

Exam 2 Topics

Note - this is not an extensive list, just broad topics and ideas. Anything covered in class is fair game. Good luck.

Chapter 6 - Supply and Demand

Price Ceiling and Floor - when they bind and don't, what they cause.

Taxes - what the tax does to equilibrium, what happens to Q, P, the price buyer pays and the price supplier receives.

Who pays the tax isn't important to the tax incidence - which we need to be able to calculate.

Tax incidence does depend on relative elasticities.

Chapter 7 - Consumers, Producers, and Markets

Welfare Economics.

Willingness to Pay (WTP).

How we can get the demand curve from everyone's WTP.

The staircase demand curve.

Marginal Buyer.

Consumer Surplus.

How a higher price reduces CS.

Cost and its relationship to the Supply Curve.

Producer Surplus.

Staircase Supply Curve.

Total Surplus.

Chapter 8 - The Costs of Taxation

Understand how a tax drives a wedge between buyer and seller prices, raising the price and reducing the quantity.

Know what the revenue to the government is and how to find it on the graph.

The concept of deadweight loss, what it is, why it is caused by a market distortion and lower quantity.

Computing CS, PS, and DWL given demand and supply.

How DWL relates to Elasticities.

How to determine the size of the government and taxes.

What happens to the size of DWL as tax sizes double and triple?

Chapter 9 - International Trade

Know the world price and domestic price, and why they are important.

What assumption do we make about small economies?

Know when a country exports and imports based on world and domestic prices.

Be able to find CS, PS, and CS with and without trade.

Know the overall welfare effects of trade.

Know why there is still considerable opposition to trade.

Tariffs and quotas as examples of a trade restriction.

Arguments for restricting trade and economic responses.

Chapter 10 - Externalities

What happens with a market failure?

What is an externality and how can it cause a market failure?

Know examples of negative and positive externalities to help understand them.

Private cost and value versus social cost and value.

Private equilibrium versus social optimum if externalities exist.

Internalizing the externality.

How much does the private market provide relative to the social optimum with a positive or negative externality?

Command and control policies

Market based policies.

Difference and costs associated with command and control and not market solutions.

Corrective (Pigouvian) Tax

Taxes versus regulation in the environment, as an example of solutions to externalities.

Private solutions and the Coase Theorem.

Efficiency from private solutions involving stopping the externality and not stopping them.

Problems and reasons why private solutions may not work.

Chapter 11 - Public Goods

How this is a problem of goods without a price, meaning the private market will struggle to provide it.

Think of examples to help you through the differences.

Excludability and why it's important to a private market.

Rival in consumption and how it matters for managing a good.

Private Goods, Public Goods, Common Resources, and Club Goods - the characteristics of each.

How a road can be all four.

Free-riders and why they make it difficult for private markets to provide public goods.

When government should provide a public good, and how they could ideally pay for it.

Cost-benefit Analysis.

Important public good examples.

Common resources - problems with them and how they can be managed.

Tragedy of the Commons as a Common Resource problem.

Govt roles to help solve these problems.