

ECONOMICS 10223
Introductory Microeconomics
Study Questions
Spring 2009

INSTRUCTIONS: These questions are to help guide your studying. Though these exact questions may not appear on your exams, **the tests will be based entirely on this list.** I've already answered all the questions (I have a PhD in this stuff!) and so as to give you an idea of how much you need to say, I have told you how many words it took me to do each of the questions. A really good method to use as you are formulating your responses is to imagine that you are explaining to a classmate. You'll word it much more carefully and deliberately. Also, please feel free to put answers in your own words—you'll understand and learn it better. If you are concerned as to whether or not you have covered all the important points, I'd be happy to read it over for you.

Questions are color-coded with respect to school of thought. Those in red are Neoclassical and those in blue are Post Keynesian/Institutionalist. Also, questions are grouped by their source. For example, questions based on lecture material have *Lecture* before them, and then appear without spaces between them. For questions where answers can be found in the reading, the specific chapter of the book or link is given and the questions are then grouped without spaces. Implicit in all definition and equation questions is that you also understand the underlying concepts.

Best guess on exam coverage: Exam One, 1 through 46; Exam Two, 47 through 84; Final Exam, 85 through 126, plus a subset of the old questions. Exam dates are set in stone, but we may not cover the material I anticipated.

BACKGROUND

Lecture

1. Distinguish between validity and cogency. [25 words]

FOUNDATIONS OF CONTENDING PERSPECTIVES

Mainstream

Lecture

2. Regarding the mainstream school of economic thought, list and describe in a sentence or two the three inputs into that paradigm's intellectual foundation. [67 words]

Adam Smith's Wealth of Nations, Book I, Chapter 1: Of the Division of Labor

<http://www.econlib.org/library/Smith/smWN.html> (Note that the chapter numbers are links)

3. What example does Smith use to illustrate his explanation of the division of labor (which he calls a "very trifling manufacture")? [3 words]
4. What are the three different circumstances to which the great increase of the quantity of work which is owing? [56 words]

Alfred Marshall, Principles of Economics, Book I, Chapter 3: Economic Generalizations or Laws <http://www.econlib.org/library/Marshall/marP3.html#Bk.I,Ch.III>

5. Alfred Marshall writes “The laws of economics are to be compared with the laws of the tides, rather than with the simple and exact law of gravitation.” Summarize in a couple of sentences the issues involved and where he stands on them. [42 words]
6. What does the term “law” mean? [23 words]

Rene Descartes, Biography

<http://en.wikipedia.org/wiki/Descartes>

7. We all know that Descartes said, “I think, therefore I am.” What on earth does that really have to do with anything?! It is, in fact, a major part of what we have called “Cartesian Deductivism.” Read “Philosophical work” and then explain in a few sentences how “I think, therefore I am” connects to Cartesian Deductivism. [53 words]

Post Keynesian/Institutionalist

Lecture

8. Regarding the Post Keynesian/Institutionalist school of economic thought, list and describe in a sentence or two the three inputs into that paradigm's intellectual foundation. [58 words]

Wikipedia, Thorstein Veblen: http://en.wikipedia.org/wiki/Thorstein_Veblen

9. Under “Veblen’s writing,” for what does it say he argued that consumption is used? [8 words]
10. Veblen thought that there was a struggle in our society between the representatives of the old order and those who wanted to try new things. According to the section, “Veblen’s writing,” who were those two groups (be sure to point out which one is the old order and which is the innovator)? [5 words]

Philosophy of Pragmatism: <http://en.wikipedia.org/wiki/Pragmatism>

11. The Post Keynesian/Institutionalists think that to understand the world, we must be “pragmatic.” Is such a philosophy consistent or inconsistent with Cartesian Deductivism? To answer this question, read through the linked entry (you don’t have to read the whole thing—the relevant section should jump out at you!). What do the pragmatists say about deduction (find the reference to “introspection”)? [25 words]

BASIC MICROECONOMIC CONCEPTS

Mainstream

Colander, Chapter 1: Economics and Economic Reasoning

12. What economic problem is solved by coercion? [1 word]
13. Define marginal cost. [14 words]
14. Define marginal benefit. [9 words]
15. What is the economic decision rule? [27 words]
16. Define opportunity cost. [12 words]

17. Does Colander seem to believe that market forces are natural (mainstream) or human made (Post Keynesian/Institutionalist)? Cite evidence in your answer. [38 words]
18. Define positive economics. [10 words]
19. Define normative economics. [11 words]

Post Keynesian/Institutionalist

Lecture

20. What is the Post Keynesian/Institutionalist view of the propriety of the market system? [87 words]
21. What is the Post Keynesian/Institutionalist view of the positive-normative dichotomy? [43 words]
22. According to the Post Keynesian/Institutionalist view, is scarcity the central economic problem? [65 words]

Mainstream

Colander, Chapter 2: The Production Possibility Model, Trade, and Globalization

23. Be able to draw the production possibility curve (like that for grades in history and economics). Make sure you understand the basic shape of both the straight and curved versions, why each is negatively sloped, and the impact of efficiency, inefficiency, and both types of technological change. [indeterminate]

Mainstream

Colander, Chapter 4: Supply and Demand

24. State the law of demand. [9 words]
25. Define demand and tell how a change in demand is manifested on a supply and demand diagram. [27 words]
26. Define quantity demanded and tell how a change in quantity demanded is manifested on a supply and demand diagram. [27 words]
27. What five factors can shift the demand curve? Give an one-sentence explanation of how each may do so (be sure to mention the direction of the shift). [126 words]
28. Know how to combine individual demand curves into a market demand curve. [indeterminate]
29. State the law of supply. [9 words]
30. Define supply and tell how a change in supply is manifested on a supply and demand diagram. [27 words]
31. Define quantity supplied and tell how a change in quantity supplied is manifested on a supply and demand diagram. [27 words]
32. What four factors can shift the supply curve? Give an one-sentence explanation of how each may do so (be sure to mention the direction of the shift). [126 words]
33. Know how to combine individual supply curves into a market supply curve. [indeterminate]
34. Be able to draw a supply and demand diagram. Make sure you understand the concepts of excess supply and excess demand and how those two create forces that drive the price to the intersection/equilibrium. [indeterminate]

Mainstream

Colander, Chapter 5: Using Supply and Demand

35. Know how to show a price ceiling on a supply and demand diagram. Be sure you understand its impact in terms of how the outcome varies from that which would prevail in the absence of the ceiling. [indeterminate]
36. Know how to show a price floor on a supply and demand diagram. Be sure you understand its impact in terms of how the outcome varies from that which would prevail in the absence of the floor. [indeterminate]

Mainstream

Colander, Chapter 6: Describing Supply and Demand: Elasticities

37. Know the formula for price elasticity of demand and how to calculate it. [indeterminate]
38. Know the formula for price elasticity of supply and how to calculate it. [indeterminate]
39. Mathematically speaking, when is demand or supply elasticity defined as “elastic?” When is it defined as “inelastic?” [19 words]
40. Prove that price elasticity of demand and slope are not the same thing. Does elasticity rise or fall as one moves down the demand curve? [49 words plus equations and graph]
41. Be sure you understand what it means when elasticity (demand or supply) rises, falls, becomes perfectly inelastic, or becomes perfectly elastic. [indeterminate]
42. What are the four most important determinants of the elasticity of demand? Explain how each affects elasticity and why in a sentence. [90 words]

USDA Economic Research Service:

<http://www.ers.usda.gov/Data/InternationalFoodDemand/>

43. Look under “Get the Tables” and open “Price Elasticity for Broad Consumption Groups.” Sort the elasticities by “Food, Beverages, and Tobacco.” What sort of countries seems to react more to a change in prices, developed or less developed? What country shows the least responsiveness to a change in food, beverage, and tobacco prices (choose either one)? What country shows the most (choose any of the four)?
44. Look under “Get the Tables” and open “Food budget shares for 114 countries.” This table shows the percent of their income people in different countries spend on food. In terms of the economic theory, do the patterns you see on this table shed any light on what you discovered in the question that asked what type of countries (developed or less developed) seem to react more to food, beverage, and tobacco price changes? Please explain. [61 words]
45. Look under “Get the Tables” and open “Price Elasticity for Broad Consumption Groups.” Sort the elasticities by “Medical Care.” What sort of countries seems to react more to a change in prices, developed or less developed? What country shows the least responsiveness to a change in medical care (choose either one)? What country shows the most?
46. Look under “Get the Tables” and open “Price Elasticity for Food Subgroups.” Look at the “United States” row. For what subgroup is US price elasticity of demand most elastic? Least elastic?

Mainstream

Colander, Chapter 7: Taxation and Government Intervention

47. What is consumer surplus? How is it shown graphically? [27 words]
48. What is producer surplus? How is it shown graphically? [26 words]
49. Know how to show the effect of a per-unit tax on a supply and demand diagram, including the impact on consumer and producer surplus. Be sure you understand how changing the relative elasticity of demand will affect the burden of the taxation and why this is so. [indeterminate]

Tax Incidence: http://en.wikipedia.org/wiki/Tax_incidence

50. List the six practical results that appear under “Other practical results” in the Wikipedia entry on Tax Incidence. [HINT: Omit all the stuff in parentheses and the second sentence on the sixth result; 210 words]

THE FIRM AND MARKET STRUCTURE

Mainstream

Colander, Chapter 9: Production and Cost Analysis I

51. Know the equations for marginal cost, total cost, average total cost, fixed cost, average fixed cost, variable cost, and average variable cost. [indeterminate]
52. What is the difference between the long run and short run decision? [32 words]
53. What is marginal product? [17 words]
54. What is average product? [3 words]
55. What is the law of diminishing productivity? [32 words]
56. What are fixed costs? [15 words]
57. What are variable costs? [6 words]
58. What are total costs? [10 words]
59. Be able to draw a graph with total costs, total variable costs, and total fixed costs that shows the relationships among the three (as in Figure 9-2 A). [indeterminate]
60. Be able to draw a graph with average total costs, average variable costs, average fixed costs, and marginal costs that shows the relationships among the four, particularly between marginal cost and average variable cost and marginal cost and average total cost (as in Figure 9-2 B). [indeterminate]

Consumer Surplus:

http://ebusiness.mit.edu/research/papers/176_erikb_onlinebooksellers2.pdf

61. The authors of this article about online booksellers are talking about a different kind of consumer surplus. From what do they think consumers get extra value? How much extra value (relative to lower prices) in the case of their study? [HINT: No need to read the whole article, just skim the intro and conclusion; 29 words]

Cost-Benefit Analysis:

<http://www.nt.gov.au/nreta/environment/greenhouse/pdf/maryriveroverview.pdf>

62. In the first sentence under “The Study” of the *Cost-Benefit Analysis of the Mary River Wetlands Salinity Mitigation*, the author defines for the reader a cost-benefit analysis. The italicized phrase sounds a whole lot like what concept we have discussed? [two words]
63. In *Cost-Benefit Analysis of the Mary River Wetlands Salinity Mitigation*, what margin does the author assume for producers in calculating the producer surplus? [number]
64. In *Cost-Benefit Analysis of the Mary River Wetlands Salinity Mitigation*, with what tourist activity was the most consumer surplus associated? [HINT: See Table 11; 1 word]
65. In *Cost-Benefit Analysis of the Mary River Wetlands Salinity Mitigation*, with what Wild Harvest was the most producer surplus associated? [HINT: See Table 11; 2 words]
66. In *Cost-Benefit Analysis of the Mary River Wetlands Salinity Mitigation*, the author had to make a great many assumptions about the various parameters involved (the sizes of the various effects). What was the name of the section where he checked to see how his results might have changed under other assumptions? [2 words]
67. In *Cost-Benefit Analysis of the Mary River Wetlands Salinity Mitigation*, did they conclude that the salinity should be mitigated or not and if so how? [21 words]

Lecture

68. Why do mainstream economists use economic profit rather than accounting profit? [76 words]

Mainstream

Colander, Chapter 10: Production and Cost Analysis II

69. Define economies of scale. [15 words]
70. Define diseconomies of scale. [15 words]
71. Define constant returns to scale. [17 words]

Mainstream

Colander, Chapter 11: Perfect Competition

72. What are the six requirements for perfect competition (list only)? [39 words]
73. What does the demand curve facing an individual firm in a perfectly competitive market look like? What about the market demand curve? Please explain the difference. [64 words]
74. Define marginal revenue. [11 words]
75. Define marginal cost. [11 words]
76. Please explain why, assuming that marginal costs are increasing and marginal revenue is constant or falling, that the profit maximization point is found where the two are equal. [54 words]
77. Why, under perfect competition, is it true that $MR = P$? [43 words]
78. Know how to draw the cost curves that determine price, output, and profits (positive, zero, and negative) for a perfectly competitive firm. [indeterminate]
79. When will a firm shut down in the short run? When will a firm shut down in the long run? Explain. [81 words]
80. Why can't firms make economic profit or economic losses in the long run? Explain. [98 words]

Industry Analysis: http://en.wikipedia.org/wiki/Porter_5_forces_analysis -or- <http://www.investopedia.com/features/industryhandbook/porter.asp>

81. Stock market participants sometimes use something called industry analysis to determine whether or not they should buy a stock. One method is to use Porter's Five Forces. Read over the description of Porter's Five Forces, list them, and write next to each how a firm in a perfectly competitive firm would rate. Be sure to draw on the characteristics of perfect competition in supporting your answer. Based on your analysis, would you want to buy the stock of a perfectly competitive firm? [49 words]

The Economics of Spam

<http://www.icsi.berkeley.edu/pubs/networking/spamalytics.pdf>

82. In the *Spamalytics* article, of almost 350 million email messages sent, how many sales resulted? [HINT: Jump to the conclusion; number]
83. In the *Spamalytics* article, how much do they estimate Storm-generated pharmaceutical spam could produce in annual revenue? [HINT: Jump to the conclusion; number]
84. In the *Spamalytics* article, recall the last sentence about what the profit margin must be and the consequences thereof. Does this imply a relatively elastic or inelastic response to changes in price by suppliers of spam? Explain briefly by citing support from that sentence. [20 words]

Mainstream

Colander, Chapter 12: Monopoly

85. What is a monopoly? [14 words]
86. Know how to draw the cost curves that determine price, output, and profits (positive, zero, and negative) for a monopoly. [indeterminate]
87. Explain how natural ability can create monopoly. [19 words]
88. Explain how economies of scale can create monopoly. [32 words]
89. Explain how the government can create monopoly. [5 words]

Lecture

90. What is allocative efficiency and how is it shown graphically? [123 words]
91. What is productive efficiency? [26 words]

Mainstream

Colander, Chapter 13: Monopolistic Competition and Oligopoly

92. What are the characteristics of monopolistic competition (list only)? [21 words]
93. Know how to draw the cost curves that determine price, output, and profits (positive, zero, and negative) for a monopolistic competitor. [indeterminate]
94. In comparing monopolistic competition with monopoly, what is the big difference over the long run? [45 words]

Post Keynesian/Institutionalist

Lecture

95. Draw the dual economy diagram and explain its implications. [50 words plus diagram]
96. What are the characteristics of the megacorp? [18 words]
97. A megacorp's ability to set price is limited by what? Explain each briefly. [43 words]
98. Why does the megacorp avoid using price competition? [26 words]
99. How does the megacorp compete? [28 words]
100. How does the megacorp fund investment? [61 words]
101. Draw the cost curves for a megacorp including the shortfall and windfall regions. How does the firm set price where it does and why might a shortfall or windfall result? [92 words plus graph]
102. What has the major impact of globalization been on the megacorp? [63 words]
103. What has the major impact of financialization been on the megacorp? [69 words]
104. How did financialization contribute to the jump in gas prices? [121 words]
105. Explain the Milberg theory regarding the interrelationships between globalization and financialization. [33 words plus diagram]

Glass-Steagall Act: http://en.wikipedia.org/wiki/Glass-Steagall_Act

106. When was the Glass-Steagall Act passed and what was some of it designed to control? [year; word]

Securitization: <http://www.riskglossary.com/link/securitization.htm>

107. What is securitization? [20 words]

Financialization: <http://icc.oxfordjournals.org/cgi/reprint/17/6/1097.pdf>

108. In *Financialization of the World Economy* by Ronald Dore, what definition does he use for financialization (actually taken from Epstein)? [21 words]
109. In *Financialization of the World Economy* by Ronald Dore, what are the four changes that have characterized the rise of financialization? [107 words]
110. In *Financialization of the World Economy* by Ronald Dore, he describes the rise in the scale of financial markets. What is the size of the world economy relative to the value of outstanding derivative contracts? [number]
111. In *Financialization of the World Economy*, Ronald Dore writes that he believes "that the chances of really effective re-regulation of the system are not that great." Why not? [37 words]
112. In *Financialization of the World Economy*, what three things does Ronald Dore say that producers and consumers of goods and non-financial services need? [10 words]
113. In *Financialization of the World Economy*, Ronald Dore laments the fact that the ownership of stock has become increasingly concentrated since this has shifted managers' focus from the long-term growth of their companies to the short-term maximization of stockholder returns. What percent of outstanding equities did US institutional investors own in 1960? 2005? [numbers]
114. In *Financialization of the World Economy* by Ronald Dore, what are the four social consequences of financialization? [36 words]
115. In *Financialization of the World Economy*, Ronald Dore mentions that his is not the only

argument that could be made with respect to the rise of the financial sector. [63 words]

CONSUMER BEHAVIOR

Mainstream

Lecture

116. In mainstream economics, what is consumers' goal? [4 words]
117. Explain diminishing marginal utility. [18 words]
118. What is the principle of rational choice and how does it lead to utility maximization? [67 words]

Post Keynesian/Institutionalist

Lecture

119. What are the six principles guiding the Post Keynesian/Institutionalist theory of consumer behavior (list only)? [33 words]
120. Explain the Post Keynesian/Institutionalist consumer behavior principle of procedural rationality. [39 words]
121. Explain the Post Keynesian/Institutionalist consumer behavior principle of satiable needs. [16 words]
122. Explain the Post Keynesian/Institutionalist consumer behavior principle of separability of needs. [33 words]
123. Explain the Post Keynesian/Institutionalist consumer behavior principle of subordination of needs. [41 words]
124. Explain the Post Keynesian/Institutionalist consumer behavior principle of growth of needs. [19 words]
125. Explain the Post Keynesian/Institutionalist consumer behavior principle of nonindependence. [41 words]
126. In terms of the focus of their research, what is the main difference between the mainstream and Post Keynesian/Institutionalist approaches? [102 words]