

## **EXAM #4: Chapters 4, 5, 6, 7, and 8**

### **SUPPLY AND DEMAND (Chapter 4)**

#### Demand—

Definitions: market, competitive market, quantity demanded, law of demand, demand schedule, demand curve

Market demand vs. individual demand (graphs and algebra)

Factors that shift the demand curve: income (normal vs. inferior goods), price of related goods (substitutes vs. complements), tastes, expectations, number of buyers

#### Supply—

Definitions: quantity supplied, law of supply, supply schedule, supply curve

Market supply vs. individual supply (graphs and algebra)

Factors that shift the supply curve: input prices, technology, expectations, number of sellers

#### Supply and demand together—

Definitions: equilibrium, equilibrium price, equilibrium quantity, surplus, shortage, law of supply and demand

Be able to calculate, graph, and identify a surplus and a shortage

Be able to calculate, graph, and identify the new equilibrium price and quantity when either  
1) the demand curve shifts, 2) the supply curve shifts, or 3) both curves shift

### **ELASTICITY (Chapter 5)**

#### Price elasticity of demand

Definition

Factors that influence elasticity

Formulas (% change and midpoint)

Elastic, unit elastic, and inelastic

Does the price elasticity of a linear demand curve equal its slope? (NO!)

Extreme cases—perfectly inelastic, perfectly elastic

Relationship between elasticity and total revenue

#### Income elasticity

#### Cross-price elasticity

#### Price elasticity of supply

Definition

Formulas (% change and midpoint)

Elastic, unit elastic, and inelastic

Does the price elasticity of a linear supply curve equal its slope? (NO!)

Extreme cases—perfectly inelastic, perfectly elastic

Read the section entitled “Three Applications of Supply, Demand, and Elasticity”

## **GOVERNMENT POLICIES (Chapter 6)**

Definitions: price ceiling, price floor, tax incidence

Be able to calculate, graph, and identify a price ceiling and a price floor and analyze examples (rent control, minimum wage, agricultural price support, etc.)

Be able to calculate, graph, and identify the tax incidence if a tax is levied on buyers

Be able to calculate, graph, and identify the tax incidence if a tax is levied on sellers

Relationships between elasticity and tax incidence

## **EFFICIENCY OF MARKETS (Chapter 7)**

Definitions: welfare economics, willingness to pay, consumer surplus, cost, producer surplus, total surplus, efficiency, equity

[Note: make sure you read the examples of consumer surplus and producer surplus in the book]

Be able to calculate, graph, and identify consumer surplus and producer surplus

## **TAXATION (Chapter 8)**

Definitions: deadweight loss

Be able to calculate, graph, and identify consumer surplus, producer surplus, total surplus, tax revenue, and deadweight loss in a market 1) with a tax or 2) without a tax

Be able to identify and explain how the price elasticity of demand and the price elasticity of supply affect the size of deadweight loss

Be able to identify and explain how the size of a tax affects the size of tax revenue and of deadweight loss