

# Study Guide for Midterm 1

## ECO 2023

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The first midterm has 35 multiple-choice questions. This document serves as a study guide only. Ideally, you would read the book, go over the slides and homework, take the quizzes assigned for each chapter and solve the sample midterm.

### **1 Chapter 1: Economics, foundations and models**

- Three key economic ideas
- The economic problem every society must solve
- Centrally planned economies versus market economies
- Economic models

### **2 Chapter 2: Trade-offs, comparative advantage and the market system**

- Production possibilities frontiers
- Increasing marginal opportunity cost
- Opportunity costs (math)
- Comparative advantage and absolute advantage (math and definitions)
- Gains from trade
- The market system (the circular flow of income)

### **3 Chapter 3: Where prices come from: the interaction of demand and supply**

- The law of demand
- Substitution and income effect
- Ceteris Paribus

- Variables that shift the market demand (graphs)
- A change in demand versus a change in quantity demanded
- The law of supply
- Variables that shift the market supply
- Market equilibrium (surplus, shortage)
- The effect of demand and supply shifts on equilibrium (graphs)

#### **4 Chapter 4: Economics efficiency, government price setting and taxes**

- Consumer surplus and producer surplus (math and graphs)
- The efficiency of competitive markets (marginal benefit, marginal costs, deadweight loss)
- Price floor
- Price ceiling
- The effect of taxes on economic efficiency
- Tax incidence (tax burden)

#### **5 Chapter 6: Elasticity: the responsiveness of demand and supply**

- Measuring the price elasticity of demand using midpoint formula
- Elastic, inelastic, perfectly elastic, perfectly inelastic, unit elastic demand
- The determinants of price elasticity of demand
- The relationship between price elasticity of demand and total revenue
- Other demand elasticities (cross-price elasticity of demand, income elasticity of demand)
- Measuring the price elasticity of supply
- Determinants of the price elasticity of supply
- Elastic, inelastic, perfectly elastic, perfectly inelastic, unit elastic supply