ECN 221 Fall 1999 -- Final Exam Topics for Review

Chapter 1:
- What is economics?
- Scarcity
- Opportunity cost
- Positive vs. normative analysis
- Marginal analysis
- Comparing marginal costs and benefits vs. comparing total costs and benefits
- Micro vs. Macro Economics
- Efficiency

Chapter 2:
- Budget line model
  - How to draw it.
  - Slope reflects opportunity cost.
  - Shifting (change income, change in one or both prices)
- Production possibilities frontier model
  - Why this shape? What does the shape mean about opportunity cost?
  - Shifting the PPF (changes in technology, availability of resources, quality of resources)
  - Trade, comparative advantage and the PPF
  - Trade-off: Investment vs. current consumption on a PPF
- The law of increasing costs
- The principle of comparative advantage

Chapter 4:
- What is a "Market"?
- Demand (the law of, curve, and schedule) and Determinants of demand (= demand shifters)
- Quantity demanded and changes in quantity demanded
- Supply (the law of, curve, and schedule) and the determinants of supply (= supply shifters)
- Quantity supplied and changes in quantity supplied
- Equilibrium
- Where does the equilibrium price (P*) come from?
- Shortages and Surpluses
- How changes in one market can affect another market?
- Using individual demand curves to construct the market demand curve.
- Normal vs. inferior goods

Chapter 5:
- Price floors
- Price ceilings
- The price elasticity of demand
  - elastic vs. inelastic D
  - 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

------- NEW MATERIAL BEGINS HERE -------

Chapter 7:
- assumptions for a perfectly competitive (PC) market (implications for behavior of PC firms)
- The demand curve facing a PC firm and “price-taking” behavior
- Costs (fixed, variable, marginal)
- 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 (total, marginal, average)
- choice of technology to minimize production costs
- equimarginal principle for capital and labor decisions

Chapter 8:
- costs (fixed, variable, total, averages)
- shapes of cost curves in the short-run
- economies of scale and long-run costs curves (IRTS, CRTS, DRTS)
- profit maximization by a PC firm
- the shut down decision (short-run)
- the long-run decision of whether or not to stay in the market
- the PC firm’s short-run supply curve
Chapter 9:
• why do PC firms earn normal profit in LR?
• long run competitive equilibrium (LRCE)
  - getting there
  - price implications of
  - profitability implications of
  - efficiency implications of

Chapter 13:
• model of monopoly
  - assumptions
  - implications
• barriers to entry
• natural monopoly
• monopoly power
• profit max by a monopolist
  - how?
  - efficiency of
• PC vs. monopoly

Chapter 14:
• monopolistic competition (MC) model
  - assumptions
  - implications
• LR equilibrium and monop. comp.
  - getting there
  - efficiency of (firm vs. market)
• profit max by MC and Oligopoly
• oligopoly models
  - assumptions
  - cartel and collusion
  - price leadership