## Micro-Economics Exam 1 Review

1. Review
   1. Economics
      1. Definition: The study of the allocation of scarce resources amongst competing wants and needs.
   2. Macro vs. Micro
      1. Micro
         1. You’re looking into the specifics
      2. Macro
         1. You’re looking into the aggregate
   3. Positive vs. Normative
      1. Positive
         1. Deals with “what is”
         2. Descriptive
         3. Uses facts and data
      2. Normative
         1. Implies value of judgment of some sort
   4. Pitfalls to Thinking
      1. Bias
      2. Fallacy of Composition
         1. When you assume what is good for group A is good for group B.
      3. Correlation is not causation
   5. Opportunity Cost
      1. TNSTAAFL – There’s no such thing as a free lunch
   6. Scarcity
      1. Limited amount, examples would be land, labor, and capital
   7. Production Possibilities Frontier(PPF)
      1. Assumptions
         1. Fixed number of resources
         2. Fixed level of technology
         3. All resources are being fully and efficiently utilized
      2. What does PPF measure?
         1. represents the boundary or frontier of the economy's production capabilities
      3. Understand PPF = PPC(Production Possibility Curve)
      4. Constant vs. Increasing Cost
         1. Constant
         2. Increasing Cost
   8. Supply & Demand
      1. Laws of Supply
         1. Price and quantity supplied vary directly
      2. Laws of Demand
         1. Negative, or inverse relationship between price of product and the quantity demanded.
      3. Delta D v Delta Qd
      4. Delta S v Qs
      5. Determinants of Demand
         1. Income
         2. Tastes & Preferences
         3. Prices of related goods
            1. Substitutes

The price of pepsi effects coke

The price of American Airlines effects Delta

The price of Ford effects Chevy

* + - * 1. Compliments

Hot dog and hot dog buns

Computers and software

Golf clubs and golf balls

Cars and gasoline

* + - 1. Expectations
         1. If you believe the price of the product is going to go up, you might buy it now.
    1. Determinants of Supply
       1. Input prices (cost of production)
       2. Technology
       3. Prices of other goods
       4. Taxes and subsidies
          1. Sales tax
          2. Sin taxes (Alcohol and Tabaco)
       5. Expectations
    2. Understand how to graph and interpret supply and demand
    3. Market Equilibrium
    4. What happens when market isn’t in equilibrium?
       1. Scarcity
          1. Let go of ceteris paribus. The price goes up.
       2. Surplus
          1. Let go of ceteris paribus. The price goes down
    5. What happens when both sides change simultaneously?
       1. Increase in Demand & Increase in Supply => ?Pe Upward Qe
       2. Increase in Demand & Decrease in Supply => Upward Pe, ?Qe
       3. Decrease in Demand & Increase in Supply => Downward Pe, ?Qe
       4. Decrease in Demand & Decrease in Supply => ?Pe, Downward Qe
  1. Consumer & Producer Surplus
     1. Define
     2. Calculate
        1. Note: The A(Top)/ B(Bottom) part of a S&D graph
  2. Price Floors & ceilings
     1. Floor
        1. Define
        2. Effect on market
        3. Examples: Agriculture today
     2. Ceiling
        1. Define
        2. Effect on market: Decrease in supply, increase in demand, however a net loss in the producer surplus.
        3. Examples: Gas in the 70s, rent in NYC
  3. Elasticity will **not** be on this test
  4. For chapter 7 in the workbook only care about price floor/ ceilings
  5. Workbook questions are easier than the test