

MUST BE LEGIBLY HANDWRITTEN. ~~DUE MARCH 19~~

THIS ASSIGNMENT WILL NOT BE ACCEPTED LATE!

250 POINTS

Chapter 1

1. Why is economics a study in how people deal with scarcity?
2. How does economics center around scarcity?
3. How does a budget constraint fit into this concept of scarcity?
4. When forced to choose one option out of five items, what is the opportunity cost?
5. Why are economic transactions always about voluntary exchange?
6. What is comparative advantage?
7. How does opportunity cost affect comparative advantage?
8. Why is comparative advantage measured in terms of what is given up?
9. How is the PPF or PPC an exercise in scarcity?
10. Why are any points on the PPF a demonstration of allocative efficiency?
11. How is a point inside the PPF allocatively inefficient?
12. Why are points beyond the PPF unattainable?
13. What is required to reach points beyond the PPF?
14. What are the three fundamental questions in economics?
15. How do the three fundamental questions reflect scarcity?
16. What are the fundamental aspects of a market economy?
17. What is the central feature of a market economy?
18. Why is a command economy bad economically?
19. Why are property rights a key component of a market economy?
20. What is government failure?
21. How are prices a signal to consumers and producers? Use prices for new homes as example.

Chapter 2

22. What does GDP measure?
23. What does it mean if two variables are positively correlated?
24. Why is that complementary goods correlated?
25. How is causation different from correlation?
26. Use the Circular Flow Diagram to help explain how households and firms are linked economically in both directions.
27. Substitute goods have an inverse relationship. Show this in side by side graphs. Use arrows to show direction.
28. How is Microeconomics about individual firms and consumers?
29. How would an economist use positive economics to discuss unemployment?
30. How do politicians use normative economics to talk about unemployment?

Chapter 3

31. Compare and contrast demand, quantity demanded, demand curve, demand schedule
32. Define the Law of Demand.
33. How does the Law of Demand guarantee a downward sloping demand curve?
34. Why is price change only a movement along the demand curve rather than a shift. Think definition of demand curve.
35. Draw a labeled demand curve. Add a labeled shift that represents an increase in demand.
36. Draw a labeled demand curve. Add a labeled shift that represents a decrease in demand.
37. What items cause a shift in the demand curve?
38. Explain how each of those items in #7 cause the shift.
39. Define normal good.
40. Define inferior good.
41. How are complementary goods related?
42. How are substitute goods related?

43. Use 2 separate graphs to show what happens in the peanut butter and jelly markets if there is an increase in peanut butter prices.
44. Using 2 separate graphs and show what happens in the tea and coffee markets if the price of coffee falls.
45. Compare and contrast supply, supply curve, supply schedule, and quantity supplied.
46. Why does nothing happen to the supply curve if there is an increase in the price of a product?
47. How does the Law of Supply guarantee an upward sloping supply curve?
48. What items cause supply shifts?
49. How does the cost of flour (a factor of production) rising (marginal factor cost) represent a shift in the supply curve rather than a movement along the supply curve for bread?
50. How are government taxes represented as a shift in supply?
51. How are government taxes a way to shift from a negative externality to a true representation of the cost to consume an item.
52. What is equilibrium price?
53. What is a market clearing price?
54. What is equilibrium quantity?
55. What is a market clearing quantity?
56. How does government interference in the labor market result in a surplus of labor? (Think minimum wage).
57. Why is the word "effective" important to government efforts to affect economic markets (think price supports)?
58. Show an effective price support graphically and explain using arrows.
59. Show a price support program graphically that wouldn't affect market transactions.
60. Graphically show an effective price ceiling for gasoline.
61. How does that effective price ceiling result in shortages. Show this in your graph.

#### Chapter 4

62. What does  $\% \Delta Q_d / \% \Delta P$  measure?
63. How does determining elasticity help a business owner in pricing?
64. How does elasticity help determine who will bear the burden of paying government taxes on goods?
65. How are negative numbers treated in determining elasticity?
66. What is the different between elastic and unit elastic?
67. Define elastic numerically.
68. Define inelastic numerically
69. Define unit elastic numerically.
70. Define perfectly elastic.
71. Show and explain the curve for perfectly elastic demand.
72. What does this perfectly elastic demand say about consumer behavior?
73. Show and explain the curve for perfectly inelastically demand.
74. What does this say about consumer behavior?
75. What types of good tend to have elastic demand?
76. What types of goods tend to have inelastic demand?
77. What is the equation for Income elasticity of demand?
78. What is cross price elasticity?
79. How does cross price elasticity help economists predict behavior directed toward substitute goods?
80. Graphically represent perfectly elastic supply.
81. What does this curve show about the willingness of firms to supply?
82. Graphically represent perfectly inelastic supply.
83. What does this curve show about the willingness of firms to supply?

#### Chapter 5

84. What does consumer surplus represent?
85. What is the definition of utility?
86. Given the definition of utility, why can't utility be compared between different people?
87. How is marginal utility different from utility?
88. Why is preference a better description of utility than usefulness?
89. How does a budget constraint and scarcity affect utility?
90. Why does a change in the price of a desired good not shift the demand curve?
91. How does the income effect affect  $Q_d$ ?

92. How does the substitution effect affect  $Q_d$ ?
93. Why is marginal benefit different from willingness to pay?
94. Explain the  $p = mb$  rule as in  $p < mb$ ,  $p > mb$ ,  $p = mb$
95. What is represented in the term consumer surplus?
96. Show graphically where you will ALWAYS find consumer surplus.
97. Using the phrases equilibrium price and demand curve, define consumer surplus.
98. What shape is consumer surplus on the graph.

#### Chapter 6

99. What does it mean to be a price taker in a competitive market?
100. Why does the price-taking firm face a horizontal demand curve?
101. Why does a price taking firm's marginal revenue curve equal its demand curve?  $MR = D$
102. What does it mean that a firm is a price maker? Don't say it's a monopoly. What does the ability to set price mean graphically?
103. Why are firms faced with short run and long run decisions?
104. What is marginal product of labor?
105. How is  $MP_L$  calculated?
106. Why do firms face diminishing returns after a certain point in expansion?
107. Define Fixed Cost and state why the level of production doesn't affect it?
108. How are variable costs examples of factor costs?
109. What is marginal cost?
110. What is marginal revenue?
111. Explain  $p = mc$  using  $p > mc$ ,  $p < mc$ ,  $p = mc$
112. Using the phrase equilibrium price and supply curve, explain producer surplus?
113. Define producer surplus.
114. Show graphically where producer surplus is.

#### Chapter 7

115. How does the "invisible hand" affect economic decision making by consumer and producers?
116. Why does  $mc = mb$  create equilibrium price?
117. Why does  $mc = mb$  represent market efficiency in the allocation of resources?
118. How does  $mc = mb$  for the last item consumed represent pareto efficiency. Look at the individual pieces of the equation.
119. Explain the three conditions of pareto efficiency. Use the three boxes in the book.
120. What does deadweight loss mean to market efficiency?
121. What is deadweight loss?
122. Graphically show the effect a tax has on the supply and demand model.
123. What is the distance between the old and new supply curve?
124. Shade in the area of deadweight loss.
125. Draw a new supply and demand model with a tax. Show the equilibrium price with a dotted line. Identify the amount of the tax the consumer will pay with a 1 on the graph. Identify the amount of the tax the producer will pay with a 2.
126. How are ad valorem and specific taxes different?
127. How does a tax mess with market efficiency? (With words and graphically)

#### Chapter 8

128. How are total costs calculated?
129. Why is a fixed cost associated with the long run?
130. Why are variable costs (factor costs) associated with short run?
131. What is marginal cost?
132. What type of costs change in marginal cost?
133. Why does  $P = ATC$  represent no profit?
134. Why does average fixed cost decrease with increased production?
135. Draw the cost curves. Put a box around the areas that represents a firm's production.
136. Draw a situation where there are profits in an industry.
137. Draw a situation where there are losses in the industry.
138. Draw a situation where there is equilibrium in an industry.

139. Using side by side graphs draw losses for a firm.
140. Using side by side draw losses for an individual firm.
141. Using side by side graphs draw equilibrium for a firm.
142. Draw what happens in the long run onto the graphs in 12. Use arrows to show direction.
143. Draw what happens in the long run onto the graphs in 13. Use arrows to show direction.
144. Why does  $P = ATC$  represent the break even point for every item produced?
145. What does economies of scale represent?
146. Compare and contrast economies of scale and diseconomies of scale.
147. Why is ATC flat if the firm faces constant costs?

#### Chapter 8 Appendix

148. What is an isoquant?

#### Chapter 9

149. Why is it necessary for there to easy entry and exit of firms in competitive industries?
150. How do firms know when to enter an industry?
151. Once more firms enter the industry what happens to the price in the industry?
152. Show this effect by drawing a graph that represents the industry before and after entry.
153. When do firms leave an industry?
154. Show the effect leaving firms have upon the market for the affected industry.
155. Draw a side by side graph where the firm is breaking even.
156. Draw a side by side graph where the firm is losing money.
157. Draw a side by side graph where the firm is experiencing profits.
158. Why does the money losing firm benefit from firms leaving the industry. Show this on a set of side by side graphs.
159. Why does the firm enjoying profits suffer as other firms enter the industry. Show this on a set of side by side graphs.
160. Why is the long-run profitability for firms in a competitive market equal zero?
161. Why can firms experience short run profits or losses, but can expect zero profit in the long run?
162. Define accounting profits.
163. Define economic profits.
164. Compare and contrast accounting and economic profits.
165. What are normal profits?
166. What two conditions make it possible for firms to expand in the long run?
167. Show how changes in demand for an industry's product affects profitability in an industry and firm.
168. If profits are zero for a firm why must ATC be at its minimum point?
169. Why is the fact that capital chases profits lends itself to efficient resource allocation?

#### Chapter 10

170. What does the presence of a monopolist firm mean to an industry?
171. What conditions are present in order for there to be a monopolist firm?
172. Why is market power necessary for a monopolist?
173. What does it mean to be a price maker?
174. Why is the demand curve downward sloping for a monopolist while it isn't for a competitive firm?
175. How does  $MB = MC$  prevent a monopolist from charging "whatever" they want?
176. What is the only way to get consumers to buy more of a product?
177. How does the law of demand help explain why the marginal revenue curve is ALWAYS below demand?
178. Draw a standard labeled monopoly curve.
179. Why is everything on the left side of where MR crosses the horizontal axis the elastic portion of the demand curve?
180. Why does a monopolist produce at  $MC = MR$  instead of  $P = MC$ ?
181. Draw a monopoly curve where a monopoly is losing money.
182. Draw a monopoly curve where a monopoly is earning profits.
183. Draw a standard monopoly curve and shade the area representing deadweight loss.
184. Why is the presence of deadweight loss disliked by economists?
185. How is price determined for a monopolist. Explain the whole process.
186. What is a natural monopoly?
187. Explain why natural monopolies are tolerated by governments.

188. How are patents and copyrights examples of the government protecting property rights?
189. What is price discrimination?
190. If discrimination is bad why does price discrimination take place in economics?

#### Chapter 11

191. How can there be multiple athletic shoe companies, but monopoly pricing in the industry?
192. What is an oligopoly?
193. Compare and contrast oligopoly and duopoly.
194. How does product differentiation lead to monopolistically competitive firms?
195. Explain dominant strategy in game theory.
196. Explain dominated strategy in game theory.
197. Why does the dominant player have an advantage?
198. Come up with ultimate explanation for Nash Equilibrium.

#### Chapter 12

199. What is the purpose of the Herfindahl-Hirschman Index.
200. When does the justice department oppose mergers?

#### Chapter 13

201. Compare and contrast real and nominal wage.
202. What is meant by the term labor market?
203. What does it mean for there to be labor demand?
204. Why is supply and demand in the labor market the opposite of pretty much everything we've done while studying economics?
205. What is marginal revenue product?
206. How is marginal revenue product calculated?
207. Why does a firm use  $MRP_L$  to calculate how much labor to hire?
208. Explain  $W = MRP_L$ .
209. How does the substitution effect result in more labor participation?
210. Why does the income effect result in less labor participation?
211. Graphically show how an effective minimum wage results in a surplus of labor.
212. Draw a side by side supply and demand graph for an industry's and individual firm's labor market.
213. Draw the effects of an increase in supply. Use arrows to show direction.
214. What effect does this have on the labor quantity demanded by the individual firm?
215. What happened to the wage paid by the firm?
216. Draw a side by side graph for an industry and firm in the tomato labor market.
217. A plague wipes out part of the tomato crops. Show the effect this has on the industry and firm. Use arrows to show direction.
218. How is a monopsony different from a monopoly?

#### Chapter 14

219. Compare progressive and flat income tax schemes.
220. Why is a sales tax considered regressive?
221. How are payroll taxes different from income taxes?
222. Define excise tax.
223. Why is elasticity important to tax incidence?
224. What is a quintile?
225. What is the purpose of the Lorenz Curve?
226. What kind of line has perfect income distribution?
227. What does a Lorenz curve with a curve bowed away from the perfect equality line represent?
228. What Gini coefficient represents perfect income distribution?
229. What Gini coefficient represents the most extreme income inequality?

#### Chapter 15

230. What is a public good?
231. What does it mean if there is non-rivalry in goods?
232. Why are free riders a problem economically?
233. How does nonexcludability lead to the free rider problem?
234. What is represented by an externality?
235. What does it mean for resource allocation if there is a negative externality?
236. Why are negative externalities not good economically? What does it cause?
237. How can governments correct negative externalities?
238. Why does the government usually have to step in when a positive externality exists?
239. Why does a subsidy usually have to be offered to correct a positive externality?
240. Draw a standard supply and demand curve using MPC.
241. On the graph drawn in #240 show a negative externality.
242. Draw a standard supply and demand curve using MPB.
243. On the graph drawn in #242 show a positive externality.
244. Why are positive externalities wrong in economics? Talk efficiency and resource allocation.
245. Why are per unit taxes necessary to correct negative externalities rather than just a tax?