ECN 221 Spring 2000 ~ Exam II Topics for Review

Chapter 5:
- Price ceilings and Price floors
- The price elasticity of demand
  - determinants of elasticity
  - changes in elasticity along D curve
  - measuring elasticity between 2 points on a D curve (midpoint formula)
  - changes in revenue from price changes
- The income elasticity of demand
- The cross-price elasticity of demand
- The elasticity of supply

Chapter 6:
- the budget line (again)
- preferences
- utility (marginal vs. total)
- law of diminishing marginal U
- the utility maximizing rule for consumption of 2 or more goods (the "equimarginal principle")
- "consumer equilibrium"
- benefit (marginal vs. total)
- net benefit and consumer surplus
- the net-benefit maximizing rule for consumption of a single good
- the income effect (IE) of a price change
- the substitution effect (SE) of a price change
- application of IE and SE to wage changes (the "backward bending" labor supply curve)

Chapter 6 appendix:
- indifference curve analysis
  - preferences and ranking
  - why does the I-curve have this shape (concave up and negative slope)
- the slope of the I-curve and the marginal rate of substitution
- the slope of the budget line and opportunity cost
- graphical representation of the equimarginal principle and a consumer equilibrium
- Using I-curves and price changes to derive demand curves

Chapter 7:
- assumptions for a perfectly competitive (PC) market
- The demand curve facing a PC firm and "price-taking" behavior
- explicit costs and implicit costs
- profit (economic vs. accounting)
- "normal" profit
- fixed vs. variable inputs
- law of (and point of) diminishing marginal returns
- production curves
- ...to be continued after the exam...