

## Midterm 1 Study Guide

**Date:** 9/22(Thursday)

**Time:** 11:00 am - 12:15 pm

**Location:** CLRE 207 (our regular classroom)

**Format:** 40 multiple-choice problems

**Coverage:** Ch.1-5, Ch.6 (lecture up through 9/20)

Please bring a pencil and a non-graphing calculator. Cell phone calculator or graphing calculator is not allowed. Remember your student ID.

### Ch.1

- 10 principles of economics in 3 categories
- Definition: scarcity, economics, efficiency, equity, opportunity cost, rational, marginal changes, incentive, market, market economy, market failure, externality, market power, productivity

### Ch.2

- Model?
- Circular flow diagram
- Production Possibilities Frontier
- Shape of PPF
- What does PPF depend on? Efficient? Inefficient? PPF move/shift?
- Microeconomics and macroeconomics
- Normative statements and positive statements

### Ch.3

- What is absolute advantage? Comparative advantage? Imports and exports
- How to find which country/individual have absolute advantage/comparative advantage on which good?
- The legacy of Adam Smith and David Ricardo

### Ch.4

- Market, competitive market, characteristics of perfectly competitive market

- Quantity demanded, Law of Demand, Market Demand vs. Individual Demand, Change in Demand: PYNTE, substitutes, complements, normal goods, inferior goods
- Quantity supplied, Law of Supply, Market Supply vs. Individual Supply, Changes in Supply: PENT
- Supply and Demand, equilibrium, surplus, shortage, 3 steps to analyzing changes in equilibrium, shift in both demand and supply

#### Ch.5

- What is Price elasticity of demand and how to calculate? Midpoint method
- 5 specifications of price elasticity of demand (what do these numbers mean)? Graph?
- Elasticity in a straight line of demand curve
- What are the determinants of the influence Elasticity of demand and how they influence elasticity of demand?
- TR? The relationship between elasticity and total revenue
  - Demand elastic  $\rightarrow E > 1 \rightarrow \% \Delta Qd > \% \Delta P$ 
    - Price  $\uparrow \rightarrow Qd \downarrow \rightarrow TR \downarrow$
    - $\downarrow P \rightarrow Qd \uparrow \rightarrow \uparrow TR$
  - Demand inelastic  $\rightarrow E < 1 \rightarrow \% \Delta P > \% \Delta Qd$ 
    - Price  $\uparrow \rightarrow Qd \downarrow \rightarrow TR \uparrow$
    - $\downarrow P \rightarrow Qd \uparrow \rightarrow \downarrow TR$
- What is elasticity of supply and how to calculate it?
- What is inelastic, elastic and unit elasticity of supply? Graph? What are the factors that influence elasticity of supply?
- What is income elasticity and how to calculate it? The difference between income elasticity for inferior goods and income elasticity for normal goods.  
For normal goods, income elasticity  $> 0$   
For inferior goods, income elasticity  $< 0$
- What is cross elasticity and how to calculate it? The difference between cross price elasticity for substitute and cross price elasticity for complement.  
Cross-price elasticity of demand  
For substitutes, cross-price elasticity  $> 0$   
For complements, cross-price elasticity  $< 0$