CLAS Econ 2 Review Sheet 1 (Econ 1 Recap)

Opening Questions:

1. Introduction - What's your name, major, favorite hobby, and a fun fact about yourself?
2. What do you find most intriguing about Economics so far?
3. What is the difference between Microeconomics and Macroeconomics?

Important Definitions (Try to define for yourself first):

- Opportunity Cost =
- Perfectly Competitive Market =
- Demand/Supply Curves =
- Demand/Supply Shifters =
- Equilibrium =

Relate to Today

- What could you have been doing instead of studying for Econ 2 right now?
- Due to Russia's invasion of Ukraine, the price of oil dramatically increased around the world, including in the US. What do you think would be the effect on the demand curve for oil in the US? What about the demand curve for bicycles? How about the Supply curve for cruises?

Practice Problems

1.

<u>Does Supply or Demand Shift in each of the following scenarios? Which direction?</u>

(a) People decide to have more children.

(b) The price of sports utility vehicles, a substitute good, rises.

(c) A strike by steelworkers raises steel prices.

(d) A stock-market crash lowers people's wealth.

(e) Engineers develop new automated machinery for the production of minivans.

(f) A new market evaluation causes minivan sellers to raise the price of minivans. (What happens to Demand?)

(g) Buyers anticipate heavy inflation.

(h) There is a chip shortage for the production of new cars.

2.

When analyzing the market for guitars, the price of strings increases and simultaneously more people become interested in learning to play musical instruments. If more people wanting to learn how to play an instrument has a larger effect on the market than the change in the price of strings, what will be the effect of both changes on equilibrium price and quantity?

3.

When analyzing the market for bikes, a new assembly technique makes it so that bikes can be produced more efficiently and simultaneously consumer gas stations start to charge more, making it more expensive to drive to work. If the revolutionary assembly technique has a greater effect on the market than the price of gas, what will be the effect of both changes on equilibrium price and quantity?

4.

When analyzing the market for blueberry jam, consumers now desire more peanut butter, a complement of blueberry jam, while raspberry shortage has made raspberry jam relatively more expensive to produce (assume jam factories can easily switch production to different types of jame). If the consumer desire for peanut butter has a larger effect on the blueberry jam market than the raspberry shortage, what is the effect on equilibrium price and quantity?

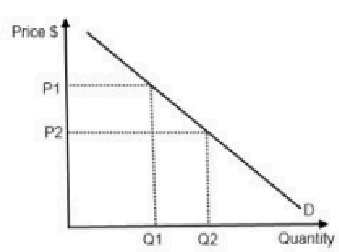
Answers

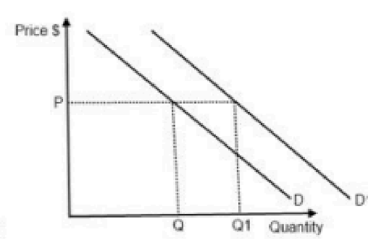
Important Definitions

- Opportunity Cost = The next best alternative to the choice you made, plus any costs associated with the choice you made.
- Perfectly Competitive Market = A hypothetical management of scarce resources in which there are an infinite number of buyers and sellers who each as individuals must take the given price based on all other transactions, giving no excess power to any one agent.
- Demand/Supply Curves = Schedules based on preferences (or production capabilities). **When the price of a good being analyzed changes**, you move along this rather than shifting.
- Demand/Supply Shifters = See charts below
- Equilibrium = The intersection point of the Supply and Demand Curves, organically reached by exchanges between agents in a Perfectly Competitive market.

What Shifts Demand?
1.Income (normal/inferior goods)
2.Changing Tastes
3.Price of Other Goods (complements and substitutes)
4.Expectations
5.Other People's buying decisions (network/congestion)
6.Number and Type of Buyers

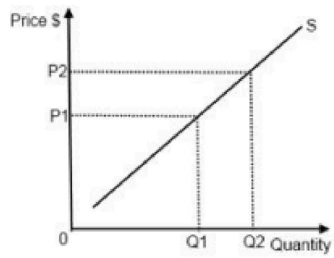
When do you move along the curve?
-When the price changes
(You stick to your plan, buying however many units you are willing to buy at that price)

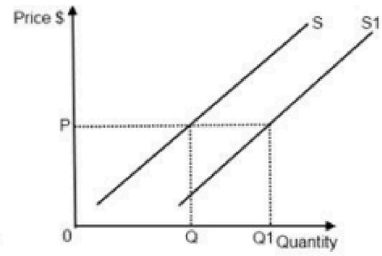




What Shifts Supply?
1.Cost of Inputs (Variable Costs Only!)
2.Productivity and Technology
3.Other Opportunities: Price of other outputs (Substitutes vs Compliments)
4.Expectations (Short Run vs Long Run)
5.The number and type of sellers

When do you move along the curve?
-Same as demand, except with number of units produced instead of bought





1.

(a) People decide to have more children.

Demand Shifts Right

(b) The price of sports utility vehicles, a substitute good, rises.

Demand Shifts Right

(c) A strike by steelworkers raises steel prices.

Supply Shifts Left

(d) A stock-market crash lowers people's wealth.

Demand Shifts Left

(e) Engineers develop new automated machinery for the production of minivans.

Supply Shifts Right

(f) A new market evaluation causes minivan sellers to raise the price of minivans. (What happens to Demand?)

Demand does not shift (price change of the good indicates movement upward along the demand curve)

(g) Buyers anticipate heavy inflation.

Demand Shifts Right (we are looking at the current period, buyers will buy more now to avoid the inflation they think is coming)

(h) There is a chip shortage for the production of new cars.

Supply Shifts Left

2. Q up , P up (Q goes up due to Demand Shift, down due to Supply Shift, but Demand Shift > Supply Shift in magnitude)

3. Q up , P down (P goes up due to Demand Shift, down due to Supply Shift, but Supply Shift > Demand Shift in magnitude)

4. Q up , P up (P goes up due to Demand Shift, down due to Supply Shift, but Demand Shift > Supply Shift)