Chapter 1

1. What is the definition of economics?
2. What is the difference between macroeconomics and microeconomics?
3. What is the definition of the term scarcity? Why are good scarce?
4. What is the “cost-benefit principle”?
5. Be able to define the terms opportunity cost, economic surplus, implicit cost and sunk cost.
6. Assume you and a friend are watching a movie together. Would the opportunity cost of watching the movie be the same for both of you? Explain.
7. Be able to describe the following four potential pitfalls in economic thinking:
   - Measuring costs and benefits as proportions
   - Ignoring implicit costs
   - Failure to think at the margin
8. Be able to explain the difference between normative and positive economics.
9. Why a market system, in which individual firms and consumers are free to make their own choices, result in efficient use of resources? Why is Adam Smith considered the father of modern economics?

Chapter 2

1. Be able to define the terms absolute advantage and comparative advantage.
2. What are the sources of comparative advantage?
3. Assume there are only two goods that can be produced: bread and jam. You can produce 10 loaves of bread or 8 jars of jam in one hour. Your neighbor can produce 7 loaves of bread or 7 jars of jam in an hour. Answer the following:
   a. Who has an absolute advantage in the production of bread? Of jam?
   b. Who has a comparative advantage in the production of bread? Of jam?
   c. Would it be possible for you and your neighbor to specialize in what you produce and engage in mutually beneficial trade? Give a numerical example.
4. Be able to define the phrases terms of trade and gains from trade.
5. What does a production possibilities frontier represent?
6. What does a point inside the production possibilities frontier represent? A point outside the frontier?
7. Explain the difference between a situation where there are increasing marginal opportunity costs and constant opportunity costs. How would the shape of the production possibilities frontier differ in the two situations?
8. What could cause the location of the frontier to change? What does a movement from one point on the frontier to another point represent? How does the production possibilities frontier illustrate scarcity?
Chapter 3

1. Be able to define the term market. What is the difference between a product (or output) market and a factor (or resource) market?
2. What distinguishes an imperfectly competitive market from a purely competitive market?
3. Be able to define the term demand. What is the law of demand?
4. Be able to define the terms income and substitution effect.
5. What are the three ways to represent the demand for a good?
6. What factors can change demand? Can you think of an example of a market in which demand changed? How would you represent the change graphically?
7. Be able to define the terms: normal good, inferior good, complement, and substitute.
8. What is the difference between a change in demand and a change in the quantity demanded?
9. Be able to define the term supply and quantity supplied. What is the law of supply?
10. What are the three ways to represent the supply for a good?
11. What factors can change supply? Can you think of an example of a market in which supply changed? How would you represent the change graphically?
12. What is meant by the term equilibrium? What does an economist mean when they say a market is in equilibrium?
13. What is meant by the terms excess supply and excess demand? Can you think of a situation where there is excess demand in a market? What do you think will happen to price in this case? What will happen if there is excess supply in a market?
14. Be able to show on a graph the equilibrium price and quantity. Be able to indicate which prices would result in excess demand, and which ones would result in excess supply. Given supply and demand functions, be able to solve for the equilibrium price and quantity.
15. What is a price floor? Would a price floor below the equilibrium price have an effect on the market? If the price floor was above the equilibrium price what would happen? Be able to show this situation graphically.
16. What is a price ceiling? Would a price ceiling above the equilibrium price have an effect on the market? If the price floor was below the equilibrium price what would happen? Be able to show this situation graphically.

Chapter 4

1. What does the elasticity of demand measure? If you were told that the elasticity of demand was -2, and that the price of the good had risen 10 percent, by how much will the quantity sold fall?
2. Given a demand function, be able to calculate the elasticity of demand.
3. What does the term perfectly elastic mean? What does the demand curve look like in this case?
4. What does the term perfectly inelastic mean? What does the demand curve look like in this case?
5. Be able to define the terms: elastic, inelastic, and unit elastic.
6. If price rises, and we are in the inelastic region of the demand curve, what will happen to total expenditures on the good? How is it that an increase in the price of the good could either cause total expenditures to rise or fall? What will happen if we are in the elastic region of the demand curve?
7. What factors will cause the demand for a good to be more elastic? Do you think the demand for automobiles will be more elastic than the demand for tennis racquets? Explain.
8. What does income elasticity measure? What does it mean if the income elasticity is positive? Negative? What is the difference between economic necessities and economic luxuries?
9. What does the cross price elasticity measure? What category do the goods fall into if the cross-price elasticity is negative? Positive?
10. What does the elasticity of supply measure? What factors will cause the supply of a good to be more elastic?

Chapter 5

1. Define the terms utility and marginal utility. What is the law of diminishing marginal utility?
2. What is the rational spending rule? Be able to explain the logic behind the rule and be able to solve a numerical problem.
3. What is the difference between the real and nominal price of a good?
4. Be able to define the term consumer surplus. How can consumer surplus be represented graphically?