

ECON 120

Cheat Sheet Test 1

Introduction

Economics is the study of decisions in light of scarcity of the factors of production: labour, capital, land, etc.

For any decision, the the opportunity cost is what was the next best option

Generally, economies gain efficiency from specialization (of processes) and division (within processes) of labour

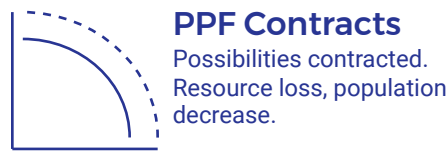
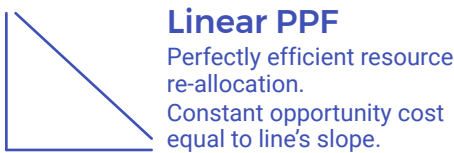
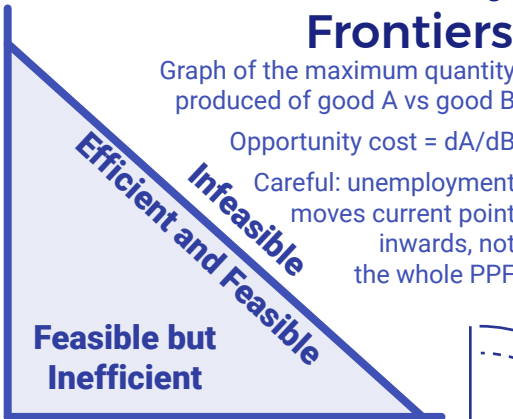
As entire nations begin specializing, the process of globalization interlinks the world's economy.

Economic systems exist as mixed market-command: no system is purely one or the other (also traditional economies on the side lol).

Theories are defined using normative (opinions) and positive statements.

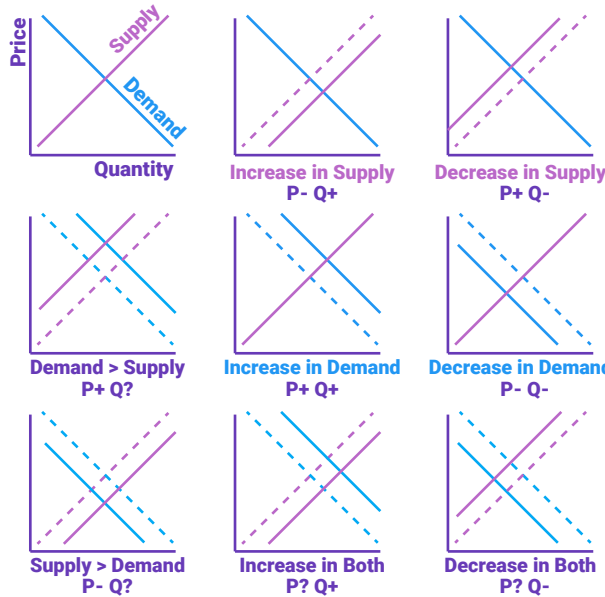
All economic models assume things, like that people act rationally. They predict relations between exogenous, or independent, and endogenous, or dependent, variables

Production Possibility Frontiers



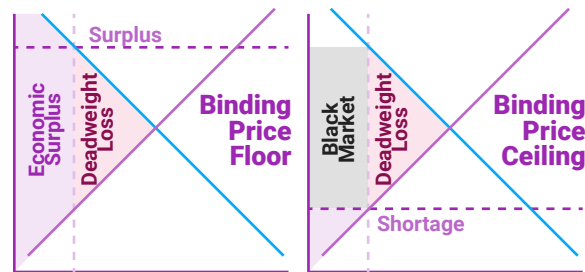
PPFs bowed inwards, where opportunity cost decreases with production, aren't realistic, but would have something to do with economies of scale.

Supply and Demand Graphs

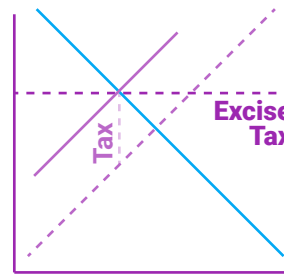


Government Intervention

Floors are only binding above equilibrium
Ceilings are only binding below equilibrium



Deadweight loss is proportional to the difference in elasticity of supply and demand

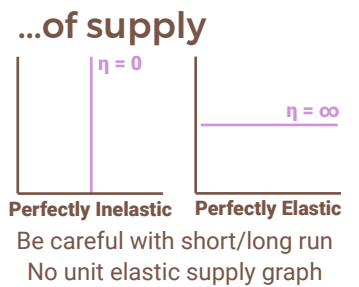
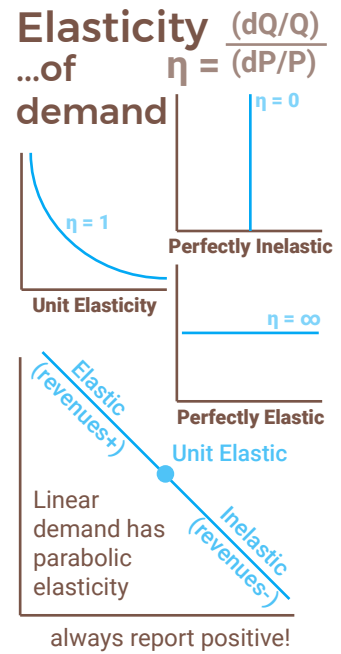


Tax incidence on suppliers and consumers depends on the proportion of the tax price line above/below the equilibrium price line.

The less elastic curve absorbs more tax burden.

Just draw triangles for calculation and don't forget to multiply by 1/2

Supply > Demand, Demand > Supply



Efficient and Feasible

Feasible but Inefficient

Cross-Elasticity of Demand

Given cross-elasticity of X and Y, calculate the same way but have good X's demand over good Y's price

0 1 η

complements substitutes

Complements are goods that are used together.
Substitutes are goods that can replace each other

Income Elasticity of Demand

Calculate the same but instead of price use income

0 1 η

inferior good necessity luxury
normal good

Inferior goods are those people buy less when rich
Necessities are staples that everyone needs

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Praise the Sun!

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