

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, probably Monday 2/23 in the normal room.

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 we mean by 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? What explains the law of increasing relative costs? 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 along a curve and movements of a curve. Price changes cause movements along 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. Know what transaction costs are. 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 negative externalities and positive externalities? How are they seen on the graph? What is the best way to offset them? Show that on the supply and demand diagram. Know the economic reasons for *providing a legal system, promoting competition, providing public goods, merit goods, demerit goods, and income redistribution*. What is the difference between voting and spending?

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, specific (unit) taxes? What is the Laffer Curve? The book actually draws it in Chapter 13. What are Medicare and Social Security? 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 7: What are, and how do we calculate, the unemployment rate, labor force participation rate, and inflation rate? What are stocks and flows? How do they relate to unemployment rates? Know how to classify people by the reason they are unemployed, i.e., laid off, job leaver, etc. Know how to tell who is in which category of unemployment, i.e., frictional, structural, seasonal, and cyclical. What is the natural rate of unemployment and full employment? How do discouraged workers complicate the unemployment picture? What are the other costs of unemployment besides lowered production?

This is the non-graded Assignment #3A that will be reviewed with Assignment #3.

1) (20 points each) For each of the following “solutions” to the Social Security problem, explain how it will reduce the problem. Would you use it? Explain your logic.

A) Raise the retirement age.

B) Increase the return on Social Security’s “lock box.”

2) (10 points) What would the unemployment rate be in the United States if we were at full employment? Why isn’t it 0%?

3) (10 points each) For each of these people, determine if they are classified as unemployed. If they are, then determine if they are frictionally, structurally, cyclically, or seasonally unemployed. Explain your logic. If they are not unemployed, explain how you reached that conclusion.

A) A person is unemployed for so long, they quit looking.

B) A steel worker in Weirton who has no job.

C) A person who gets mad at their boss and quits their job.

D) A lifeguard in this area for an outdoor pool.

4) (10 points) Why is high unemployment so bad, other than the reduction in production and income?