

Economics 130-Windward Community College
Review Sheet for the Final Exam

This final exam is comprehensive in nature and in scope. The test will be divided into two parts: a multiple-choice section and an essay section. The multiple-choice section will be 75 questions. 50 of those questions will cover the last third of the course (Chapters 13-17). The other 25 questions will be roughly divided up between the first and the second third of the course. The last section is essay/short answer questions; there will be five of these. In this review sheet, I will include seven questions, of which I will pick five for the test. Remember that you can bring one sheet of paper with you to the final. You can write anything you want on the paper, but it would be a good idea to focus on principles and theories that can be applied to questions that I may ask.

Chapter 1-Ten Principles of Economics

1. Describe the economic way of thinking in individual terms-
 - a. People face tradeoffs
 - b. Cost of Any Action is measure in foregone opportunities
 - c. ,marginal costs and benefits in decision making
 - d. people change their behavior in response to incentives.
2. Describe the economic way of thinking in interactive terms-
 - a. trade is mutually beneficial,
 - b. markets are a good way of coordinating activity.

Chapter 2-Thinking Like An Economist

1. Illustrate economic growth, underemployment of resources, efficiency and increasing costs using a production possibilities curve.
2. Distinguish between Macroeconomics and Microeconomics using examples

Chapter 3-Interdependence and the Gains From Trade

1. Why does trade make everyone better off?
2. Know the definitions of absolute advantage and comparative advantage.

3. Use the theory of comparative advantage to advocate the case of free trade among individuals and among countries. Use the case of individuals and two goods (i.e. rancher and farmer producing meat and potatoes)

Chapter 4-The Market Forces of Supply and Demand

1. State the Law of Demand and the Law of Supply
2. List the major determinants of demand and of supply
3. Explain and illustrate graphically the concept of equilibrium price and quantity.
4. Explain and illustrate graphically the effects of changes in demand and supply on equilibrium price and quantity.
5. Explain the effects of a price change for one good on the demand for its substitutes or complements
6. Give an example of the rationing function of prices.

3. Know that Total Cost is the sum of Total Variable Cost and Total Fixed Cost. Same is true for Average Total Cost.

4. Recognize ATC, AVC, AFC and MC on a graph.

5. Know and recognize Economies of Scale and Diseconomies of Scale on a graph.

Chapter 14-Firms in Competitive Markets

1. Describe characteristics of a purely competitive firm and industry.

2. Explain how a purely competitive firm views demand for its product and marginal revenue from each additional sale of the product.

3. Use the marginal revenue-marginal cost approach to determine short-run price and output for a competitive firm (remember $MC=MR$).

4. Under what circumstances will a competitive firm leave the market in the short run?

5. Under what circumstances will a competitive firm leave the market in the long run?

6. Find the short-run supply curve when given short-run cost schedules for a competitive firm.

Chapter 15- Monopoly

1. List and discuss the characteristics of a pure monopoly

2. List and give examples of some of the barriers to entry.

3. Describe the demand curve facing a pure monopoly and how it differs from a purely competitive firm.

4. Explain why the marginal revenue is equal to price in pure competition but not in monopoly.

5. Determine the price and output level for a monopoly on a supply and demand curve graph.

6. Discuss how the economic effects of monopoly keep it away from the competitive ideal.
7. List and describe the conditions necessary for price discrimination.

Chapter 16-Monopolistic Competition and Oligopoly

1. List the basic characteristics of oligopoly.
2. Use a game theory matrix to explain the mutual interdependence of two rival firms and why oligopolists might cheat on a collusive agreement.
3. List the advantages and the obstacles to collusion behavior.

Chapter 17-Monopolistic Competition

1. List the basic characteristics of monopolistic competition.
2. Determine graphically the short run profit maximizing position for monopolistic competition.
3. Explain why a monopolistic competitor will realize zero economic profit in the short run.
4. Identify the reasons for excess capacity in monopolistic competition?

5. Why do Monopolistic Competitive firms advertise?

Essay Questions

1. A perfectly competitive firm earns economic profits in the short run. What happens to those profits in the long run? Explain and use graphs in your explanation.
2. Honolulu and the island of Oahu has beautiful weather and lots of beautiful parks. Why then do so many people (including myself!) join private health clubs for the purpose of exercise? Use economic analysis to answer this question.
3. Why is the equality of marginal revenue and marginal cost essential for profit maximization in all market structures? Explain why price can be substituted for marginal revenue in the $MR=MC$ rule when an industry is perfectly competitive.

4. How does the demand curve faced by a purely monopolistic seller differ from that confronting a purely competitive firm? Why does it differ? Of what significance is the difference? Why is the pure monopolist's demand not perfectly inelastic?

5. The New York Times (Nov. 30, 1993) reported that “the inability of OPEC to agree last week to cut production has sent the oil market into turmoil...leading to the lowest price of domestic crude oil since June 1990.”
 - a. Why were the members of OPEC trying to agree to cut production?

 - b. Why do you suppose OPEC was unable to agree on cutting production?

6. Your roommate is a better cook than you are, but you can clean more quickly than your roommate can. If your roommate did all of the cooking and you did all of the cleaning, would your chores take you more or less time than if you divided each task evenly? Give a similar example of how specialization and trade can make two countries both better off.

7. You are deciding to go to a four-year college and you have narrowed your choice down to two colleges. Name three principles (10 Principles of Economics) that you would use to help you choose between the two colleges?