

**FINAL EXAM ECO2013 SPR 2013**  
**CHAPTERS 1-14 (NOT INCLUDING 4 AND 5)**  
**3-5 QUESTIONS PER CHAPTER**  
**51 TOTAL MC QUESTIONS**

**Chapter 1**

- Economics is the study of how we make choices under scarcity
  - Scarcity: There is less of a good freely available from nature than people would like
    - Ex: Time, money, cars, etc.
- Resource: an input used to produce an economic good
  - Human resources (human capital)
    - Ex: Human labor such as cashiers and bartenders, Albert Einstein uses his mind/knowledge, Chuck Norris- movies/jokes
  - Physical Resources (physical capital)
    - Ex: Buildings, machinery, pen, chair, HCB
  - Natural Resources
    - Ex: gas, land, gold, trees for lumber mills, natural springs for bottled water business
- 8 Guideposts to Economic thinking:
  1. **Resources are scarce so decision makers must make trade offs** (no such thing as a free lunch)
    - Opportunity Cost: the highest valued alternative that must be sacrificed when choosing an option
      - Ex: an hour of your time, guns and butter, how you spend your next \$15
  2. **Individuals are rational: they try to get the most from their limited resources**
    - Obtaining the "greatest benefit at the least possible cost"
      - Ex: Welfare vs. Education
      - Ex: Getting drunk after this test with a \$10 12 pack of beer, or a \$15 bottle of liquor
        - While some people find it rational to spend the \$15 for liquor, others may see that as irrational since they would rather drink the cheaper beer and still get just as fucked up

**What is rational for one person may not be rational for everyone**
  3. **Incentives matter**  
 Choice is influenced in a predictable way by changing incentives
    - Ex: Money game (tennis ball and yelling)
      - Prices
    - Ex: An incentive to wearing a helmet while driving a motorcycle is possibly preventing death.
    - Ex: An incentive to studying this study guide is getting an A on the test
  4. **Individuals make decisions at the margin**
    - Marginal: Describes the effect of a change in the current situation
      - Ex: Paying an extra 50 cents to supersize your meal
      - Ex: Olive Garden

A. All you can eat soup, salad and breadsticks = \$6

B. Chicken Parm (all you can eat soup, salad and breadsticks)=\$10

**MB: CHICKEN PARM VS. MC: \$4**

- Ex: Taco Bell

Tacos = \$1 EACH

Drink = \$.50 EACH

A. 2 tacos and a drink = \$2.50

B. Extra value meal: 3 tacos and a drink = \$3

**MB: 1 TACO > MC: \$.50**

- Cost Benefit analysis: One will undergo an action when the Marginal Benefit outweighs the Marginal Cost

- Ex: Is the extra 50 cents for a supersize worth it to you? Or not?

#### 5. Information helps us make better choices, but it is costly

- Ex: New house vs. new notebook.. bigger decision, more information you gather

#### 6. Beware of Secondary Effects

Economic actions generate both direct and indirect effects

- Secondary Effects: The indirect impact of an event or policy that may not be easily and immediately observable

- Ex: If the government makes the taxes on yachts too high in hopes of generating more tax revenue, less people will buy yachts which might put yacht companies out of service

#### 7. The value of a good or service is subjective

- Ex: People who buy their football tickets in advance value the ticket at that price; people who do not have a ticket at game time find the value of a ticket much higher which is why they pay up to \$100 more for a scalped ticket

- Moving goods and services to those who value them most is a primary source of economic progress

#### 8. The test of a theory is its ability to predict

- If real world events are consistent with a theory, then that theory is valid.

- Positive vs. Normative Economics

- Positive: The science study of what is (testable)

- Normative: Judgements of what ought to be (not testable)

- 4 Pitfalls to avoid in Economic thinking

##### 1. Violation of the ceteris paribus principal

- Ceteris Paribus: other things constant

- Ex: Buying eggs- "If the price of eggs goes up, people will buy less eggs, ceteris paribus"

##### 2. The belief that good intentions equal desirable outcomes

- Ex: Suicide warnings on anti depressant medication

##### 3. The belief that association is causation

- Ex: Superstitions

- Just because people file divorces on rainy days does not mean that rain causes the divorces

##### 4. The Fallacy of Composition: Belief that what is true for one might not be true for all

- Ex: When you get a raise vs. when everyone gets a raise

- Ex: It is easier for one person to see by standing at a football game, but that is not true for all because if everyone stood up, it would be the same as everyone sitting

## **Chapter 2**

- Voluntary trade creates value and leads to economic progress (the candy game)
  - The value of a good is subjective, so voluntary trade creates value
  - When individuals engage in voluntary exchange, both parties are made better off
  - "One mans trash is another mans treasure"
  - By channeling goods and resources to those who value them most, trade creates value and increases the wealth created by a society's resources
- Creation of wealth: The process by which some people become rich will make everyone richer
- Property Rights
  - The right to exclusive use of the property
  - Legal protection against invasion from other individuals
  - The right to sell, transfer, exchange, or mortgage the property
- Lack of Property Rights = Lack of Economic Progress**
- 4 Incentives:
  1. Use the resources in ways that benefit others
    - Ex: Empty Lot; if you own an empty lot in the middle of FSU campus, it would be the most beneficial to the students to use it as an additional parking area. Consequently, you would gain the most from that decision
  2. Care for and manage what they own
    - Ex: Office refrigerator vs. privately own refrigerator
    - The more someone cares for what they own, the more value their property will have at the time they sell it
  3. Private owners have an incentive to conserve for the future
    - Ex: Reason vows outnumber elephants; especially if it is going to increase in value
    - Ex: Popcorn at the movies; if you eat all of the popcorn at the beginning of the movie, then you will have non left for the rest of the movie
  4. Private owners have an incentive to make sure their property does not damage your property
    - Ex: Keeping your dog on leash; you are responsible
    - Ex: Cut tree leaning on neighbors lawn so it does not fall
- Production Possibilities Curve (PPC): PPC outlines all possible combinations of total output that could be produced assuming a:
  - Fixed amount of productive resources
  - Given amount of technical knowledge
  - Full and efficient use of resources
    - Inefficient: point inside the curve
    - Efficient: point on the curve