Review for Econ Final on 10/21

150 formal points

*Directions:* On a Separate piece of paper or in your notes answer the following questions. Try this first without your notes. Then go back through and look it up

1. Define Economics
2. Define Economic System
3. What Are the 6 key traits of a Market System
4. What is the difference between a command vs. Market Economy?
5. How is “maximizing utility” at the core of how market economies work?
6. Define Opportunity Cost
7. Define and give an example of price discrimination?
8. How do changes in Supply or Demand change prices?
9. Explain how Price floor and price ceilings can create economic surplus or shortage
10. What is the difference between simple interest and compound interest?
11. Define Liquidity
12. What is FDIC and NCUA insurance
13. What is the difference between a savings account and a Certificate of Deposit?
14. Define and give an example of a perverse incentive
15. What is principal-agent problem?
    1. What two conditions create a principle agent problem?
16. What is the prisoner’s Dilemma? What is a real life example?
17. What is creative destruction?
18. What is a monopoly?
    1. What is a natural monopoly?
19. Define Externality?
    1. What are the two mechanisms (tools) that government can use in dealing with externalities?
20. What are public goods?
    1. What are the two major characteristics of a public good?
    2. What is a free rider?
21. What are the 6 major functions of the government in the economy? Define each one
22. What is creative destruction?
23. What is the moral hazard problem? Give an example
24. How was the subprime mortgage crisis a moral hazard problem
25. Explain how asymmetrical information creates economic problems. How can technology solve the problem?
26. How is asymmetric information a problem in the health care industry?
27. How do reputation mechanisms work to reduce moral hazard?
28. How does the solution of the “personal mandate” solve a problem of information in the health care industry?
29. Why do businesses spend so much money creating an effective brand?
30. How does an absence of or partial information lead to discrimination?
31. What is the relationship between poverty and human capital?
32. What is NAFTA and what are some potential arguments for and against?
33. How is GDP calculated?
    1. What does the GDP NOT measure?
    2. What is Real GDP?
    3. What is Per Capita GDP
34. What does the GINI Index measure?
35. Know the Difference between the following:
    1. Progressive Tax
    2. Regressive Tax
    3. Flat Tax
36. What is Social Security?
37. What is the Consumer Price Index how is it calculated and what does it measure?
38. What is a tax deferred retirement account? What are the tax advantages of the following:
    1. ROTH IRA
    2. Regular IRA
    3. 401 (k)
39. What is Real return vs. Nominal Return?
40. What does it mean to “raise capital”? Why is this important within the economy?
41. How does the “efficient markets theory” play a role in how the financial markets work?
42. Be able to define the following:
    1. Stocks
       1. Dividends
       2. Value vs. Growth stocks
    2. Bonds
       1. Municipal
       2. Corporate
       3. Federal government
    3. Mutual Funds
    4. Index Funds
    5. S & P 500
    6. Commodities
43. How is risk and return correlated?
44. What is a portfolio and what role does diversification play?
45. What is Fiscal Policy vs. Monetary Policy?
    1. What is Keynesian Fiscal Economy in times of crisis?
46. What is the role of the Federal Reserve?
    1. What four tools does it have at its disposal to influence the economy?
    2. What is the Fed’s dual mandate
    3. How do open market operations work?
47. What has lead to increasing income inequality in the United states?
48. Explain the debate around raising the minimum wage?
    1. Is it a price floor?
    2. Why do some economists oppose raising the minimum wage?
    3. What is the EIC, which is proposed as an alternative to raising the minimum wage?
49. Why is it difficult to measure the effectiveness of public policies in comparison with the private sector?
50. How does politics corrupt the process of government intervening in the economy?

Assume that there are two nations in the world, USA and India and that they can produce only two products. Each country uses half of its resources on each product. They can produce the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | T-Shirts | | | Lollipops |
| USA | 3,000 | | | 9,000 |
| India | | 9,000 | 36,000 | |
| Total | |  |  | |

1. India has an absolute advantage in both products, what does this mean?
2. Calculate the opportunity cost of producing T-Shirts for both countries?
3. Calculate the opportunity cost of producing Lollipops for both countries?
4. Fill in a new table that shows what will happen if both countries specialize in what they have a comparative advantage in

|  |  |  |
| --- | --- | --- |
|  | T-Shirts | Lollipops |
| USA |  |  |
| India |  |  |
| Total |  |  |

1. What does the world gain (materially) if the two countries specialize? Explain
2. Fill in a new table to show that shows a net loss of neither T-Shirts or Lollipops:

|  |  |  |
| --- | --- | --- |
|  | T-Shirts | Lollipops |
| USA |  |  |
| India |  |  |
| Total |  |  |