibrium -
 - o Willing and able to sell Q1 but can only sell Q2
 - o What happens when we interfere?
 - *Price Ceilings* - A legally determined MAXIMUM price that sellers may charge.
 - *Price Floor* - A legally determined MINIMUM price that sellers may charge.
- **Consumer & Producer Surplus**
 - o Consumer surplus
 - The extra benefit from buying an item
 - Its why we buy things
 - o Producer surplus
 - The extra revenue producers get from selling
 - Not exactly profit
 - o Total gain from market exchange is CS+PS
- **Firms**
 - o 3 Types of firms
 - Proprietorship - One who owns or owns and manages a business or othe such establishment.
 - Partnership- joining in business, where the income, risk, controls etc is split between partners 50/50.
 - Corporation -A body that is granted a charter recognizing it as a separate legal entity having its own rights, privileges, and liabilities distinct from those of its members.
 - o Raise money into ways
 - Stocks- part ownership - pay dividends
 - Bonds - fixed obligation - pay interest