

Economics 1500H
Study Outline, Second Midterm

- I. Markets and Transportation
 - A. Role of transportation in location of colonial settlements
 - B. Role in transportation in size of marketing area
 - C. Market institutions in early America
 - 1. Market overt
 - 2. Caveat emptor
 - D. Transportation improvements
 - 1. Ocean shipping
 - 2. Turnpikes
 - 3. Canals
 - 4. Steamboats
 - 5. Railroads
 - 6. Automobiles
 - 7. Airplanes
 - 8. Interstate Highway system
- II. Efficiency
 - A. Pareto efficiency and PPF
 - B. Consumer surplus, producer surplus, total surplus
 - 1. Deadweight loss
 - C. Efficiency and the "Invisible Hand" of the market
- III. International Trade
 - A. Gains from specialization and trade
 - 1. Gains from importing
 - 2. Gains from exporting
 - B. Effects on CS, PS, TS of:
 - 1. Tariff
 - 2. Quota
 - C. Arguments in favor of trade restrictions
 - 1. Economic arguments
 - 2. Non-economic arguments
- IV. Measuring Output
 - A. Definitions of GDP and GNP
 - B. Components of GDP: $Y = C+I+G+NX$
 - C. Relationships among GNP, NNP, NI, PI, DI
 - D. Conceptual and measurement problems in national income accounting
 - 1. non-market goods and services
 - 2. illegal goods and services
 - 3. measurement error
- V. Measuring the Price Level
 - A. Consumer Price Index
 - B. GDP Deflator
 - C. Steps in constructing the CPI
 - D. Bias in CPI as a measure of the cost of living
 - 1. unaccounted quality change
 - 2. substitution bias
 - 3. new product bias

E. Use of the CPI to convert nominal GDP to real GDP

1. COLAS

COLA = Cost of living adjustments

VI. Economic Growth

A. Rule of 70

B. Determinants of economic growth

1. Factors affecting labor productivity growth: A, K/L, N/L, H/L
2. Other factors: political stability, trade openness, etc.
3. Policies to encourage economic growth

VII. Financial Institutions

A. Purpose of financial institutions

B. Financial markets

1. Bond market
 - a. characteristics of bonds
2. Stock market

C. Financial intermediaries

1. banks, credit unions, and other kinds of financial intermediaries

D. Market for Loanable Funds Model

1. Determination of long-term interest rates, investment, economic growth
2. Policies to encourage economic growth

VIII. Unemployment

A. Natural rate of unemployment

B. Labor force participation rate

1. male, female, changes over time

C. Factors affecting natural rate of unemployment

1. wait unemployment
2. search unemployment

Essay questions

- Efficiency
- International Trade
- Market for Loanable Funds

Role of transportation in colonial settlements

Sprang up around breaks in transport

Ports became successful cities

Role of transportation in size of marketing area

- 50% rule
 - Can only transport goods to the point where the cost of transport equals about half of the total profit
 - Otherwise it's not profitable
 - Cheaper to transport goods to England than it was to New York

Market Institutions

- Market overt
 - Certain towns were market towns
 - Held markets on certain days
 - Needed witnesses on days that weren't market days
- Caveat emptor
 - Let the buyer beware

Transportation Improvements

- Ocean shipping
 - No more pirates
 - Costs decrease by 40%
 - B/c don't have to worry about pirates
 - No more heavy weapons
 - Faster lighter ships
 - Already developed, just not usable b/c of pirates
- Turnpikes
 - Toll Roads w/ better base
 - Sometimes toll
- Canals
 - One animal could do the work of 50
- Steamboats
 - Can only go where rivers are
 - Can go upstream
- Railroads
 - Can go anywhere
 - Took awhile to switch b/c of the marginal cost
 - Less expensive to build a railroad, but the gain wasn't very large
- Automobiles
 - Moved to the suburbs