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 Tuesday, 2/06, at a time to be determined in class, in the normal room (I hope).

Chapter 1:
What are economics, macroeconomics, microeconomics, and wants? Know the difference between positive and normative statements. What is meant by incentives, models, theories, and ceteris paribus? What is important about them? From the appendix, know how to plot a straight line, calculate the slope of any line including curves, and know what are direct and inverse relationships.

Chapter 2:
What are scarcity, land, labor, physical capital, human capital, entrepreneurship, goods, and services? **"Opportunity costs" is the first of the great ideas in this course that helps this course qualify for fulfilling the Contemporary Society and Institutions requirement for graduation from Bethany College. Therefore, it is one of the most important parts of this course.** What are opportunity costs? How do we see them? Note that opportunity costs are what you *would* have done with the time and resources. What is the PPC (or as I prefer to call it, the PPF)? Why does it take its shape? How does it show the opportunity costs? Where do we see efficiency, inefficiency, and unattainable sections of the graph? What moves it? How does the trade off between current consumption and capital goods affect future output? What are absolute advantage and comparative advantage? What is the law of comparative advantage?

Chapter 3:
"Supply and demand analysis" is the second of the great ideas in this course that help this course qualify for fulfilling the Contemporary Society and Institutions requirement for graduation. Therefore, it is one of the most important parts of this course. What determines demand? What is the "law of demand"? What do "demand schedule" (a.k.a. table) and "demand curve" represent? What moves the demand curve and what causes movements along the curve? Ignore inferior goods. Answer the above questions for supply. *Note that one of the two most common errors students make on questions is to get confused between movements <u>along</u> a curve and movements <u>of</u> a curve. Price changes cause movements <u>along</u> the curve.* Since the list of things that move supply and the list of things that move demand are almost mutually exclusive (excluding expected future prices), you should almost never move both curves. Move one and move along the other one. One note, the costs of production include the opportunity costs of producing another good. We called this the price of a substitute in production. For example, if the price of another good that they could produce goes up, then the cost of resources used to produce both go up and that reduces supply of the good you are analyzing. This is one way that the costs of inputs can go up. Also, a change in the selling price of a complement in production will encourage or discourage production of the good, thus will move supply. A complement in production is something that you produce with it. *The other error common to students in this course, is to move the supply curve the wrong way. Note that because the graph has the dependent variable on the horizontal axis, it moves right and left.* Know what equilibrium is and how it is achieved. What are shortages and surpluses?

Chapter 4:
What is a price system? Ignore voluntary exchange and terms of exchange. Like most things we skip in

these early chapters, they are important for microeconomics but not for macroeconomics. Be able to show movements of supply and demand on the same diagram. If you do not draw both supply and demand, then I will take off points. Also, label all axes and lines. How do we ration goods? What are other methods of rationing? What are the economic effects of price ceilings, price floors, taxes, and quotas? Be able to show them on the supply and demand graph. Use the graphs to explain the problems they cause, how those problems are solved without government action, and what the government can do to relieve those problems.

Chapter 5:
What are the following terms and why are they an argument for government intervention in markets? Negative externalities, positive externalities, public goods, merit goods, demerit goods, and inequitable distribution of income. For each of them, explain how the government can partially solve the problems. Why are free riders a problem? What are marginal tax rate, average tax rate, and tax bracket? How can we tell if a tax is progressive, regressive, or proportional? Do not worry about capital gains, capital loss, double taxation, retained earnings, or corporate taxes. Know what tax incidence is, and how to estimate it from a graph. Also, who really pays the firm's share of the tax? Do not worry about how much government revenue comes from each source, or how it is spent.

This is the non-graded assignment #2A that will be reviewed with assignment #2.

1) (30 points) What are positive externalities? Use a supply and demand diagram for a good which causes positive externalities to explain why they require government intervention in the market. Illustrate the optimal government intervention and explain how it works.

2) (15 points) Use the table below to find the marginal tax rate, total taxes paid, and the average tax rate for a person earning $100,000. (I wish I earned that much.) Show all work and briefly explain how you did the calculation.

Income	$0 - 10,000	$10,000 - 30,000	$30,000 - 60,000	>$60,000
Tax rate	0%	15%	20%	30%

3) (15 points) For each of the items below, explain why they are economic arguments for government intervention in the markets.
A) Public goods
B) Inequitable distribution of income.

4) (25 points) Draw a supply and demand diagram with a steep supply curve and a flat demand curve. Draw how it changes when there is a sales tax. Explain why the curve(s) moved as drawn. Who pays more of the tax, consumers or producers? Why?