# **ECON 120 Cheat Sheet Test 1** Introduction

Price

Quantity

Demand > Supply

P+ Q?

Supply > Demand

, P- 0?

Tax

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 Graph of the maximum quantity produced of good A vs good B

Opportunity cost = dA/dB

Ficient and reasible Careful: unemployment moves current point inwards, not the whole PPF

Feasible but Inefficient

### Linear PPF

Perfectly efficient resource re-allocation. Constant opportunity cost equal to line's slope.

### Bowed Out PPF

Inefficient resource allocation. Opportunity cost increases with production.

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

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#### **Perfectly Elastic Decrease in Demand Increase in Demand** P+ 0+ P- 0-**Unit Elastic** Linear demand has parabolic elasticity **Decrease in Both Increase in Both** always report positive! P? Q+ P? 0

**Decrease in Supply** 

P+ Q-

## **Government Intervention**

Supply and Demand Graphs

**Increase in Supply** 

P- Q+

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

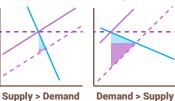
#### ...of supply Surplus | η = 0 Deadweight Loss Economic Surplus η = ∞ Binding Binding Black Market ldweig Loss Price Price Floor Ceiling Perfectly Inelastic Perfectly Elastic Be careful with short/long run Shortage No unit elastic supply graph

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



## **PPF Expands**

Possibilities expanded. Technological advancement, population increase.

**Excise** 

Tax

### **PPF Contracts**

Possibilities contracted. Resource loss, population decrease.

complements 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

4	0	1		n
inferior good	necessity		luxury	.1
	normal doo	d		

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

1

inelastic

Elasticity (dQ/Q)

...of

demand

n = 1

**Unit Elasticity** 

 $\mathbf{n} = (dP/P)$ 

**Perfectly Inelastic** 

elastic

η = ∞

Demand > Supply

substitutes

# **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

