

# First Midterm Review

ECON 1B

# Chapter 1

- The Scarcity Condition
- The Five Foundations of Economics
  - Incentives
  - Trade-offs
  - Opportunity Cost
  - Marginal Thinking
  - Trade Creates Value

# Chapter 2

- Positive vs. Normative Statements
- Economics Models
  - Ceteris Paribus
- Productions Possibilities Curve (Frontier)
  - Assumptions
  - Law of Increasing Relative Cost
  - Shifts

# Chapter 2 Continued

- Capital Vs. Consumption Goods
- Comparative Advantage and Absolute Advantage
  - Calculating Opportunity Costs
  - Determining Specialization
- Voluntary Trade

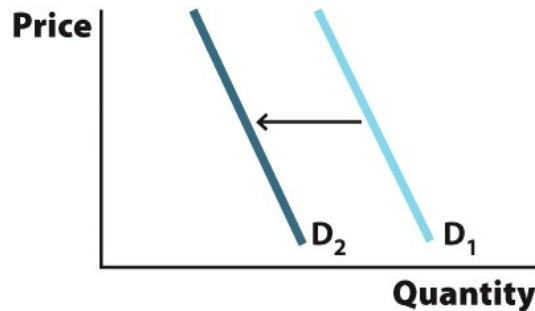
# Chapter 3

- Law of Demand
  - Demand Schedule
  - Demand Curve
  - Market Demand
- Shifts in Demand vs Movement along the Demand Curve

# Summary of Demand Shifters

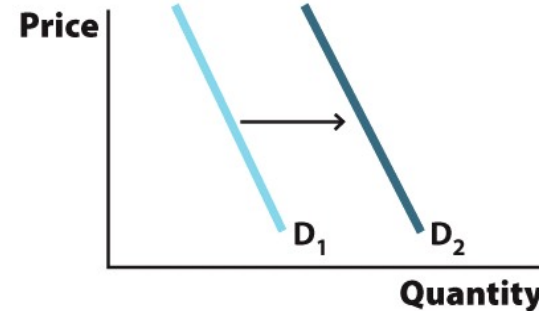
## Factors That Shift the Demand Curve

### Factors That Shift Demand to the Left (Decrease Demand)



- Income falls (demand for a normal good).
- Income rises (demand for an inferior good).
- The price of a substitute good falls.
- The price of a complementary good rises.
- The good falls out of style.
- There is a belief that the future price of the good will decline.
- The number of buyers in the market falls.

### Factors That Shift Demand to the Right (Increase Demand)



- Income rises (demand for a normal good).
- Income falls (demand for an inferior good).
- The price of a substitute good rises.
- The price of a complementary good falls.
- The good is currently in style.
- There is a belief that the future price of the good will rise.
- The number of buyers in the market increases.

# Comparative and Absolute Advantage

Tony		Manny	
Cakes	Pies	Cakes	Pies
0	8	0	12
2	6	1	9
4	4	2	6
6	2	3	3
8	0	4	0

# Sample Questions

1. If the demand for a good rises when your income rises, the good is

- a. Inferior
- b. Normal
- c. Capital
- d. Awesome

2. Consider a demand curve for ground beef. We move *along* the demand curve when

- a. the price of hamburger buns increases
- b. a news report comes out saying that ground beef cures cancer
- c. only the price of ground beef changes
- d. the price of ground turkey decreases



# Sample Questions

3. The highest-valued, next-best alternative that must be sacrificed to attain something or satisfy a want is called

- a. a marginal cost
- b. a financial cost
- c. an opportunity cost
- d. shift in demand

4. Which of the following would cause the demand curve to shift to the right?

- a. Tastes and preferences decrease
- b. Income decreases for a normal good
- c. Income decreases for an inferior good
- d. The price of a complement increases

# Sample Questions

5. Consider a demand curve for pork. If the price of beef decreases while the price of pork stays the same, then I would consume less pork because

- a. beef is an inferior good
- b. beef is a normal good
- c. beef and pork are complements
- d. beef and pork are substitutes

6. The Production Possibilities Curve is bowed outwards because of

- a. the Law of Decreasing Relative Cost
- b. the fact that every point on the PPC is efficient
- c. the Law of Increasing Relative Cost
- d. the fact that it is easier to be inefficient in production

# Sample Questions

7. Consider a demand curve for tortilla chips. If the price of salsa decreases while the price of tortilla chips stays the same, then I would consume more tortilla chips because.

- a. salsa is an inferior good
- b. salsa is a normal good
- c. tortilla chips and salsa are complements
- d. tortilla chips and salsa are substitutes

8. On the Production Possibilities Curve

- a. technology is constantly changing
- b. there are no trade-offs
- c. resources cannot be used fully
- d. resource inputs are fixed

# Sample Questions

9. Identify the positive economic statement.

- a. An increase in cigarette prices will reduce the number of smokers.
- b. Increasing cigarette prices is a good thing.
- c. The government should increase cigarette prices.
- d. I would rather someone chew tobacco than smoke.

10. In the film, *A Knight's Tale*, the peasants decide to reinvest 13 silver coins in training to become better at jousting. This reinvestment is known as what kind of good?

- a. capital good
- b. an inferior good
- c. a consumption good
- d. It's not a good.