

20/20 Fantastic!!

Term 1 Quiz - Key Economic Concepts and Markets

Name: Maggie.

1. Explain the meaning and the importance of the term ceteris paribus.

Ceteris Paribus means all other variables held constant. It is very crucial to economic models. It helps to see the effect of one variable when everything else remain unchanged.

2. "A proposed increase in the tax on cigarettes will result in a decrease in the number of youth who will start smoking." This statement is positive. Write a normative statement related to this claim. is too low and should be increased.

~~The tax on cigarettes~~ It is wise to increase the tax on cigarettes because
there are too many youth starting smoking so young.

3. What is meant by the term scarcity?

Scarcity refers to the limit of resources with respect to human's unlimited wants and needs.

4. In a market economy, how do we answer the questions "What to produce?", "How to produce?" and "For whom to produce?"

① To answer the questions "what to produce" and "how to produce", we are making a decision in resource allocation: what quantities should we produce what goods " " ~~What~~ factor of production and how much of it should be assigned? By looking at PPC, we try to achieve the market equilibrium as the answer to those

5. What was your opportunity cost for studying for this quiz? questions.

② To answer the question

"For whom to produce"

we are looking at

income distribution.

In a market

economy, it is

determined by

the profit earned

and efficiency

of production.

producers act

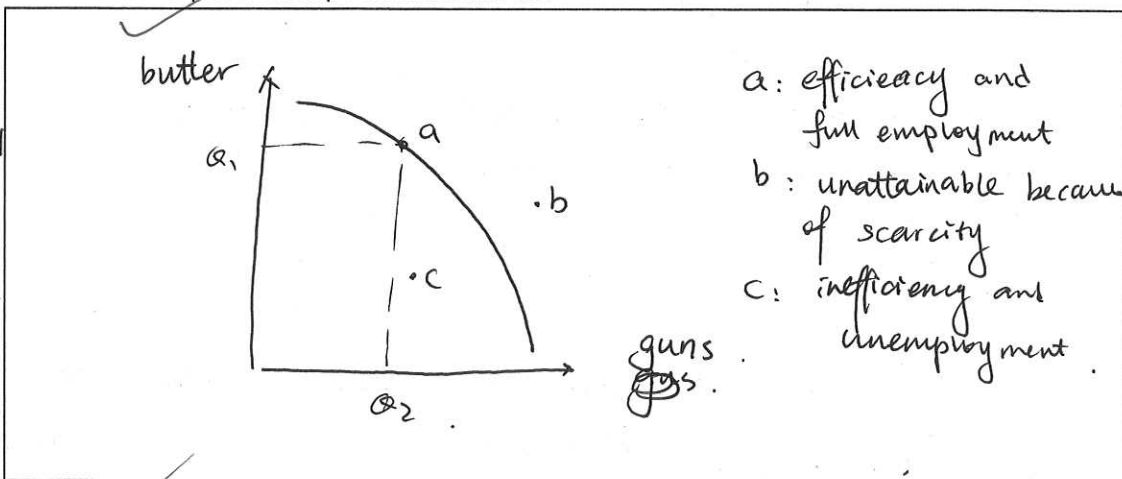
according to

the prices of

goods.

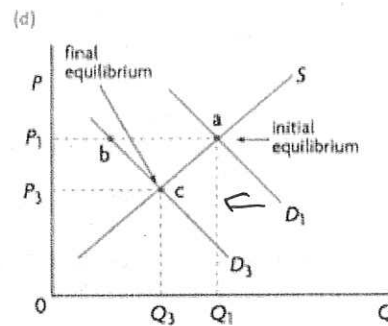
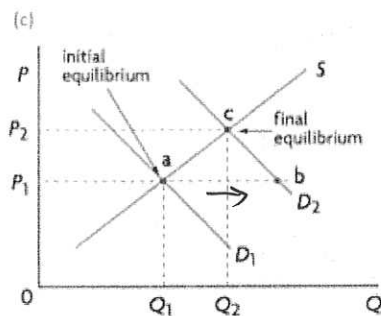
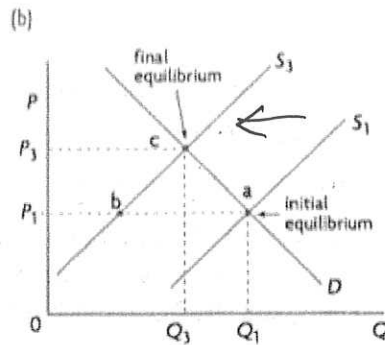
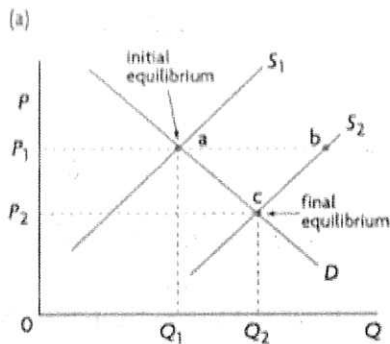
The time I used ~~study~~ reviewing econ notes that could have been used to play and chat with my friends.

6. Draw a production possibilities model.



7. Why there is a curved line in the production possibilities curve?

It is curved because of resource specialization. ~~then~~ for example, Some resources are dedicated to butter production, while some are for guns. when all resources are used to produce butter, not all resources are optimally used. so for each increased unit of butter, the opportunity cost increase starting from a certain point.



8. Which of the graphs above illustrates an increase in demand?

9. List three factors that may result in an increase in demand.

Population growth (increase buyers).
Increase in per people's income.
The price of substitute increases.

10. What is the impact on equilibrium price and quantity?

When demand increases, equilibrium price increases, equilibrium quantity increases.

11. Which of the graphs above illustrates a decrease in supply?

12. List three factors that may result in a decrease in supply.

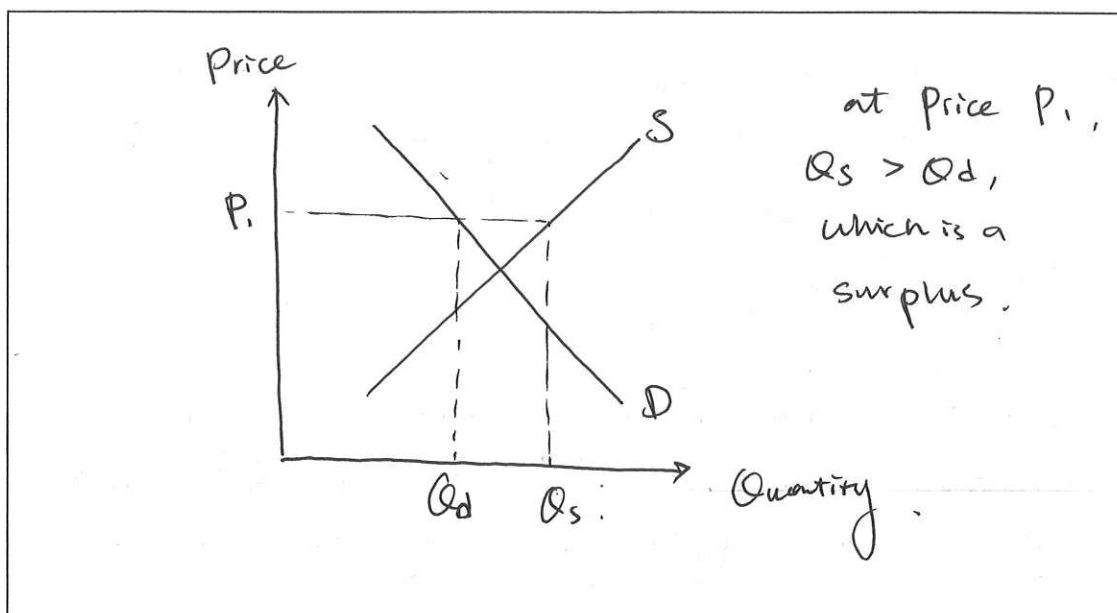
Government intervention; increased indirect tax.
Cost of production increases, e.g. minimum wage increases.
The price of competitive supply increases.

(so that producers produce more of that instead).

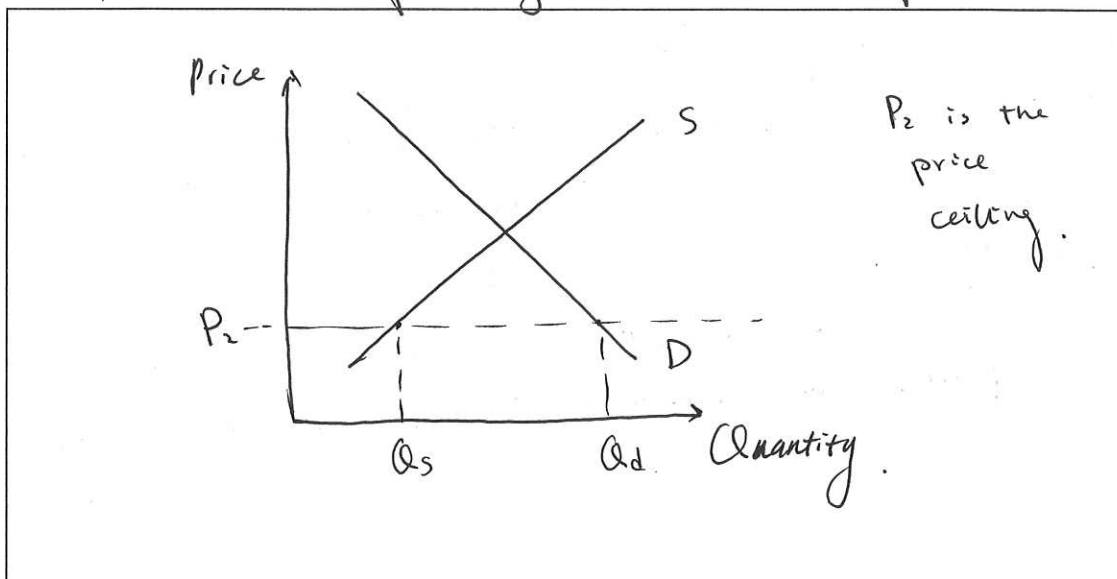
13. What is the impact on equilibrium price and quantity?

When supply decreases, equilibrium price increases, quantity decreases.

14. Draw a graph illustrating a surplus.



15. How is a surplus corrected in a free market situation? ^{have the incentive}
 When $Q_s > Q_d$, producers ~~tend~~ to lower the price of the good in order to sell out all goods. Therefore, the price ~~decreases~~ goes down until it reaches the equilibrium price, when $Q_s = Q_d$, when there is no surplus any more and the surplus is corrected.
16. Draw a graph illustrating a price ceiling.



because otherwise there might be ~~organ~~ kidney theft because of the profit earned.

17. What is the effect of a price ceiling?

~~Usually~~ The price cannot be higher than a certain point. As a result, (usually) it cannot achieve the market equilibrium.

18. Why might a price ceiling be important? ^{resulting in a shortage (as $Q_d > Q_s$)}

It makes sure that more consumers are able to purchase because of a lower price.

It may also help with government regulations. For example, by forbidding ~~the~~ selling kidney, the government is putting the price ceiling to 0, so that poor ~~people~~ people get more equal chance of health care; it also helps ensure public safety.

19. What is the difference between a movement of a supply/demand curve and a movement along a supply/demand curve?

- A movement of a supply/demand curve occurs when there is a change in non-price determinant. e.g. demographic change, expectation about future, people's income, etc.
It creates a new market equilibrium
- A movement along a curve occurs when there is a change in price.

20. What are the three functions of price

Signal	: signalling suppliers/ ^{consumers} producers where there is a surplus/shortage.
Incentive	: give suppliers/ ^{consumers} the incentive to produce ^(buy) more (less)
Ration	: make suppliers ^(buy) to produce more (less) of something ^(consumers)

Questions I expected:

- The definition of a market: *great!!*
a place where buyers and sellers gather together to exchange goods or services or factors of production.
- the difference btw normal and inferior goods:
normal: when income \uparrow , demand \uparrow . e.g. cars.
inferior: when income \uparrow , demand \downarrow . e.g. second-hand cloth.