Review for Final
Economics 101

You must have Parscore F-1712-PAR-L to take this test. This is the same form that was used for the midterms.

The format for the final will be 35 multiple choice questions and one short answer that will involve a graph.

Please note that when you draw a graph, you MUST:

a) put axes on the graph
b) label the axes
c) label the curves
d) label any key points (equilibrium price and equilibrium quantity for example)
e) label anything the question is asking about

If you do not do these things, you will lose points. Also, when a question asks you to explain your graph as necessary, explain your graph as necessary. Do not assume that the grader will assume that you know the right answer if you do not show that you know the right answer.

A rough distribution of the questions is:
10 - 20 questions -- Material before Midterm 3
10 - 20 questions -- Material since Midterm 3
5 questions -- Applying concepts to current events

The material that we have covered includes:

1) Gains from trade

2) Demand and supply
   Equilibrium price and quantity
   Elasticity
   Supply curve comes from firm behavior
   Demand curve comes from consumer behavior

3) Analysis of Economic Welfare

4) Analyzing changes in Government Policy

5) Firm Behavior
   Production Function and Cost Function
   Identical firms in competitive markets
   Monopoly
   Oligopoly
   Prisoner’s dilemma applied to economic situations
   Supermarket strike

6) Labor Market
   Equilibrium wage and employment
   Determinants of earnings
   Poverty and Inequality
   Welfare system in the U.S.
7) Consumer behavior
   Indifference Curves and Budget Constraints
   Effects of changes
   Income effects and substitution effects

The following are some practice problems to review the graphs covered since the third midterm. To review the graphs from earlier than the third midterm, you should look at the previous review problem sheets.

1. Please draw a histogram of income of individuals that shows those persons in poverty when the poverty line is $10,000.

2. Consider an individual that consumes meat and potato only. The individual has an income of $20 per day that can be spent on each good. The price of meat is $5 per pound and the price of potato is $2 per pound. Meat is a normal good and potato is an inferior good. The consumer’s demand curve for each good is downward sloping.
   a) Please draw the budget constraint of this individual. Add a point for the initial situation by adding an indifference curve that gives the consumer the maximum satisfaction given this budget constraint.
   b) Show what would happen to the quantity demanded of meat and potato if the price of potato decreased.
   c) Is the consumer better off or worse off following the change? How do you know?

3. Consider a labor market in which firms demand labor and households supply labor.
   a) Show the initial equilibrium in this labor market. Be sure to label your graph.

   For parts b) and c), please consider each of the following changes separately:
   b) Show what would happen to the equilibrium wage and equilibrium employment if the cost of capital increased.
   c) Show what would happen to the equilibrium wage and equilibrium employment if households did not get as much enjoyment out of leisure as they previously did.
   d) Show what would happen to the equilibrium wage and equilibrium employment if the cost of capital increased and households did not get as much satisfaction out of leisure both occurred.