

Basic concepts for the First Exam 5th week

Definitions: Scarcity, Economics, efficiency versus equality, **4 resource categories & payments**, positive versus normative statements, incentive, marginal change, opportunity cost, property rights, productivity, circular flow diagram (Chapters 1 and 2)

Production Possibilities Frontier: be able to draw a PPF, explain efficiency versus unattainable and inefficient (unemployment of resources) on the graph. Why is the PPF bowed out? (the law of increasing opportunity costs) Economic Growth, immigration, and Technological change – shifting PPF - **Quiz #2**

Chapter 3: Note especially the concepts of: Specialization and Trade, absolute versus comparative advantage, opportunity cost and the price of trade. Also a big point was about “consumption possibilities” with trade versus self-sufficiency (everyone can gain from trade) – **Quiz #3**

Chapter 4: P-P-P-PINT (**Law of Demand and demand shifters**), **See Market Forces in** and P-P-PEST (**Law of Supply and supply shifters**), **Chapter 4 (of S & D)**

3 conditions of a market (Surplus, shortage, or equilibrium), 3 steps for analyzing changes in equilibrium and Double shifts and ambiguous results, **Chapter 4**

NOTE: you will plot a graph as we do on **Quiz #4** (see price floor/ceiling below)

Chapter 5: Price elasticity of demand – be able to calculate these using the mid-point formula, know the “varieties”: inelastic, elastic, unit elastic, perfectly elastic and perfectly inelastic definitions (p. 94). Know how total revenue and price elasticity of demand are related (p. 95-96), and the 4 determinants of price elasticity of demand. **Quiz #5**

Price elasticity of supply, income elasticity, and cross price elasticity: know the basic ideas (varieties for supply, normal versus inferior for income and substitutes versus complements for cross price).

Chapter 6: Binding and non-binding **price ceilings**: notice the case studies on gas at the pump and rent control. **Price floors**, when are they binding and non-binding (remember we did this one as a quiz – hint, perhaps we will do one on the exam like this – a graph, instead with a price ceiling and a shift – it may be binding or non-binding).

Taxes – tax incidence, understand the definition, what are the 3 steps, note the tax can be placed on buyers (demand curve shifts) or sellers (supply curve shifts). Elasticity and incidence. **Quiz #6**