

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 workbook.

The optional review session for this test will be Thursday 02/20 starting at 7:00.

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

Chapter 2: What are land, labor, physical capital, human capital, entrepreneurship, goods, and services? **Opportunity costs are the first of the great ideas in this course that help this course qualify for the fulfilling the Contemporary Society and Institutions requirement of graduation. Therefore, it is one of the most important parts of this course.** What are they? 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 the shape it does? How does it show the opportunity costs? Where do we see efficiency, inefficiency, and unattainable? What moves it? Ignore the trade-off between current consumption and capital goods. What is 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 the fulfilling the Contemporary Society and Institutions requirement of 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 demand and what causes movements along the curve? Ignore inferior goods. Answer those questions for supply. *Note that one of the two of the most common errors students make on questions is to get confused between movements along and movements of a curve.* Since the list of things that move supply and the list of things that move demand are almost mutually exclusive, excluding expected prices, almost never move both curves. Move one and move along the other one. It is theoretically possible to have both move if two goods are substitutes or complements in both consumption and production. Like chicken wings and legs are substitutes in consumption, but complements in production. One thing to note, the book does not explicitly talk about substitutes and complements in production, but does so implicitly when looking at the costs of production. For example, if the price of a substitute in production goes up, then the costs of resources used to produce both go up and that reduces supply of the good you are analyzing. That is one way that the costs of inputs can go up. You will be responsible for knowing how taxes and subsidies affect supply in chapter 5, which is on this exam. *The other problem that students usually make in the semester is to move the supply curve the wrong way.* Note that because it has the dependent variable on the horizontal axis, it moves right and left. Know what equilibrium is and how we get to it. 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 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, and quotas. Be able to show them on the supply and demand graph. Use that 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, public goods, merit goods, demerit goods, and inequitable distribution of income. For each of them, explain how the government can partially solve the problems. 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 tax. Know what tax incidence is, but you do not need to know how to calculate it. Do not worry about how much of government revenue comes from each source, or how it is spent. Ignore pages 110 - 115.

Chapter 6: What are Medicare and Social Security? What are the effects of them on the economy? What is the problem with Social Security? What are some of the proposals for solving the problem? 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 do that. (See test #2, question #7, from last semester.)

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Economics 162

Homework #2A

To be gone over on 02/19

This is a non-graded homework assignment that will be gone over the same class we go over assignment #2. The purpose of this assignment is to give you sample questions for the material we covered after you handed in assignment #2, and will be on exam.

- 1) (15 points) Is the sales tax progressive, proportional, or regressive? Why do you say that?
- 2) (20 points) In a box in my sister's basement, have tax forms going back to the 1920s. In 1960, the highest marginal tax rate was 92%. Does that mean the rich paid 92% of their income to the government? Make sure you use the terms marginal tax rate and average tax rate in your discussion. (Of interest, the highest marginal tax rate in 1928 was about 5%.)
- 3) (20 points each) For each of the following terms, explain what that term means and why it is an argument for government intervention.
  - A) Negative externalities.
  - B) Public goods.
- 4) (25 points) What do you consider to be the biggest problem facing Social Security? What proposal do you think will reduce that problem? Explain why that will reduce the problem.