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Microeconomics Midterm #1 Review

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Not affiliated with a professor or university

Economics- Studying how to allocate limited natural resources to best meet human wants and demands

Microeconomics- A branch of econ studying the behavior of individuals and firms making decisions regarding the allocation of limited resources. Usually in a market where goods/services are bought and sold (google definitions)

Factors of Production

Factors of production and their returns

- 1) **Land-Rent**
 - a) Buying and selling land would later be beneficial to you because you would receive rent/money
- 2) **Labor-Wages and Salary**
 - a) Working would later be beneficial to you because of the hourly wages or salary you will make for the labor you have put in
- 3) **Capital-Interest**
 - a) Capital/money would later be beneficial to you because if you leave it to sit in the bank the bank will pay you interest for it (the more capital/money you leave in the bank, for the longer amount of time, the more interest/money back you will receive)
- 4) **Entrepreneurship-Profit**
 - a) Entrepreneurship-- person takes land, labor, and/or capital to make other goods or services
 - b) Entrepreneurship could later be beneficial to you because if your services are successful you will make a profit from the land, labor, and/or capital you have put in

Technical efficiency: Producing the maximum amount of goods/services with the smallest amount of inputs (amos web)

ex: Bri's lemonade stand produces 100 cups of lemonade each hour with only $\frac{1}{2}$ bag of sugar, 2 pitchers of water, and $\frac{1}{4}$ cup of lemon flavoring whereas Betsey's lemonade stand can also produce 100 cups of lemonade per hour, but requires 1 bag of sugar, 2 $\frac{1}{2}$ pitchers of water, and $\frac{1}{2}$ cup of lemon flavoring. Bri's lemonade stand is **technically efficient**.

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Economic efficiency: Producing the maximum amount of goods/services with the smallest cost in general (amos web)

ex: Bri buys her ingredients from Store A for a total of \$10 per 100 cups. Betsey buy her ingredients from Store B where it costs her \$12. Bri is **economically efficient**.

A Mixed Economy

Commodities: Tangible goods AND intangible services

Basic Economic Questions: What? How? For Whom?

What—what produced & in what quantities

How—how produced

For whom— divided by needs

Basic Economic Answers:

- Free markets influence the price system (If pens are a have a higher price margin & profit than pencils, then you should move to pen production)
- Prices tell marketers what to produce and in what quantities
- If labor prices are high labor workers have higher incomes

Free Market:

- Do we really have a free market? No we have a mixed economy** because of a lot of government regulation
- Free and unregulated markets were not giving the right answer
 - Chemical plants were disposing waste, so gov had to regulate how waste can be disposed
 - Cigarettes without gov involvement would be cheap and would induce people to buy them (gov taxes cigarettes and alcohol but not detergent to control the market)
- Monopoly influences—distort the allocative function of prices
 - Monopolies can make prices as high as they want
 - Would not reflect the true scarcity of resources
- Competitive assumption— we are going to assume that markets are competitive

Normative vs Positive:

- Normative statements: statements that can not be proven with data or research
 - Emotions, what's accepted, based on values
 - "Immigrants are great for the economy"

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-Positive statements: the statements can be proven with some sort of data or research study

-“There are ... immigrants and it effects the US by...”

-Data must be able to prove the statements for it to be positive

-Ex: “If we balance the federal budget we will improve the inflation” =normative bc history proves correct

Regression Analysis-statistical process for estimating the relationships among variables--specifically two variables (wiki)

Graph analysis (*Check powerpoint 1 for regression analysis graph*)- As more of a product is consumed, the income will increase in a direct relationship. This makes income a function of consumption.

Math Concepts--Function $y=f(x)$

-y=dependent

-x=independant

-Slope intercept form: $y=mx+b$

See powerpoint for graphs

Opportunity Cost

Opportunity Cost: cost of an alternative that must be forgone to pursue another action (investopedia)

Shirts and Pants:

The shirts you like at Urban Outfitters (yes, best store ever) are 20 dollars each. The pants you like are 40 dollars each. You have 100 dollars to spend.

1) You could buy 2 pairs of pants and 1 shirt

OR

2) You could buy 1 pair of pants and 3 shirts

If you decide to go with situation 1 your opportunity cost for buying an extra pair of pants will be 2 shirts. If you decide to go with situation 2 your opportunity cost for buying 2 more shirts will be 1 pair of pants.

The opportunity cost per unit is measured by the decrease in the quantity of one divided by the increase in the quantity of the other.

PPF

Marginal cost- the opportunity cost of **producing** one more unit of a commodity (Pearson Economics)