

Windward Community College
Economics 130/131
Review Sheet for First Midterm
Chapters 1-4

Chapter 1-Ten Principles of Economics

1. Need to know the definition of economics in terms of scarcity.
2. Need to know the true meaning of scarcity in terms of needs and wants.
3. What are the various tradeoffs that people and society face?
4. Need to know the definition of opportunity cost both in terms of money and real terms.
5. Need to know that thinking at the margin is about estimating the costs and benefits of any decision.
6. How do incentives make people change their behavior? Examples?
7. Give an example of how trade can make everyone better off.
8. How can the government improve a situation that involves an externality, either positive or negative?
9. Definitions on Principles 8-10.

Chapter 2-Thinking Like An Economist

1. How is the scientific method applied to the study of economics?
2. What role do assumptions play in designing theories and models?
3. What is an economic model?
4. Know the individual components of the circular flow model and how the individual components work together.
5. Show how the production possibilities frontier demonstrates cost, efficiency and growth.
6. What is the difference between positive and normative statements?
7. Know about two variable coordinate system graphs and the difference between these and single variable graphs.
8. Know about the difference between a shift and a movement of a curve on a graph.
9. Know the difference between independent and dependent variables.
10. Know how to calculate the slope of a line and what that slope means.

Chapter 3-Interdependence and the Gains From Trade

1. Why is trade better for a society than self-sufficiency? What does free trade force people and resources to do?
2. What is the definition of absolute vs. comparative advantage?
3. Show the argument of comparative advantage using the model of two individuals producing two goods with two production possibility frontiers.
 - a. Remember absolute advantage can be show using the physical amounts of a product.
 - b. Comparative advantage is shown through the opportunity cost of one product in terms of another product.
4. How does the concept of comparative advantage explain trade between people and nations?
5. Who gains and who loses from free trade?
6. Why do economists oppose policies that restrict trade among nations?
7. What is the difference between exports and imports?

Chapter 4-Market Forces of Supply and Demand

1. Know the Law of Demand and the Law of Supply

2. Know the other Determinants of Demand and which direction they shift the demand curve.
 - a. Income (Normal and Inferior Goods)
 - b. Tastes and Preferences
 - c. Prices of Related Goods (Substitutes and Complements)
 - d. Population
3. Know that an increase in demand means a shift to the right and a decrease in demand means a shift to the left.
4. Know the other Determinants of Supply and which direction they shift the supply curve.
 - a. Resource Prices (can also be called Inputs or Factors of Production)
 - b. Technology
5. Know that an increase in supply means a shift to the right and a decrease in supply means a shift to the left.
6. Know that equilibrium means $\text{Quantity Demand} = \text{Quantity Supply}$ at the market clearing price. Equilibrium is where the two curves meet.
7. Know the three steps in analyzing equilibrium changes as either a demand curve shifts or a supply curve shifts.