

ECON 1a, Fall 2010 Midterm study guide

The exam will cover Chapters 1-7 plus two pages of Chapter 8. There will be 35 to 40 multiple-choice questions which you will answer on a Scantron 882-E form and three multi-part questions involving graphs which you will answer on your test paper. Midterm letter grades will be available soon after the exam – send email to request yours.

- Some basic terms and concepts
 - Economics
 - Economizing
 - The economic way of thinking
 - Opportunity cost
 - “Rules of the game”
 - Scarcity, shortage, surplus
 - Capital
 - Normal goods and inferior goods
 - Wealth
 - Market clearing, sometimes called equilibrium
- Gains from trade
 - Traders expect to benefit
 - Inequality of value implied, not equality
 - Possibility of disappointment.
- Production possibility frontiers
 - Meaning of points on the PPF; above the PPF; below the PPF
 - Calculating opportunity costs from a PPF (Fig. 4.1, class web site)
- Absolute advantage and comparative advantage
 - Identifying absolute advantages from a PPF graph
 - Identifying comparative advantages from opportunity costs
 - Calculating gains from trade given particular terms of trade
- Demand versus quantity demanded; supply versus quantity supplied. Shifts of curves versus movement along the curves.
- Law of demand; law of supply
- Change in price causes movement along a supply or demand curve, not a shift of those curves (other things being unchanged)
- Revenue formula
- Five steps for solving problems involving shifts in supply or demand

- Elasticity
 - Mathematical definition.
 - Shapes of highly elastic and highly inelastic demand or supply curves.
 - Connection between elasticity and the availability of substitutes
 - When demand is highly elastic, a price increase can lead to declining revenue (p. 61)
 - Long-term and short-term elasticity
 - Dependence of elasticity on the specificity with which a market is defined (text example: SUV's p. 61)
 - Substitutes for anything implying no perfectly inelastic demand and no vertical demand curves
- Six factors that can cause demand to shift
- Four factors that can cause supply to shift
- Binding and non-binding price ceilings and price floors
 - Consequences of each
 - Positions on a S/D graph
- Costs
 - Opportunity cost: definition; monetary and non-monetary
 - Only actions have costs, not things
 - Sunk cost versus marginal cost
 - Cost-plus-markup theory of price setting
- Profit and loss
 - Definition
 - Difference between economic profit and accounting profit
- Arbitrage, arbitrageurs
 - What they do
 - The social benefits they provide
- The cost-plus-market theory: what it says and why it's wrong; what two factors actually set prices in a free market.
- Price searching
- Price discrimination
 - What it means
 - Two conditions that must be met if it is to work