ECON 1000 Final Review

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1 Definitions & Concepts

Not all of the below are equally-important. But, if you can recognize and explain all of them briefly, you're probably in good shape for the final:

- economics
- some notable economists:
    - Adam Smith
    - David Ricardo
    - Karl Marx
    - John Maynard Keynes
    - F.A. Hayek
    - Ronald Coase
    - Milton Friedman
    - Jagdish Bhagwati
    - Ben Bernanke
- scarcity
- normative/positive statements
- wants vs. needs
- division of labor (AKA specialization)
- cooperation vs. coercion
- competition
- Invisible Hand
- comparative advantage
- gains from trade

- production possibilities frontier

- consumption possibilities frontier

- (opportunity) cost

- factors of production (land, labor, capital, human capital, etc.)

- wages, rent, interest

- diminishing returns (to a factor of production)

- efficiency (both in Pareto & Kaldor/Hicks sense)

- change in demand/supply vs. change in quantity demanded/supplied

- equilibrium

- excess demand/supply (AKA shortage/surplus)

- price elasticity of demand

- substitutes/complements (in consumption)

- normal/inferior goods

- marginal cost/benefit

- price vs. value (the diamond/water paradox)

- price ceiling/floor

- social welfare

- consumers'/producers' surplus

- deadweight loss

- tax incidence/equivalence

- unintended consequences

- present/future value

- arbitrage

- speculation

- expected value

- risk aversion

- entreprenuership

- economic profit vs. accounting profit

- normal profit

- residual claimant

- sunk cost

- marginal cost/revenue

- price takers vs. price searchers

- monopoly

- price discrimination

- perfect competition

- oligopoly

- cartel

- the Prisoner's dilemma

- dominant strategy

- market failure

- government failure

- moral hazard

- adverse selection

- externalities

- the Coase Theorem

- transaction costs

- property rights

- free riding

- public goods

- income vs. wealth

- GDP (vs. GNP)

- GDP as total income vs. value added

- intermediate/final good

- (un)employment

- labor force

- recession

- money

- M1 & M2

- the Federal Reserve

- reserve requirements

- the discount rate

- open market operations

- (dis)inflation

- nominal vs. real

- balance of trade

- budget deficit/surplus

- deficit vs. debt

- poverty

2   Problems from Heyne, Boettke, & Prychitko

Some problems we discussed in class: 2.14, 3.23, 3.24, 4.12, 4.22, 5.2, 6.11, 6.14, 6.16. More problems to try: 7.11, 7.14, 8.1, 8.10, 8.14, 9.4, 9.7, 9.9, 10.5, 10.7, 10.10, 10.16, 10.17, 10.22, 10.24, 11.1, 11.10, 11.11, 11.19, 12.2, 12.4, 12.6, 12.10, 12.18, 12.20, 12.21, 13.4, 13.5, 13.6, 13.8, 14.2, 14.3, 14.5, 14.12, 15.4. (At least one of these problems will appear on your final exam.)

3   Cheap Apples?

The market for apples in Storrs is in equilibrium at a price of \$1/apple and a quantity of $1,000$ apples/week before the town council passes a law limiting the price of apples to \$0.90 each. Illustrate the effect of this new price ceiling on a graph and describe its effects in terms of social welfare.

4   Real vs. Nominal GDP

Review the chart on page 299 of Heyne, Boettke, & Prychitko. Cover up the Real GDP column and use the Nominal GDP and GDP Deflator columns to calcuate the Real GDP for various years. Do your answers match the book?

5 Let's Make a Deal

You own a risk-free government bond that pays $1,000 one year from now and $11,000 two years from now. I offer you $10,000 cash today in exchange for the bond. If you expect the real interest rate to be 10% in both of the next two years, should you accept my offer?

6 Challenge Problem: Eat a Peach

Suppose the demand for peaches is described by the function $Q = 20 - 2P$ while the supply of peaches is described by the function $Q = 2P - 4$, where Q is peaches per day and P is dollars. Graph the supply & demand in the usual manner, labeling everything appropriately. Find the equilibrium price and quantity and label them on your graph. What is the total revenue at the equilibrium price? What is the price elasticity of demand at this price? Is this the price at which total revenue is maximized? If not, would the maximum revenue occur at a lower or higher price?

7 Challenge Problem: SnotBgone

Thanks to its founder's pioneering research, Scanlon Pharma Inc. is the only maker of SnotBgone, an FDA-approved pill that instantly cures the common cold. SP holds a patent that expires in five years and is just beginning production of SnotBgone today. Suppose the demand for Snotbgone is described by the function $q = 12 - p$ (where p is the price per pill in dollars and q is millions of pills per year), and that Scanlon Pharma can produce pills at a constant marginal cost of $2 each. All fixed costs of research, development, testing, etc. (which totalled $80 million when they were incurred in previous years) are already sunk; assume that yearly fixed costs are $0.

Graph the demand and the total revenue for quantities of 0 to 12 for SnotBgone. At what price and quantity would SP's sales of SnotBgone be the highest?

What price p^m and quantity q^m maximizes SP's profit from SnotBgone? What is the deadweight loss at this price? What is the socially-efficient price p^c and quantity q^c? What is the price elasticity of demand at p^m?

Suppose you're a lobbyist for SNOT (Sufferers of Nasal Occlusions Today), a group dedicated to eradicating the common cold. Construct an argument supporting government intervention in the market for SnotBgone. In other words, what's wrong with p^m?

Now, suppose instead that you're a lobbyist for SP, hired to defeat a proposal by Congressman Blarney Flank that SP be taxed on its "windfall profits". Construct an economic argument for why Congress shouldn't pass Flank's bill.

Finally, suppose that you are an adviser to President Obama asked to propose a resolution to this debate. What government policy might achieve SNOT's goals without the undesireable effects of Flank's proposal? Be as specific as possible.