Review for test # 1 on 9/9

100 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. Explain how Price floor and price ceilings can create economic surplus or shortage
9. Discuss the role of behavioral economics – including the idea of “strict rationality. Who is Homo Economicus?
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. Respond to the following quote: “In any system that does not rely on markets, personal incentives are usually divorced from productivity. Firms and workers are not rewarded for innovation and hard work, nor are they punished for sloth and inefficiency.” Give an example:
15. Define and give an example of a perverse incentive
16. What is principal-agent problem? What two conditions create a principle agent problem?
17. What is the prisoner’s Dilemma? What is a real life example?
18. What is creative destruction?
19. What is the moral hazard problem? Give an example
20. How was the subprime mortgage crisis a moral hazard problem
21. Explain how asymmetrical information creates economic problems. How can technology solve the problem?
22. How do reputation mechanisms work to reduce moral hazard?
23. How does the solution of the “personal mandate” solve a problem of information in the health care industry?
24. Why do businesses spend so much money creating an effective brand?
25. How does an absence of or partial information lead to discrimination? I am going to ask you specifically about discrimination against young women.
26. What is the relationship between poverty and human capital?
27. Be able to accurately complete a Comparative advantage chart (See Homework for example)

**Supply and Demand Graph practice**

Directions: On the graph below, label the **x-axis “Quantity”** and label the **y-axis “Price.”** Place the following coordinate points on the graph below. Then connect the points with a line. **Label each line as directed.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Label this line **“Supply”** | |  | Label this line **“Demand”** | |
| Producers will supply this **quantity** of Gerbils . .. | . . . at this **price** |  | Buyers will demand this **quantity** of Gerbils . . . | . . . at this **price** |
| **x** | **Y** |  | **x** | **y** |
| 600 | $10 |  | 600 | $40 |
| 900 | $15 |  | 900 | $35 |
| 1200 | $20 |  | 1200 | $30 |
| 1500 | $25 |  | 1500 | $25 |
| 1800 | $30 |  | 1800 | $20 |
| 2100 | $35 |  | 2100 | $15 |
| 2400 | $40 |  | 2400 | $10 |

**Supply and Demand for Gerbils**

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**Practice Understanding Supply and Demand**

Directions: Use your notes and your Supply and Demand Graph to answer the following questions.

1. What is the Market equilibrium price for gerbils?

2. What is the Market equilibrium quantity supplied and quantity demanded of gerbils?

3. If the price was $15 we would have a (circle) **surplus/ shortage** of \_\_\_\_\_\_ (number) gerbils**?**

4. WHY would there be a **surplus/ shortage** at this price? **Use the words “supply” and “demand” in your answer.** What would sellers do to their prices in this situation?

5. If the price was $35 would have a (circle) **surplus/ shortage** of \_\_\_\_\_\_ (number) gerbils**?**

7. Imagine that the price of gerbil feed triples. What would this do to our supply curve for gerbils? Why?

8. Plot the new supply curve on the original graph:

|  |  |
| --- | --- |
| Label this line **“S2”** | |
| Producers will supply this **quantity** of Gerbils . ... . | . . . at this **price** |
| **x** | **y** |
| 300 | $40 |
| 600 | $35 |
| 900 | $30 |
| 1200 | $25 |
| 1500 | $20 |
| 1800 | $15 |
| 2100 | $10 |

9. What is the new equilibrium price and quantity?