Wilfrid W. Csaplar Jr. Principles of Microeconomics Review Sheet for Exam 2

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session will be at a time to be determined in class, most likely Tuesday, October 25th.

Note that the last time I taught this course, it met MWF, so you will want to check old Exam #2 & #3.

Chapter 6: How do we calculate **marginal tax rate, average tax rate,** and **total taxes paid**? What is meant by **proportional, progressive,** and **regressive taxes**? What is the **tax base**? How can increasing a tax result in less revenue? What are **sales, excise, ad valorem,** and **specific (unit) taxes**? Who pays the tax? What is the **Laffer Curve**? The book actually draws it in Chapter 13. What are **Medicare** and **Social Security**? (Note that this is in the handouts I gave you which are also posted on my web page.) What are their effects on the economy? What is the problem with Social Security? What are some of the proposals for solving the problem? What are the pluses and minus of using each "solution"? I am most likely to give you a proposal for a solution and ask you how it would work, and whether or not you would implement my proposal.

Chapter 19: How do you calculate the **own-price elasticity of demand (E_P)**? Note that if you average the prices and quantities, then you are using "**arc elasticity**" otherwise you are using "**point elasticity**." What do the different elasticities of demand look like on a demand curve? I.e., which elasticities yield flat curves and which yield steep curves? Note that because the elasticity of demand is different at every point on a straight-line demand curve, you can only use the slope to compare two demand curves at the one point where they cross. How does the elasticity relate to **marginal revenue (MR)**? What determines if the price elasticity of demand is **elastic**, **inelastic**, or **unitary elastic**? The main determinant is the number, price, and quality of substitutes. However, the percentage of budget and the amount of time also make a difference. How do you calculate **cross-price elasticity (E_{XY})** using both the point and arc formulas? What does that number tell us about the goods? How do you calculate the **income elasticity of demand (E_I)** using both formulas? What does that number tell us about the good? How do you calculate the **price elasticity of supply** using both formulas? What does that tell us about the good? How will that change over time? What does the supply curve look like for the different elasticities? Hints on all elasticities, remember *ceteris paribus*. You must keep all other variables constant. All elasticities we discuss are %ΔQ/%Δsomething. This can be rewritten as (ΔQ/Δsomething)*(something/Q). The differences between point and arc are do you use your initial point (point elasticity) or an average of the two points (arc elasticity).

Chapter 20: What is meant by "**utility**" and "**utils**"? Be able to fill in a table like the one we did in class for quantity, **total utility**, **average utility**, and **marginal utility**. Be able to plot them. What is meant by **diminishing marginal utility**? Understand the economic reason why $\mathbf{MU_X/P_X = MU_Y/P_Y}$ is utility maximizing. What are the **income** and **substitution effects**? How do they relate to the demand curve?

Chapter 21: What is meant by **economic rent**? How do we estimate it? Note that the graph on Page 483 is wrong unless you assume the opportunity costs of the land is zero if not used the way it is being used. What are the advantages and disadvantages of **proprietorships, partnerships, corporations,** and **LLCs**? What is the difference between **economic profits** and **accounting profits**? How do *length of loan* and *risk* affect the interest rate? How do we estimate the real interest rate from the inflation rate and the nominal interest rate? (Note that it is an estimate and if this was *Principles of Macroeconomics*, then I would teach you the correct way to calculate it.) Know how to use the equation $PV = \frac{FV_t}{(1+i)^t}$. What are the advantages and disadvantages of financing a project using **stocks, bonds**, and **reinvestment**? What is the **Theory of Efficient Markets**? Why do we care about **inside information**?

Chapter 22: What is the difference between **short-run** and **long-run**? Be able to fill in a table with **TPL, APL**, and **MPL**. Also, be able to draw them. Know why they take the shape the take, especially MPL. Be able to fill in a big table with the columns **Q, TC, TVC, TFC, ATC, AVC, AFC,** and **MC**. (I may not do them in that order.) Be able to know what the curves should look like and why MC starts where AVC starts, MC goes through the minima of AVC and ATC, when MC is below AVC or ATC, that curve will go down, and when MC is above AVC or ATC, that curve will slope up. Understand why that general principal (M crosses max or min of A) holds for M of anything and A of the same thing. ~~Be able to illustrate movements of those curves and/or~~ to find the errors in a graph~~. Understand how the product of labor curves relate to the cost curves. How do the long-run cost curves relate to the short-run curves?~~

Non-graded Homework Assignment #7A to be reviewed with Assignment #7.

~~1) (25 points each) Draw the ATC/AVC/AFC/MC diagram for a firm. Illustrate the effects of each event on separate graphs. Explain why the curve(s) moved as drawn.~~
~~A) The price of wood increases for a factory making doors.~~
~~B) The property insurance increases.~~

2) (40 points) Fill in the following table. Show all calculations or explain how you got the numbers.

Q	TC	TVC	TFC	ATC	AVC	AFC	MC
0	120						
1	150						
2		50					
3				65			
4					30		
5							60
	390					20	
	630						120

~~3) (10 points) Why is the LRATC curve the envelope of the SRATC curves, but the LRMC curve is not the envelope of the SRMC curves.~~