

Midterm 2 Study Guide

Date: 10/20 (Thursday)

Time: 11:00 am - 12:15 pm

Location: CLRE 207 (our regular classroom)

Format: 40 multiple-choice problems

Coverage: Ch.6 (from tax), Ch.7, Ch.8, Ch.9, and Ch.10 (lecture up through 10/13)

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

Ch.6

- Taxes on buyers & taxes on sellers, graph?
- What is the price of buyers that they pay after tax is imposed? What is the price of sellers that they receive after tax is imposed?
- Tax incidence? How much is the buyer's burden of the tax? How much is the seller's burden of the tax? What happened on market activity?
- Elasticity and incidence of a tax, largest share of the burden falls on the more _____ curve, elastic D & inelastic S vs. inelastic D & elastic S

Ch.7

- $CS = WTP - P$, $PS = P - cost$, $TS = CS + PS = value\ to\ buyers - cost\ to\ sellers$
- If TS is maximized, then outcome/allocation is efficient
- How to find CS, PS, TS in the case of shift in D or S curve
- What happen to CS or PS when price increase or decrease?
- How can increase total surplus when Q is other than equilibrium Q? How do you know?
- Laissez faire?

Ch.8

- Effects of Tax: CS, PS, Tax revenue, TS, DWL?
- Determinants of the DWL, elastic S&D vs. inelastic S&D
- What happens to DWL and tax revenue when taxes change? Laffer curve?

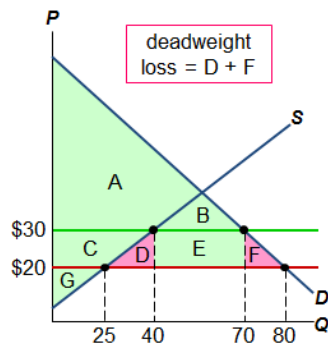
Ch.9

- Determinants of trade (P_W and P_D): export case, import case
- Welfare without trade & with trade, changes in welfare, DWL
- Who is better off after free trade? Who is worse off after free trade?
- Tariff? Effects of Tariff? Welfare before the tariff (with trade), welfare after the tariff, changes in welfare
- How tariff is different than import quota? How tariff is similar to import quota?
- 5 common arguments for restricting trade, two approaches to achieve free trade

Analysis of a Tariff on Cotton Shirts

Free trade
CS =
PS =
Total surplus =

Tariff
CS =
PS =
Revenue =
Total surplus =



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- Changes in welfare
- CS? _____ PS? _____
- Gov't Revenue? _____ TS? _____

Ch.10

- What is an externality? Positive externality, negative externality, example?
- Social cost when there exists negative externality? Social value when there exists negative externality?
- Social optimal amount vs. free market outcome?
- Internalizing the externality?
- Why do externalities make market outcomes inefficient?