**Introduction to Economics**

**Define the following terms:**

• Scarcity:

• Choice:

• Opportunity Cost:

• Utility:

**What are the parts of ‘the basic economic problem’?**

1.

2.

3.

**The factors of production are:**

• •

• •

**Draw a production possibility curve below for any two goods:**

On your diagram above, illustrate the following:

a. a point where all the economy’s resources are being fully utilized, given currently available technology

b. a point where they are not being fully utilized

c. an increase in the productive potential of the economy

**What is the difference between positive and normative economics?**

**What is the difference between a planned economy and a free market economy?**

**What sort of economy is the US?**

**What is a ‘transition economy’?**

**Demand is:**

**MICROECONOMICS**

**Demand and Supply**

As the price of a good increases, the demand for that good will…………..

**Describe the following:**

Income effect:

Substitution effect:

**What is the difference between normal and inferior goods? Suggest examples of each:**

**What is the difference between substitute and complementary goods? Suggest examples of each of these pairs:**

**Suggest and explain some factors that will affect the demand for a product:**



**Supply is:**

**- - -**

As the price of a good increases, the supply of that good will…………..

**Suggest and explain some factors that will affect the supply of a product:**



**Draw demand and supply diagrams below to illustrate the following:**

**1. Equilibrium 2. Excess supply 3. Excess demand**

**Define the following:**

a. Minimum price scheme: b. Maximum price scheme:

**Draw diagrams below to illustrate each of the situations above:**

**Define the following:**

Consumer surplus:

Producer surplus:

**Elasticities**

Complete the diagram below with the words ‘unitary’, ‘elastic’, and ‘inelastic’:

Less than 1 1 More than 1

Price Elasticity of Demand

**Definition: Formula:**

If a good has an inelastic PED and a firm raises its price, the firm’s revenue will…………..

**What factors affect the elasticity of a product?**



Cross Elasticity of Demand

**Definition: Formula:**

If XED between two products is negative, they are said to be………………… If XED between two products is positive, they are said to be…………………..

Income Elasticity of Demand

**Definition: Formula:**

If YED of a product is negative, it is said to be……………………… If YED of a product is positive, it is said to be……………………….

**Draw an Engel curve to illustrate what happens to the demand for a product over time as incomes rise:**

Price Elasticity of Supply

**Definition: Formula:**

**What factors affect the elasticity of supply of a product?**

**Taxes and Subsidies**

**What is the difference between direct and indirect taxes? A specific tax is:**

**An ad valorem tax is:**

**Draw a diagram below to illustrate the imposition of an ad valorem tax on a good:**

**Draw a diagram below to illustrate the imposition of a specific tax on a good:**

**Illustrate on your diagram:**

a. the tax burden/incidence of tax for producers b. the tax burden/incidence of tax for consumers

**How would this change if the product became:**

1. more elastic:

2. more inelastic:

- - -

**Define a subsidy:**

**Illustrate what happens when a subsidy is introduced for a particular product:**

How will elasticity of supply and demand affect your diagram above?

**Market Failure**

When, in a market/society, it is impossible to make one person better off without making someone else worse off, the situations is referred to as:

**Asymmetric information is where: Imperfect competition is where:**

How can the government seek to reduce imperfect competition?

**Public goods are:**

1.

2.

Why will public goods not be provided in a free market economy?

**Merit goods are:**

Why will merit goods be under-provided in a free market economy?

**De-merit goods are:**

Why will de-merit goods be over-supplied in a free market economy?

**Define the following key terms:**

a. marginal social cost:

b. marginal social benefit:

c. marginal private cost:

d. marginal private benefit:

e. external cost:

f. external benefit:

**Externalities Situations and Diagrams:**

There are four different situations where externalities can occur. For each of these you need to draw a diagram and explain the situation. You should also include examples in your explanation.

1. Negative externalities of production example:

Where the production of a good has negative effects on society

2. Positive externalities of production example:

Where the production of a good has positive effects on society

3. Negative externalities of consumption example:

Where the consumption of a good by an individual harms the rest of society

4. Positive externalities of consumption example:

Where the consumption of a good by an individual benefits the rest of society