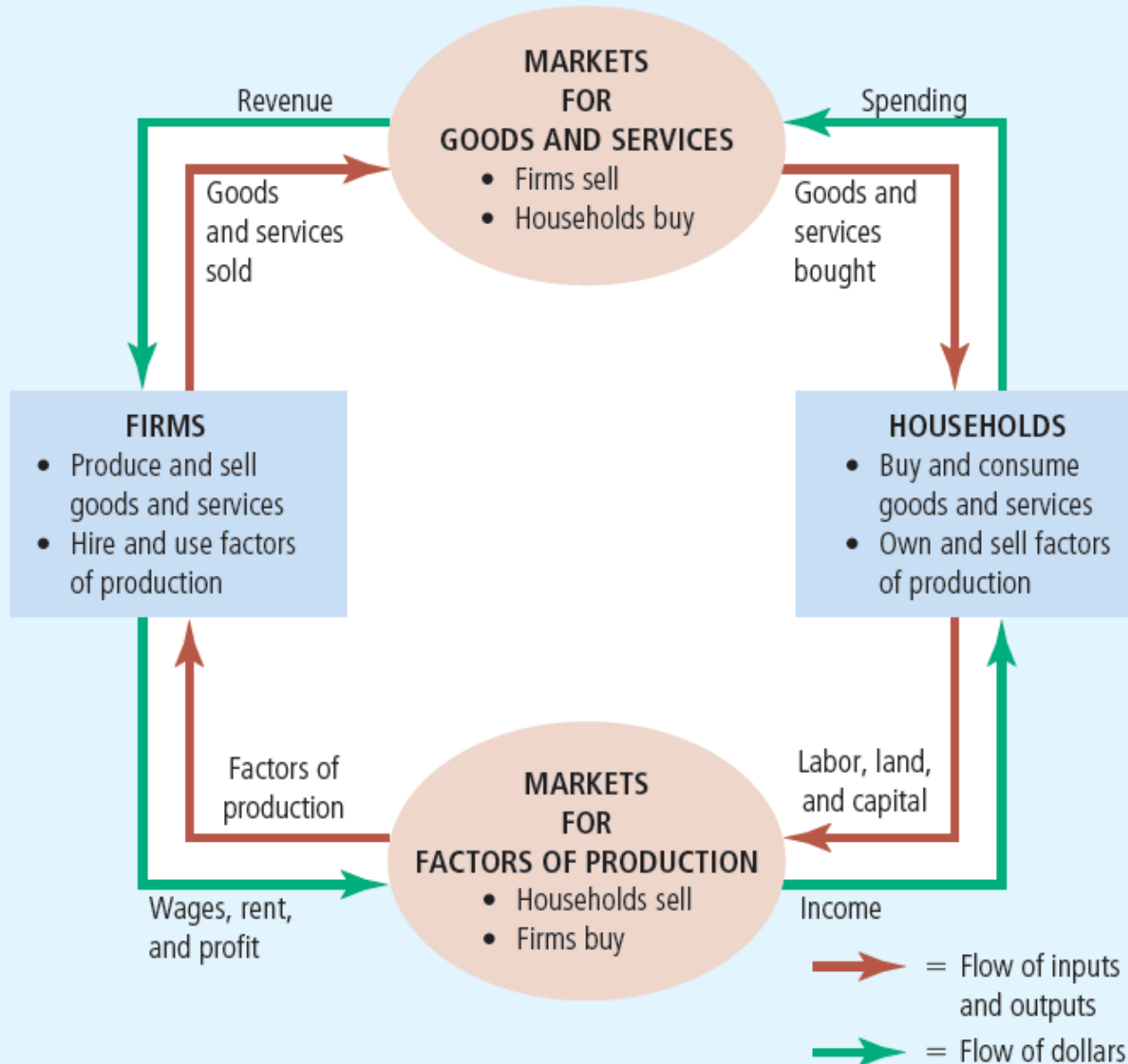


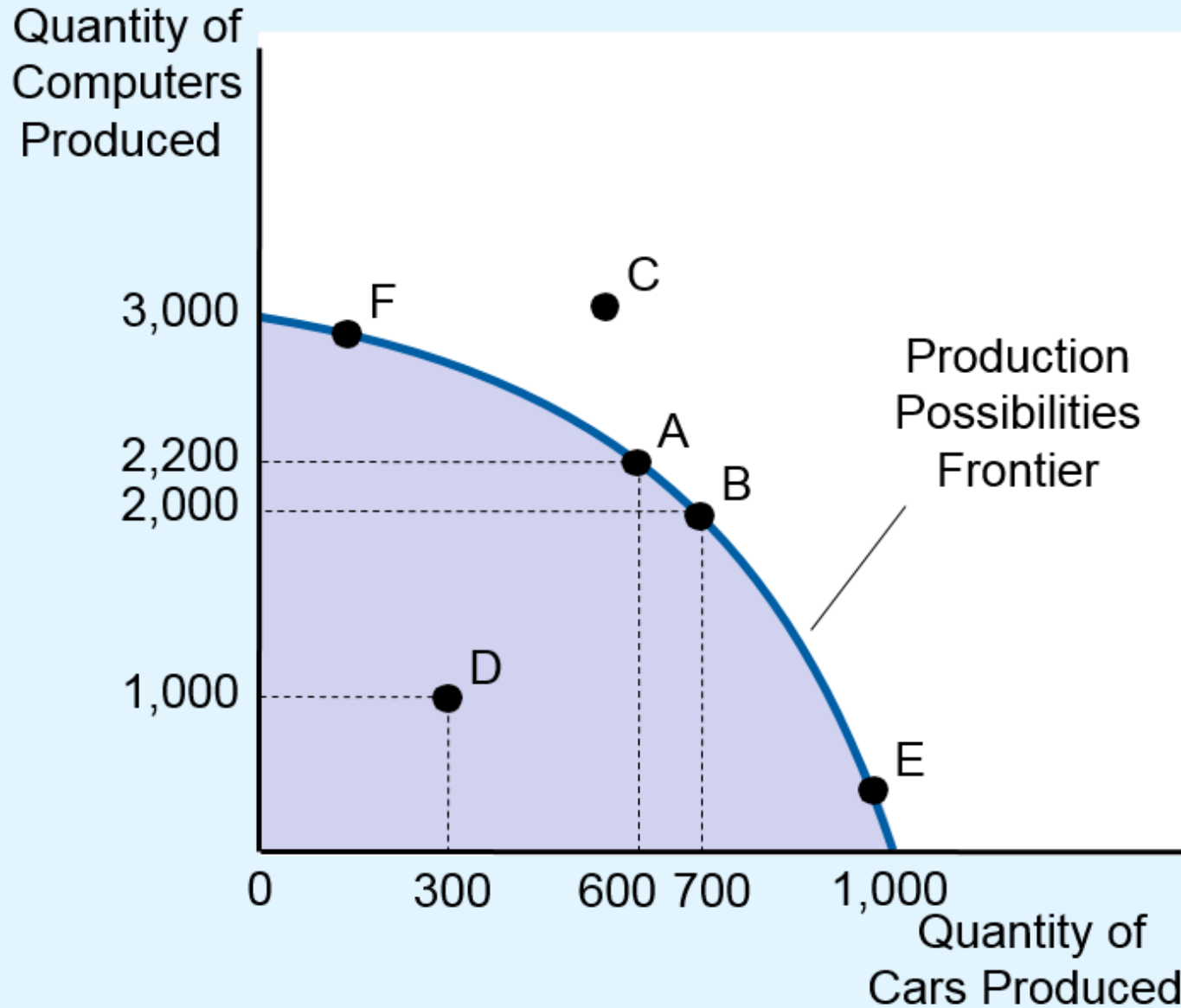
Review

Exam 1. Principles of Microeconomics

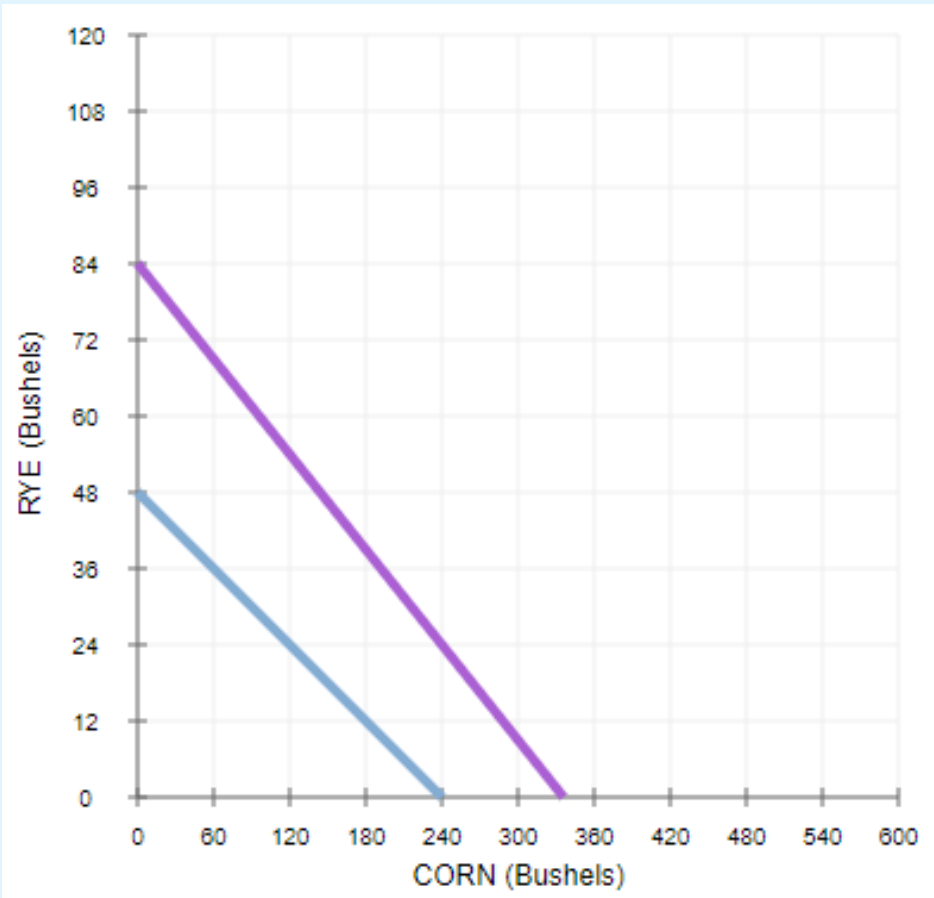
The Circular Flow



The Production Possibilities Frontier



Opportunity cost



	Corn (Bushels per acre)	Rye (Bushels per acre)
Kevin	20	4
Maria	28	7

Kevin's opportunity cost.

Corn: $4/20=1/5$

Rye: $20/4=5$

Maria's opportunity cost.

Corn: $7/28=1/4$

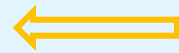
Rye: $28/7=4$

Comparative advantage

	Corn	Jeans
Country	<i>(Bushels per hour of labor)</i>	<i>(Pairs per hour of labor)</i>
Euphoria	4	16
Contente	6	12

Contente's opportunity cost

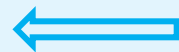
Corn: $12/6 = 2$
Jeans: $6/12 = 1/2$



Comparative advantage in the production of corn

Euphoria's opportunity cost

Corn: $16/4 = 4$
Jeans: $4/16 = 1/4$



Comparative advantage in the production of jeans

Opportunity cost

	Hours Needed to Make 1		Number of Units Produced in 20	
	Unit of		Hours	
	Cheese	Wine	Cheese	Wine
England	1	4	20	5
France	5	2	4	10

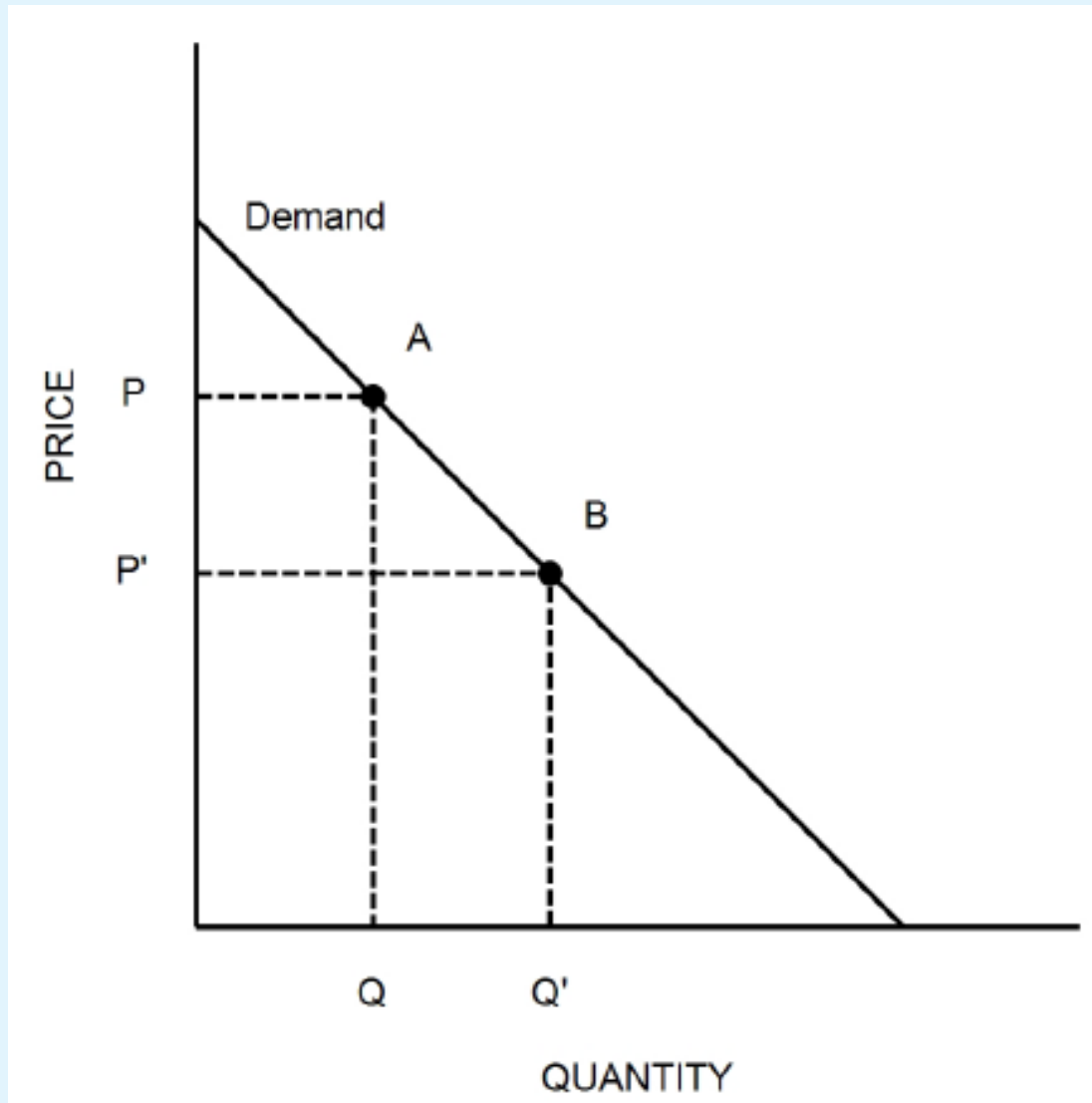
Practice with this example to compute the opportunity cost and comparative advantage.

Production Possibilities Frontier

	Hours Needed to Make 1		Number of Units Produced in 20	
	Unit of		Hours	
	Cheese	Wine	Cheese	Wine
England	1	4	20	5
France	5	2	4	10

Same example but the information in the circle is useful to compute the two extreme values in the PPF. The other data you need to know is the labor endowment (measured in hours). In other examples it could be land endowment.

Demand



Demand

Variables that can shift the demand curve:

Income

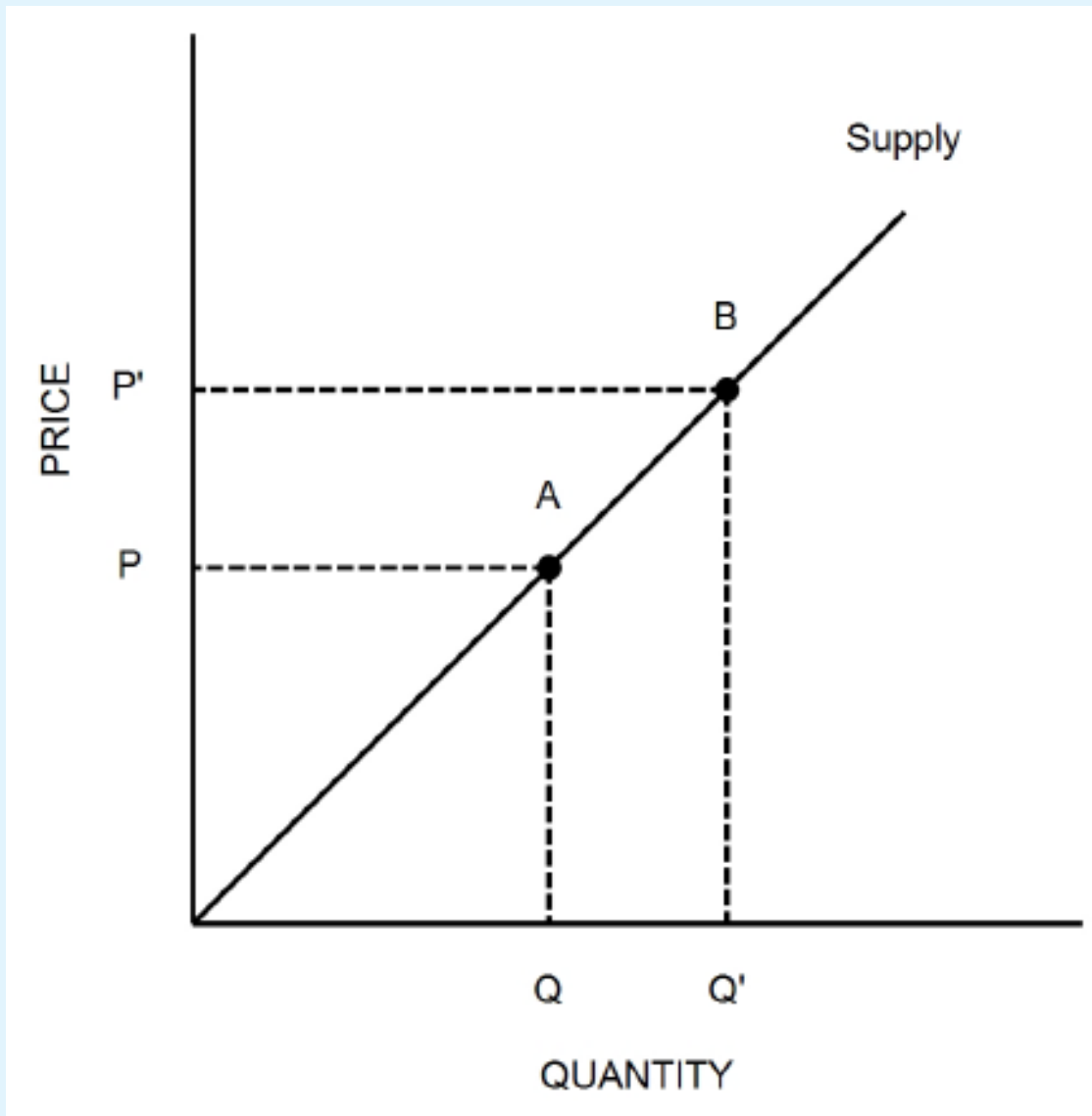
Prices of related goods

Tastes

Expectations

Number of buyers

Supply



Supply

Variables that can shift the supply curve

Input prices

Technology

Expectations about future

Number of sellers

The Elasticity of Demand

Midpoint method

Two points: (Q_1, P_1) and (Q_2, P_2)

$$\epsilon_D = \frac{(Q_2 - Q_1) / [(Q_2 + Q_1) / 2]}{(P_2 - P_1) / [(P_2 + P_1) / 2]}$$

The Elasticity of Supply

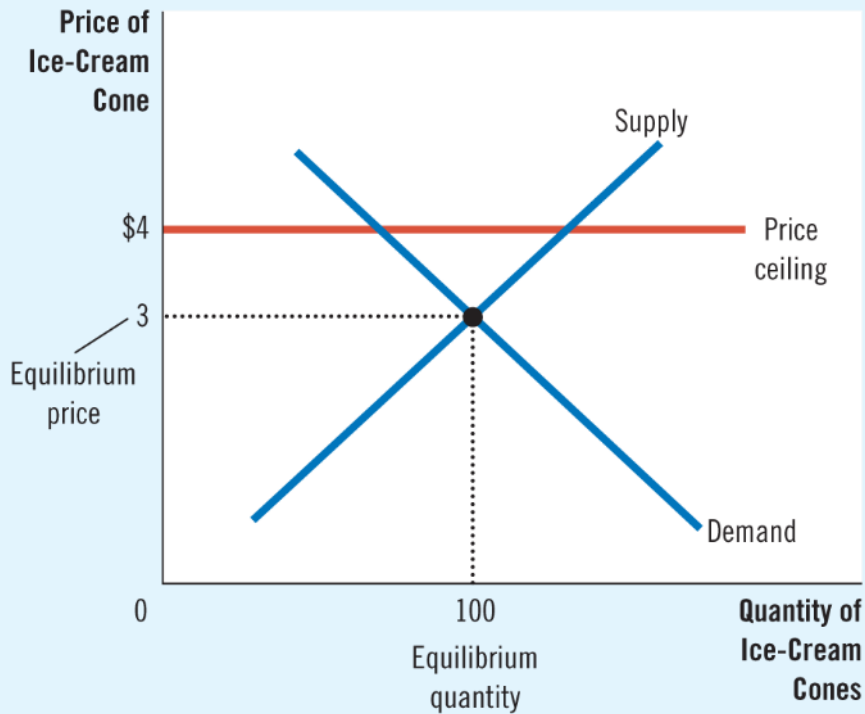
Midpoint method

Two points: (Q_1, P_1) and (Q_2, P_2)

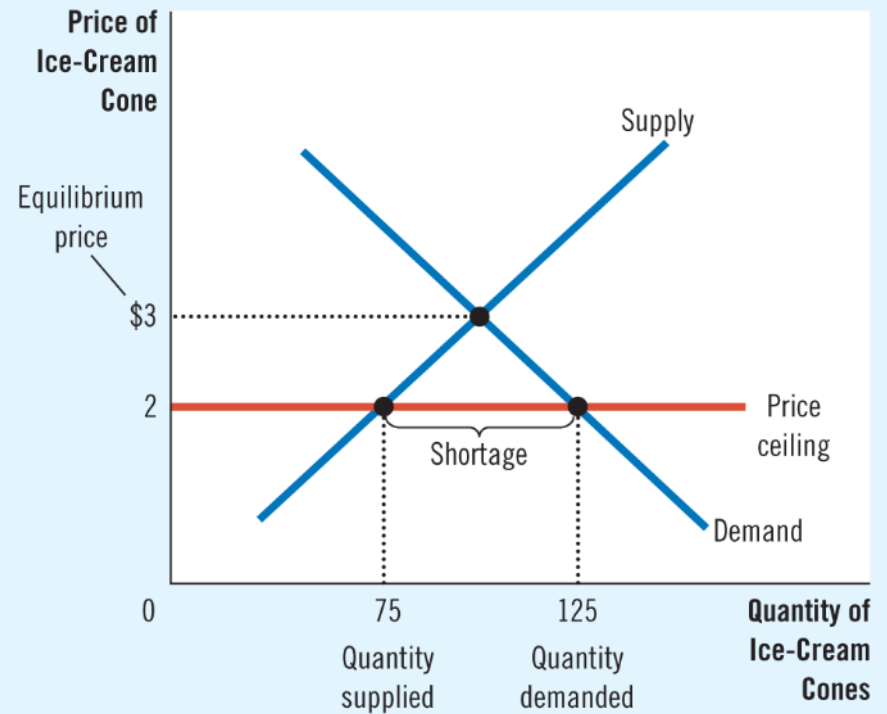
$$\epsilon_S = \frac{(Q_2 - Q_1) / [(Q_2 + Q_1) / 2]}{(P_2 - P_1) / [(P_2 + P_1) / 2]}$$

Price Ceiling

(a) A Price Ceiling That Is Not Binding

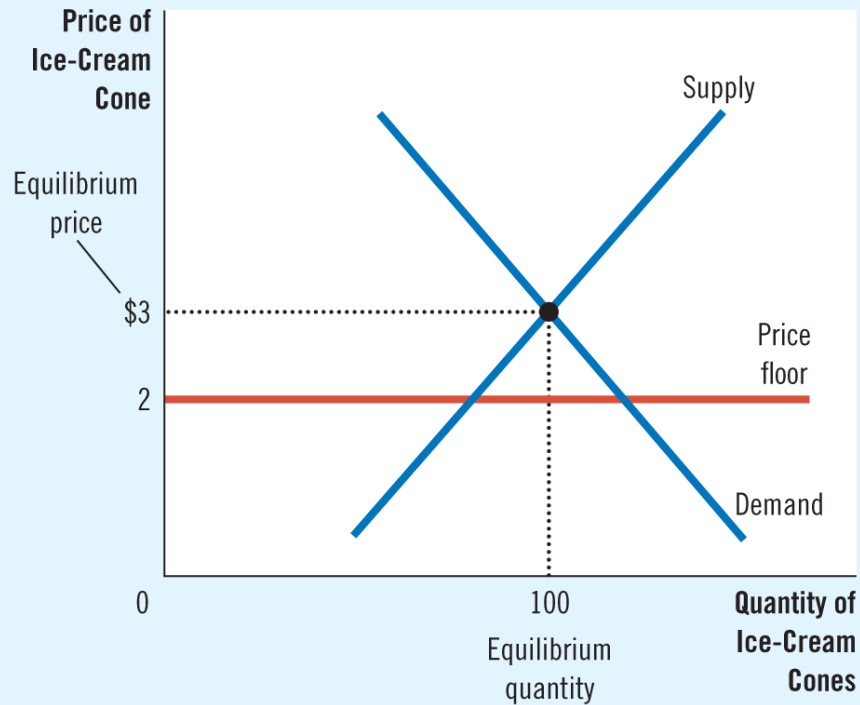


(b) A Price Ceiling That Is Binding

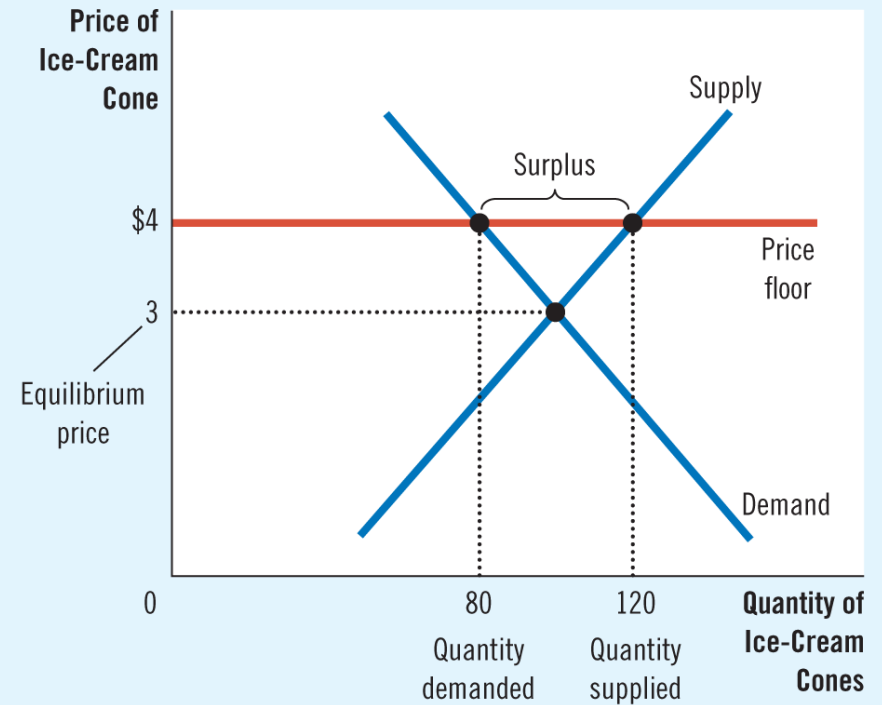


Price Floor

(a) A Price Floor That Is Not Binding

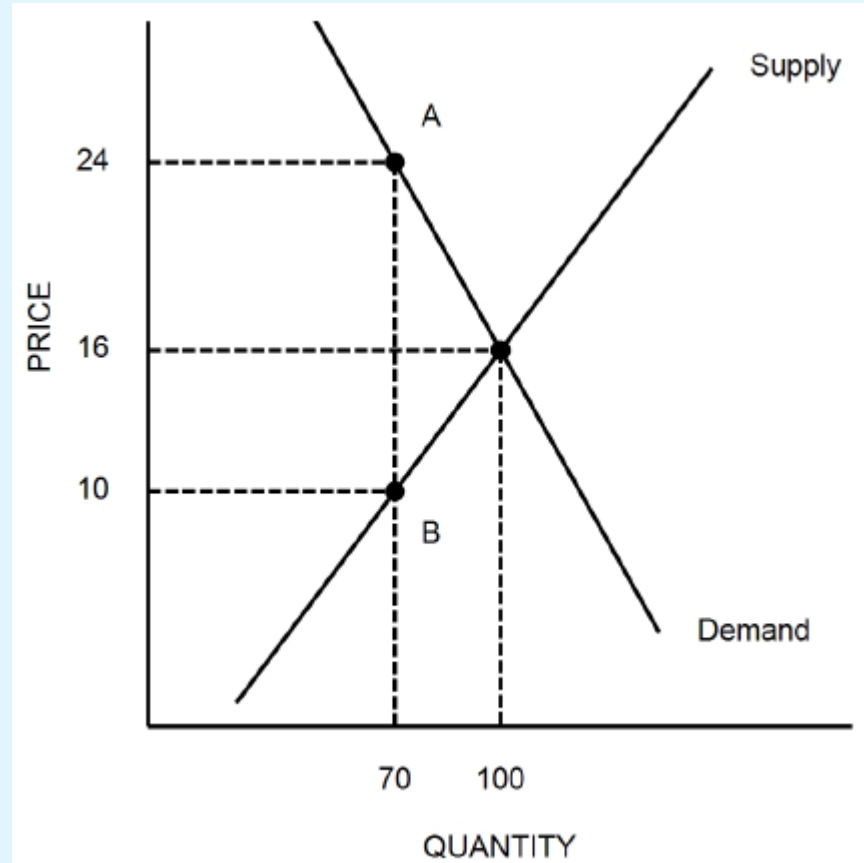


(b) A Price Floor That Is Binding



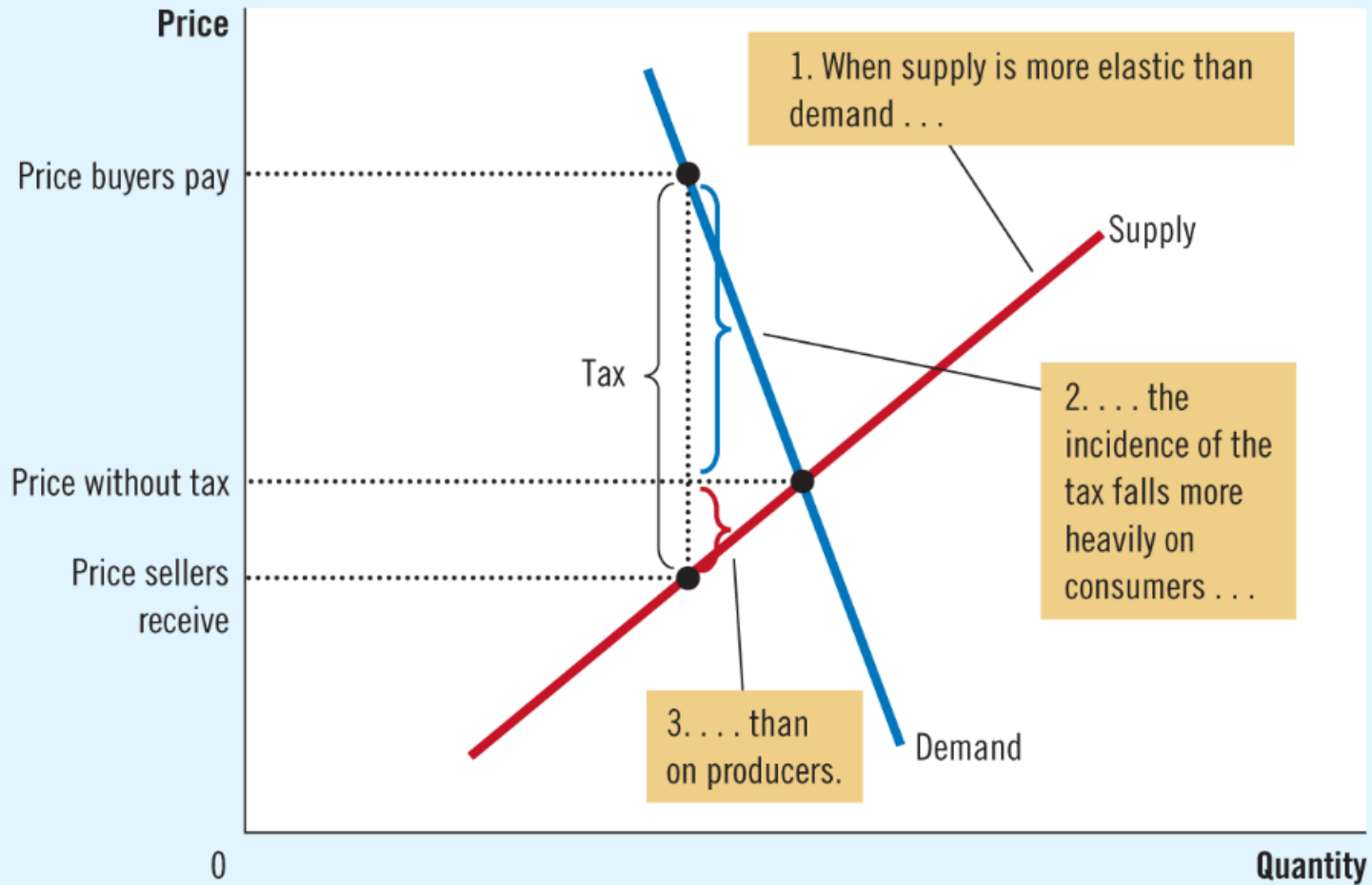
Tax

- Price buyers pay.
- Price paid to sellers.
- Amount of tax per unit.
- Burden of the tax on buyers.
- Burden of the tax on sellers.



Burden of a Tax

(a) Elastic Supply, Inelastic Demand



Burden of a Tax

(b) Inelastic Supply, Elastic Demand

