

Review sheet, econ1B midterm I
Midterm is Thursday, 10/2
Professor Holian

Economics: definitions

Factors of production and their payments

Incentives

Opportunity cost

Marginal analysis

Positive versus normative analysis

Models and assumptions

Microeconomics versus macroeconomics

Production possibilities frontier (PPF)

- How to use it to illustrate opportunity cost, efficiency and growth
- Why it might be bowed inward, outward, or a straight line

Market mechanism

Market failure

Externality

Non-excludable goods (public and common pool goods) lead to the free rider problem

Non-excludable and rival goods (common pool goods) lead to a tragedy of the commons

Gains from trade due to:

- Increasing returns
- Comparative advantage

Absolute advantage

Requirements for perfect competition

Demand versus quantity demanded

Individual demand versus market demand

Movements along the demand curve versus shifts in demand

Factors that cause demand to shift

Supply versus quantity supplied

Individual supply versus market supply

Movements along the supply curve versus shifts in supply

Factors that cause supply to shift

Equilibrium

Comparative statics

- In the demand and supply model, you should be able to find the new equilibrium point after something happens that causes a curve (or curves) to shift

Utility

Diminishing marginal utility

Indifference curves

Budget lines

Maximizing utility means getting to the highest possible indifference curve

Maximizing utility subject to budget constraint means getting the point where indifference curve and budget line are just tangent

Deriving demand from the theory of consumer choice

Using the theory of consumer choice to show movements and shifts in demand

Fixed versus variable inputs

Short run versus long run

TP, MP, AP, TFC (FC), TVC (VC), ATC, MC

Typical shapes of these curves

Accounting profit versus economic profit

Relationship between ATC and MC

Costs in the long-run: economies of scale versus diseconomies of scale

Profit maximizing point is where $MR=MC$

How to read the graph with individual firm cost curves, and find profit maximizing point

Sunk costs and the decision to shut down versus operate with a loss in the short run

Different types of individual supply curves (which portion of the MC curve?)

Entry and exit of firms in a competitive market causes the LR market supply curve to be flat...but, if firms differ in their production technology, then the LR market supply curve can be upward sloping