

Economic Final Review



What is Microeconomics ?

Study of small or individuals economic units



What is Macroeconomics?

Study of the national economy (inflation, unemployment, wage, GDP)

What are the three basic economic questions

What to produce, how to produce, for whom to produce

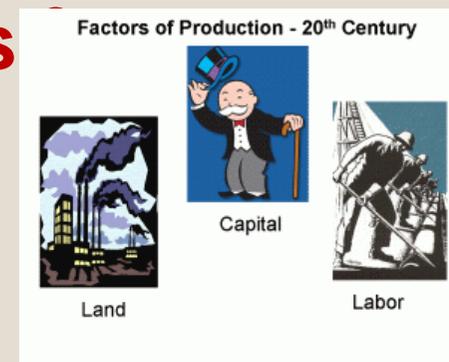
Define the four factors of production

Land-natural resources

Labor- people working

Capital- tools to make other goods

Entrepreneurship- risk takers in search for profit



What is opportunity cost?

Cost of the next best alternative given up when making a choice (trade-off)

How are opportunity cost and tradeoffs related?

An opportunity cost is incurred when a trade off is made

What is scarcity?

Limited resources, unlimited needs and wants

What is conspicuous consumption

Spending money to impress others (showing off)

What does the production possibilities frontier represent?

Trade-offs, opportunity cost, full use of resources

What is principal?

The amount borrowed in a loan

What is interest ?

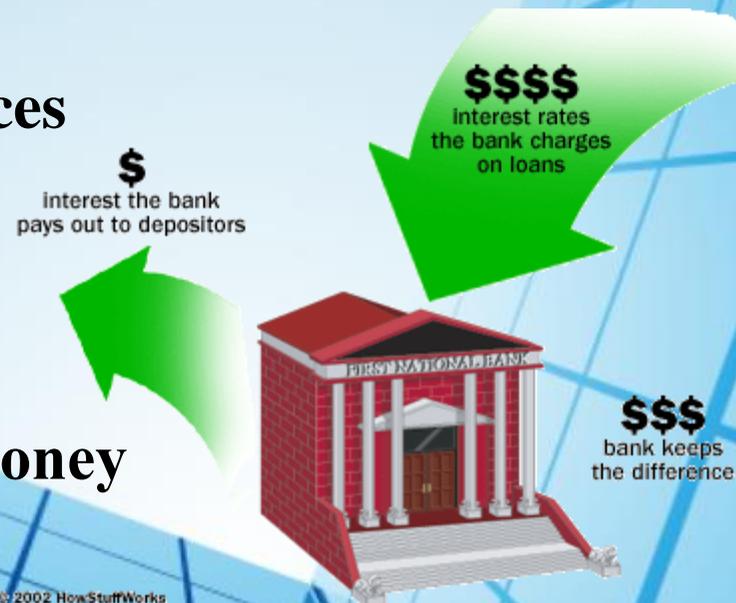
Cost of borrow, price to use another person's money

What is a share holder

Owner of stock in a corporation, common stock – voting rights

What is a non profit organization?

Community services organization, churches, schools



What is a sole proprietorship, corporation, and partnership?

Business Organizations			
	Sole Proprietorship	Partnership	Corporation
Owned by	One Person	Two or More People	One or More <u>Stockholders</u> Separate Legal Entity
Profit	All To Owner	Split Between Partners	Divided Among Shareholders <u>Dividend</u> = Corporate Profit
Advantages	Easy to Start & Quit Ease of Management Pride of Ownership (Satisfaction)	Easy to Start Ease of Management Greater Financial Capital More Efficient Easier to Attract Talent	Raising Financial Capital Limited Liability Unlimited Life Run by Board of Directors Easy to Transfer Ownership
Disadvantages	Unlimited Liability Little Financial Capital (Limited Efficiency, Size, & Experience) Limited Life	Unlimited Liability (all partners liable for debts) Limited Life Conflicts with Partners	Difficult, Expensive to Form <u>Charter</u> is Required Owners Have no Control Double Taxation More Regulations
% of U.S. Businesses	72%	8%	20%

What does the securities and exchange commission do?

Regulates sale of corporation stock to the public

What is a vertical merger?

Merger of different steps of manufacturing

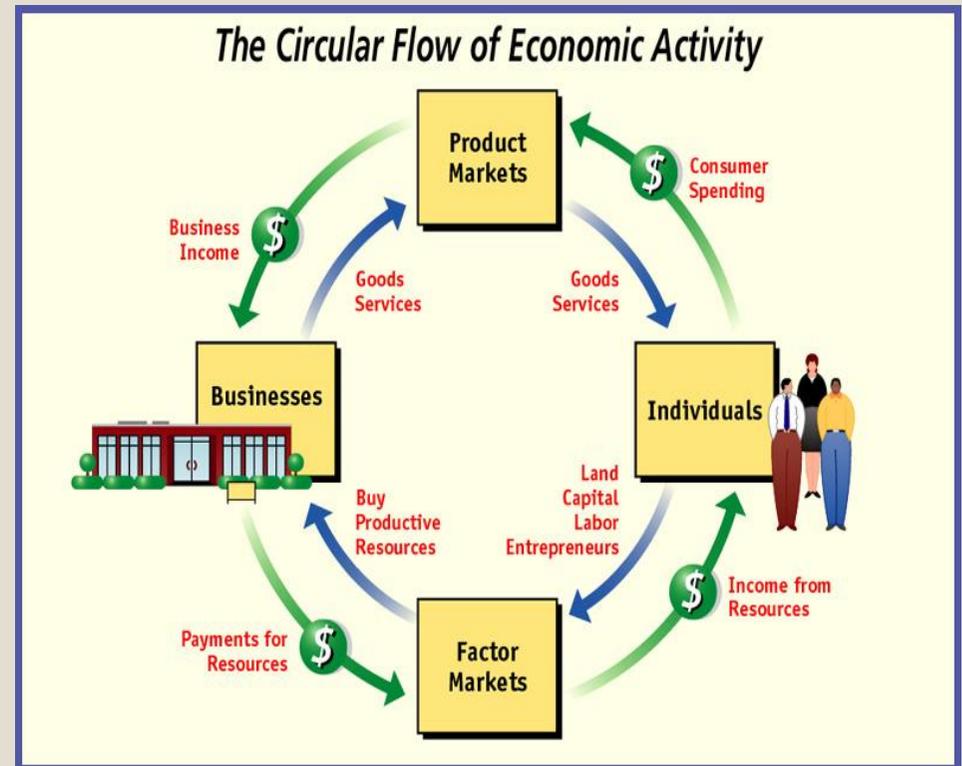
What is a horizontal merger?

Merger of the same type of business

What is a conglomerate?

One firm owning many different or unrelated business,
diversification a major reason

Describe the circular flow of income >>>>>



What is a traditional, command, and market economy?

The Three Economic Systems			
	Traditional	Command	Market
How Decisions are Made	Ritual, Habit, & Custom	Central Authority Government	Supply and Demand (Sellers & Buyers)
Strengths	Stability, Continuity, Predictability, & Preserves Culture	Drastic, Quick Change Central Control Public Services Access	Adjusts Well to Change Efficient Use of Resources Consumer Satisfaction Wide Variety of Goods No Government Interference
Weaknesses	Discourages New Ideas Stagnant Growth Limited Choices Slow to Change	Needs and Wants Not Met Lacks Effective Incentives Shortages and Surpluses Large Bureaucracy Little Flexibility	Basic Needs not Met for All Wide Fluctuations Market Failures Unemployment Inflation Poverty Gap
Required for Success	Limited Contact with the Outside World	Strong Control Government Ownership of Resources	Private Property Freedom of Exchange Competition Profit Motive
Examples	Primitive Cultures Indigenous Peoples	Cuba, China, Vietnam, North Korea, (USSR)	United States? (Mixed Economy) (Modified Private Enterprise)

What is a mixed economy?

Combination of command and market (Ex. USA)

What is the demand curve?

Downward sloping curve to the right

What is diminishing marginal utility?

As buyer consumes more, consumers receive less additional satisfaction

What are complements ?

The use of one product leads to the use of another product. (Ex: DVDs, and DVD player, cameras and films, cereal, and milk.)

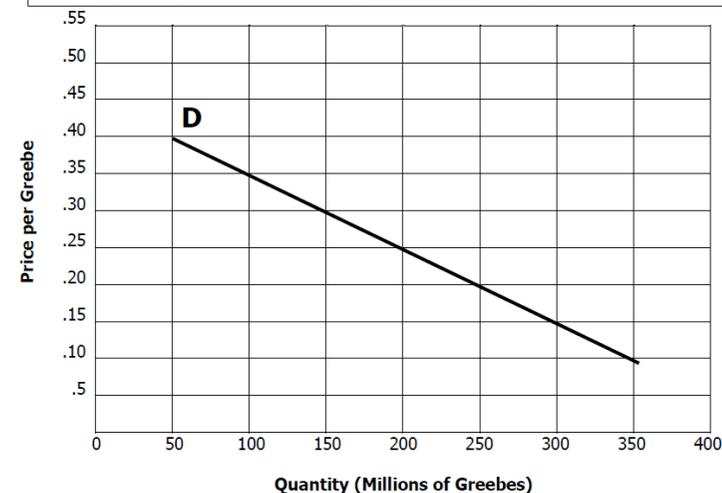
a) If camera prices rise, demand for film decreases

What are substitutes ?

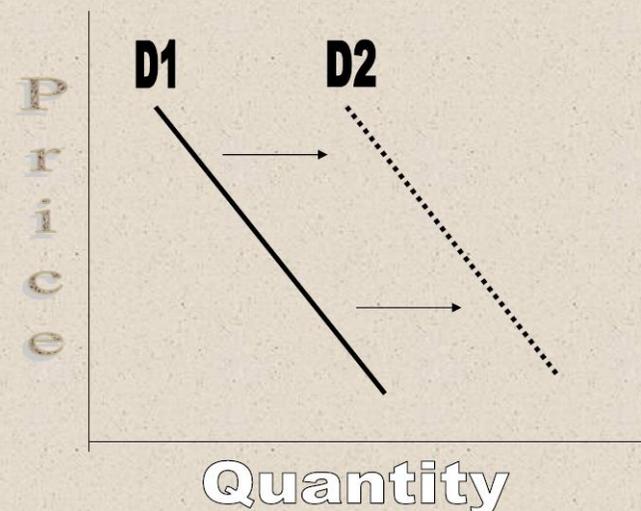
Products that can be used in place of other products (Ex: Butter and margarine, beef and chicken)

a) If butter prices rise, demand for margarine increases.

A change in QD is illustrated by movement along the Demand Curve.



• Demand for margarine when the price of butter goes up.



A change in QD is illustrated by movement along the Demand Curve.



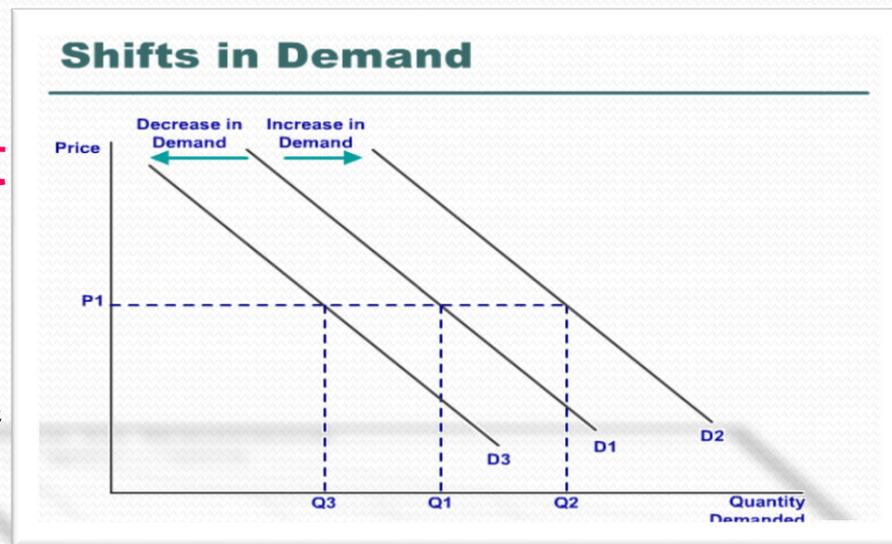
What is change in quantity demanded?

A movement along the demand curve caused by a change in price

What is a change in demand? What happens to the demand curve?

People willing to buy different amounts of the product at the same prices.

Shift to Right = increase, Shift to left = decrease



What is the law of demand? Relationship between price and quantity demanded.

Price increases, quantity demanded decreases (**inverse**)



What is the supply curve?

Upward sloping curve to the right

What is the law of supply? relationship between price and quantity demanded.

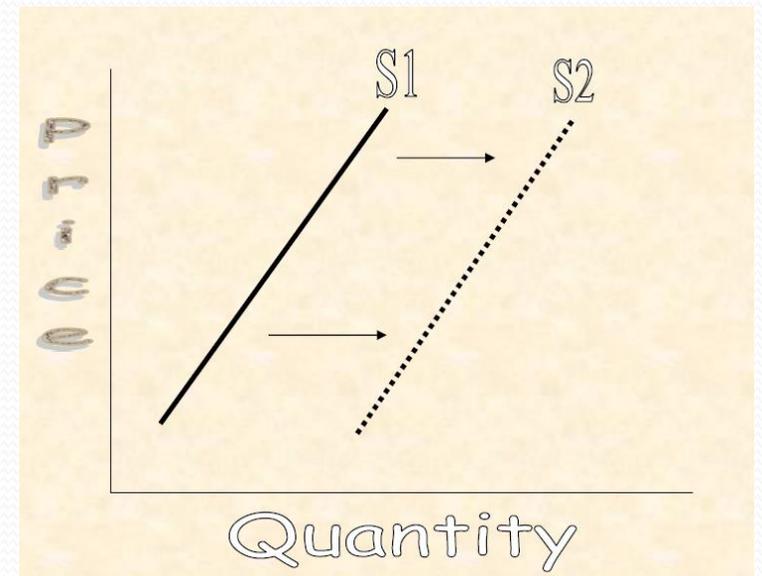
As price increase, quantity supplied increase (**direct**)

What is a change in quantity supplied?

Movement along the supply curve

What is a change in supply? What happens to the supply curve

Shift to right or to the left



What is a surplus? What happens to prices when there is a surplus?

$Q_S > Q_D$, price above equilibrium (price goes down)

What is a shortage? What happens to prices when there is a shortage.

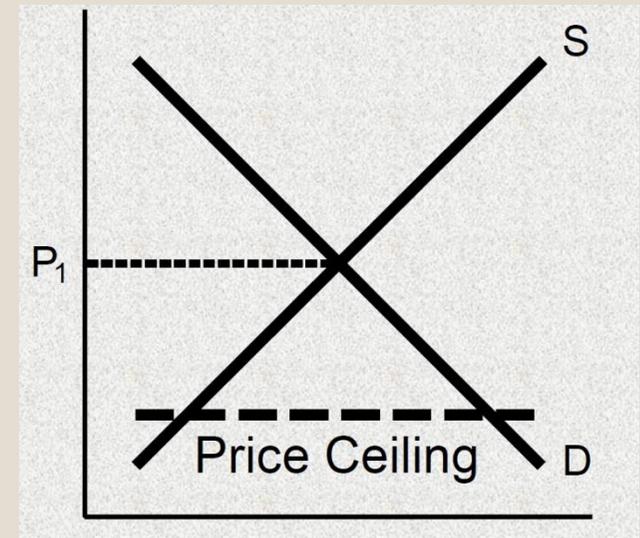
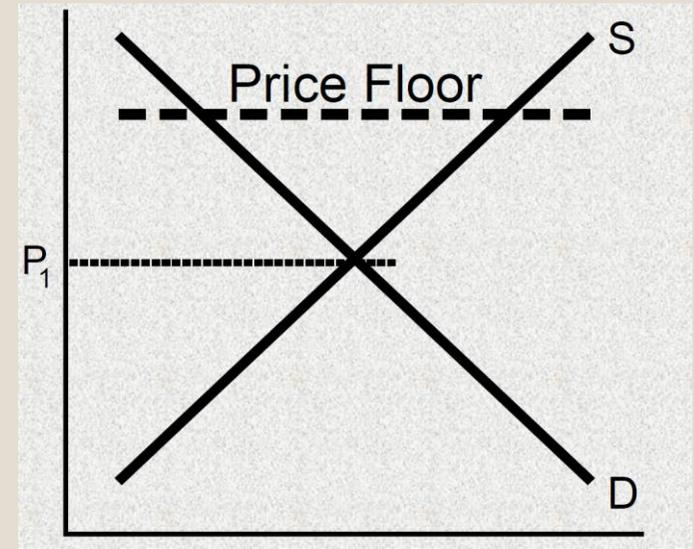
$Q_D > Q_S$, price below equilibrium (prices goes up)

What is market equilibrium?

- a) what happens if there is an increase in demand
- b) what happens if there is a decrease in demand
- c) what happens if there is an increase in supply
- d) what happens if there is a decrease in supply

$Q_S = Q_D$

- a) Shortage; price goes up
- b) Surplus; price goes down
- c) Price goes down
- d) Price goes up



What is pure(perfect) competition?

A large number of well informed independent buyers and sellers who exchange identical products.

What is imperfect competition?

Lack one or more of the conditions of perfect competition

What is a monopoly?

Only one seller of a particular product, extensive influence over price, almost impossible to enter the market

What is an oligopoly?

Has few number of firms in the industry, some influence over price fair amount of product differentiation, and advertising, but difficult to enter the market



Market Structures

	Perfect Competition	Imperfect Competition		
	Pure Competition	Monopolistic Competition	Oligopoly	Pure Monopoly
Number of Firms in Industry	Many	Many	Few	One
Influence Over Price	None	Limited (little)	Some	Extensive
Product Differentiation	None	Fair Amount (a lot)	Fair Amount (a lot)	None
Advertising	None	Fair Amount (a lot)	Fair Amount (a lot)	None (Some)
Entry Into Market	Easy	Easy	Difficult	Almost Impossible
Examples	Pure: None Near: Farming	Gas Stations Clothing Fast Food	Cars, Steel, Oil, Airlines	Pure: None Near: Utilities

What is a monopolistic competition?

Has many firms in industry, limited influence over price, and fair amount of product differentiation, and advertising, but is easy to enter into the market

What is a natural monopoly?

Example: Public utilities



What is a technological monopoly

Created by patent or copyright

What is a geographic monopoly

Absence of other sellers in a certain geographic area.
(Ex: only gas station in town)

What is a government monopoly

Government owns and operates (Ex: water use, military weapons)

What is the Sherman Anti-Trust Act

The 1st Anti-Monopoly law – outlawed restraint against trade

What is the Clayton Act?

Anti monopoly law, outlawed price discrimination

What type of worker commonly joins labor unions ?

People in manufacturing jobs and public services professions

What is negotiated in collective bargaining?



Wages, health benefits, vacations, and working hours

What are the top three federal expenditures?

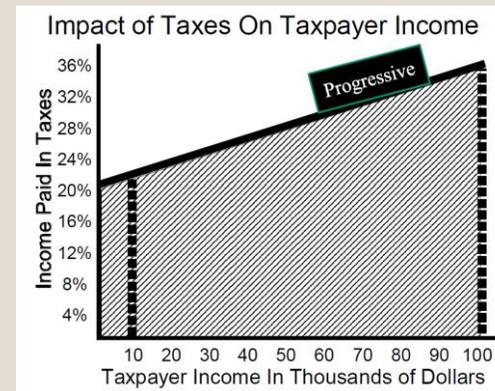
Social Security/Medicare, national defense, interest on the debt

What are the three biggest sources of revenue for the federal government?

Individual income tax, FICA(social security/ Medicare) Tax, corporate income tax

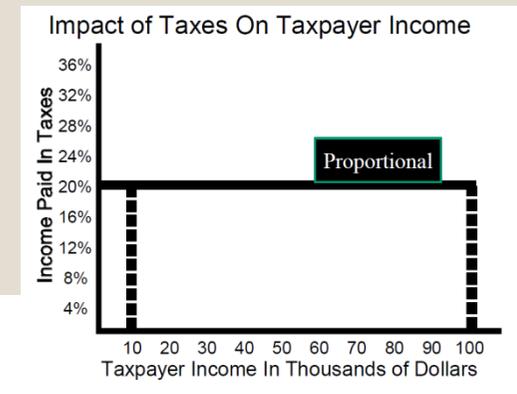
What is a progressive tax

Low tax % on low income,
higher tax % on higher income tax



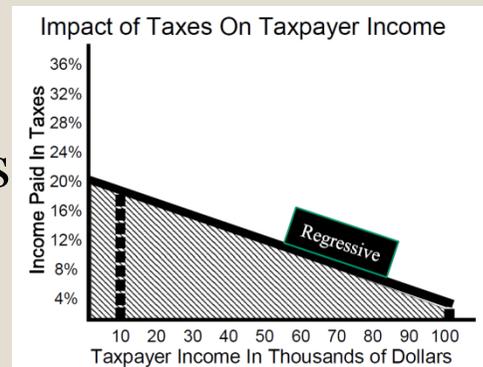
What is the proportional tax

Flat tax; same percentage on all incomes



What is a regressive tax

Higher tax on burden on lower incomes
Ex: sales tax



What is the federal reserve system (the fed)

Nation's central bank

What are banks required do?

Maintain legal reserves (keep some money in the bank)

What is an easy money policy?

a. How does the fed increase the money supply?

Expand, increases growth of money supply

a. Lower interest rates (unemployment/recession)

What is a tight money policy

a. how the Fed decrease the money supply

Contracts, decreases growth of money supply

a. Raise interest rates (inflation)

What is the goal of monetary policy?

Economic growth without causing inflation



What are reserve requirements ?

Percentage of deposits on reserve (vault cash or in federal reserve bank account)

What is the discount rate?

Interest rate Fed charge banks

What are open market operations?

Buying & selling government securities

What is demand pull inflation?

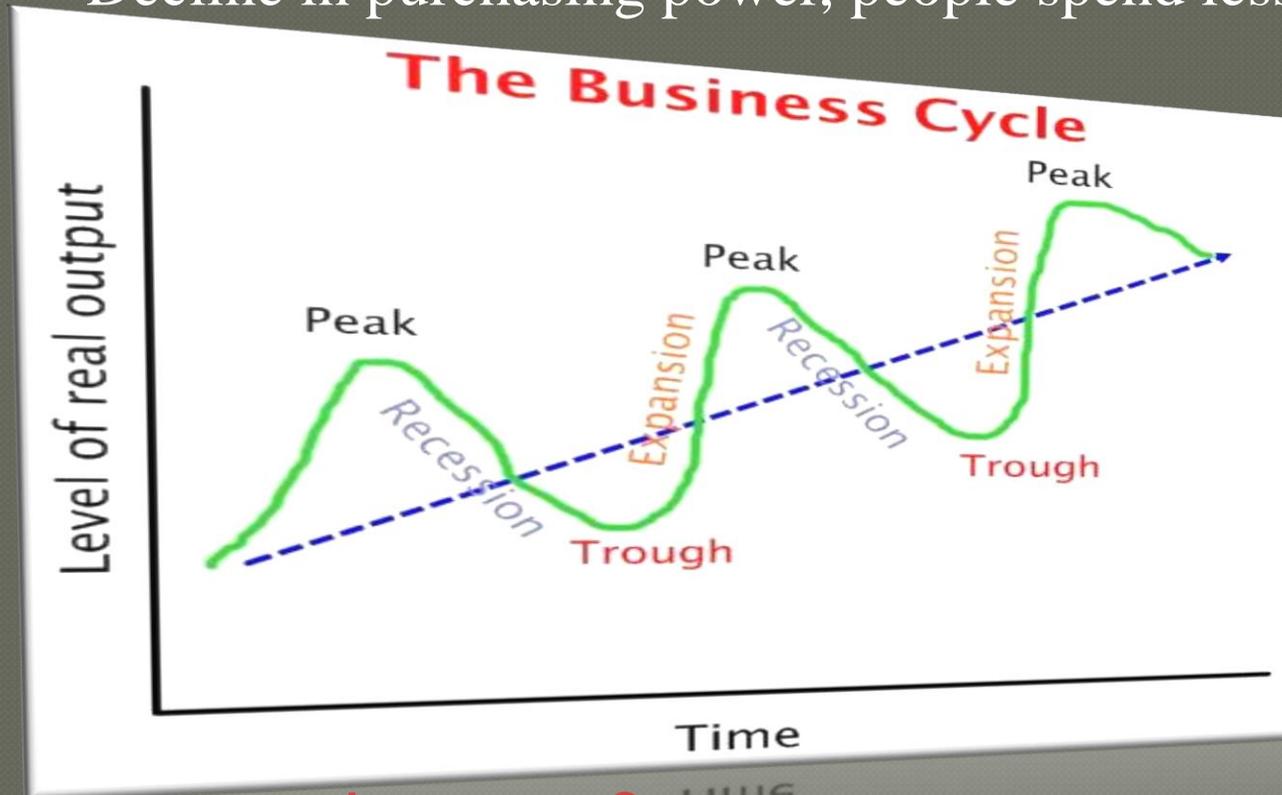
Caused by consumers

What is cost-push inflation

Caused by businesses

What are the consequences of inflation?

Decline in purchasing power, people spend less



What is unemployment?

People who are out of work

What are fiscal policies to fight unemployment?

Increase Government spending, decrease taxes

What does the Fed (monetary Policy) do to fight unemployment

Reduce discount/interest rate, cut reserve requirement

What is an export

Products sent to other country

What is an import

Products bought into the country



What is a trade surplus

Exports are greater than $>$ imports

What is a trade deficit

Import are greater than $>$ exports

What is an embargo

Refusal to import or export from or to another country

What is a comparative advantage

When a country produces a product more efficiently than another country

What is an absolute advantage

A country can produce more units of product than another country

What is the WTO (World Trade Organization)

Replaced GATT & advocates free trade & no trade barriers

What is NAFTA (North American Free Trade Agreement)

Canada, USA, Mexico

What is a tariff

Tax on imports

What is a quota

- a) what are the consequence of high tariffs and low quotas?
- b) what are the consequences of low tariffs and high quotas

Limit on number of imports

- a) protectionism, help save domestic jobs
- b) free trade

What is the difference between a revenue tariff and a protective tariff?

Revenue: raise money, protective: protect specific industry

What is an infant industry

Business just starting

What is a protectionist?

- a. what type of tariffs and quotas does a protectionist favor?
- b. who do they want to help?

- a. High tariffs and low quotas
- b. Protect domestic jobs & infant industries

What is a free trader?

- a. what type of tariffs and quotas does a free trader favor?
- b. who do they want to help

- a. Low tariffs and high quotas
- b. Stronger businesses who will survive/no protection of weak bus.

