

## LEARNING OBJECTIVES

1. The Scarcity Principle, which says that having more of any good thing necessarily requires having less of something else.
2. The Cost-Benefit Principle, which says that an action should be taken if, but only if, its benefit is at least as great as its cost.
3. The Incentive Principle, which says that if you want to predict people's behavior, a good place to start is by examining their incentives.
4. The pitfall of measuring costs and benefits as proportions rather than as absolute dollar amounts.
5. The pitfall of ignoring implicit costs and including sunk costs.
6. The pitfall of failing to weigh costs and benefits at the margin, comparing instead their average values.
7. The distinctions between positive and normative economics, and between microeconomics and macroeconomics.
8. The Principle of Comparative Advantage.
9. The Principle of Increasing Opportunity Cost (also called the "Low-Hanging Fruit Principle").
10. Factors that shift the menu of production possibilities.
11. How the demand curve summarizes the behavior of buyers in the marketplace.
12. How the supply curve summarizes the behavior of sellers in the marketplace.
13. How the supply and demand curves interact to determine the equilibrium price and quantity.
14. How shifts in supply and demand curves cause prices and quantities to change.
15. The Efficiency Principle, which says that efficiency is an important social goal because, when the economic pie grows larger, it is always possible for everyone to have a larger slice than before.
16. The Equilibrium Principle (also called the "No-Cash-on-the-Table Principle"), which says that a market in equilibrium leaves no unexploited opportunities for individuals.
17. Define the price elasticity of demand and explain what determines whether demand is elastic or inelastic.
18. Calculate the price elasticity of demand using information from a demand curve.
19. Understand how changes in the price of a good affect total revenue and total expenditure depending on the price elasticity of demand for the good.
20. Define the price elasticity of supply and explain what determines whether supply is elastic or inelastic.
21. Calculate the price elasticity of supply using information from a supply curve.
22. Relate the Law of Demand to the Cost-Benefit Principle.
23. Discuss how individual wants are translated into demand.
24. Explain the reasoning behind the Rational Spending Rule and apply it to consumer decision-making.
25. Show how the Rational Spending Rule is related to substitution and income effects.
26. Discuss the relationship between the individual demand curve and the market demand curve.
27. Define and calculate consumer surplus.
28. Explain how opportunity cost is related to the supply curve.
29. Discuss the relationship between the supply curve for an individual firm and the market supply curve for an industry.
30. Determine a perfectly competitive firm's profit-maximizing output level and profit in the short run.
31. Connect the determinants of supply with the factors that affect individual firms' costs.
32. Define and calculate producer surplus.
33. Define efficiency as economists use this term.
34. Define and explain the differences between accounting profit and economic profit.
35. Show how economic profit and economic loss affect the allocation of resources across industries.
36. Explain the difference between economic profit and economic rent.
37. Understand and explain the relationship between market equilibrium and a social optimum.
38. Define imperfect competition and describe how it differs from perfect competition.

39. Define market power and show how this affects the demand curve facing the firm.
40. Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolist's profit.
41. Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

## CONCEPTS AND DETAILS THAT STUDENTS SHOULD MASTER

Students should be able to:

1. Define the field of study known as economics.
2. Define the Scarcity Principle and the Cost-Benefit Principle and explain how they are related to one another.
3. Discuss the meaning of a *rational* person in an economic context. In particular, explain how the concepts of economic surplus and opportunity cost relate to rational behavior.
4. Explain how economists use models to explain behavior.
5. List and differentiate among the three decision-making pitfalls and relate the pitfalls to the Incentive Principle.
6. Distinguish between normative and positive Economics, and between macroeconomics and microeconomics.
7. (Appendix) Understand how to translate a verbal statement into an equation. Clearly define the following: equation, variable, dependent variable, independent variable, constant (parameter).
8. (Appendix) Starting with an equation, illustrate the equation with a graph. Define the following: vertical intercept, slope, rise, run.
9. (Appendix) Starting with a graph, determine the underlying equation.
10. (Appendix) Demonstrate how a change in the vertical intercept and the slope affect the graph of the equation.
11. (Appendix) Know how to construct a graph and how to determine the underlying equation using a table of data.
12. Define and contrast these terms: absolute advantage, comparative advantage.
13. Define and explain the importance of the Principle of Comparative Advantage.
14. Briefly identify some of the sources of comparative advantage for individuals and countries.
15. Define the production possibilities curve and explain how the slope of the production possibilities curve is related to the Scarcity Principle.
16. Explain the differences among attainable points, unattainable points, efficient points and inefficient points for a given production possibilities curve.
17. Define and explain the Principle of Increasing Opportunity Cost (also called the “Low-Hanging-Fruit Principle”).
18. Identify and discuss the reasons why a production possibilities curve might shift.
19. Identify and explain the relationships among these concepts: comparative advantage, specialization and trade.
20. Discuss the benefits and costs of specialization and trade. Do this for both individuals and countries.
21. Understand the three basic economic questions posed at the beginning of the chapter and describe how the use of markets addresses these questions.
22. Understand the demand curve. *Specifically*, students should be able to:
  - define a demand curve and explain the two effects that determine its shape;
  - explain the difference between a change in quantity demanded and a change in demand;
  - list the variables that cause a demand curve to shift and explain why they do this;
  - explain the concept of the buyers’ reservation price and how the demand curve can be interpreted in two ways.
23. Understand the supply curve. *Specifically*, students should be able to:
  - define a supply curve;
  - explain the difference between a change in quantity supplied and a change in supply;
  - list the variables that cause a supply curve to shift and explain why they do this;

- explain the concept of the sellers' reservation price and how the supply curve can be interpreted in two ways.
24. Define the following terms: equilibrium, equilibrium price, equilibrium quantity and market equilibrium.
  25. Define excess supply and excess demand and explain how they differ from market equilibrium.
  26. Use shifts in supply and/or demand to analyze and explain changes in market equilibria.
  27. Define the following terms: buyer's surplus, seller's surplus and total surplus. Explain how these terms are related to the concept of "cash on the table."
  28. Explain the relationship between the socially optimal quantity of a good and economic efficiency. Use this relationship to explain the relationship between the Efficiency Principle and the Equilibrium Principle.
  29. (Appendix) Solve for the equilibrium price and equilibrium quantity for a market using equations for the supply and demand curves.
  30. Define the price elasticity of demand.
  31. Differentiate among the following types of demand: perfectly elastic demand, elastic demand, unit elastic demand, inelastic demand, and perfectly inelastic demand.
  32. Explain the determinants of the price elasticity of demand and provide examples using actual goods and services.
  33. Calculate the price elasticity of demand using information from a demand curve.
  34. Understand how changes in the price of a good affect total revenue and total expenditure depending on the price elasticity of demand for the good.
  35. Define the price elasticity of supply.
  36. Differentiate among the following types of supply: perfectly elastic supply, elastic supply, unit elastic supply, inelastic supply, and perfectly inelastic supply.
  37. Explain the determinants of the price elasticity of supply. Provide examples using actual goods and services.
  38. (Appendix) Calculate the price elasticity of demand using the midpoint formula.
  39. Define the Law of Demand and distinguish between needs and wants.
  40. Define utility and marginal utility.
  41. Use the terms utility and marginal utility to define and explain the law of diminishing marginal utility.
  42. State the Rational Spending Rule and explain the reasoning behind it.
  43. Explain how the Rational Spending Rule is the basis for the substitution effect and the income effect.
  44. Explain the relationship between the individual demand curves for a good and a market demand curve for a good.
  45. Derive a market demand curve from individual demand curves using a table of data.
  46. Define and explain the significance of the term consumer surplus.
  47. Calculate consumer surplus using a linear demand curve.
  48. Define and explain the significance of the following terms: profit, profit maximizing firm.
  49. Define and explain what a perfectly competitive firm is and explain the four conditions that are characteristic of perfectly competitive markets.
  50. Define and explain what is meant by the terms short run and long run. Relate these concepts to the following terms: factors of production, fixed factors of production, variable factors of production and the law of diminishing returns.
  51. Relate the terms "short run" and "long run" to the following terms: fixed cost, variable cost, total cost and marginal cost.
  52. Explain how a perfectly competitive firm chooses an output level that maximizes its profit.
    - Do this both in words and using a graph.
    - Connect this condition to the concept of marginal cost using the Cost-Benefit Principle.
    - Show how profit can be calculated using the concepts of price, quantity and average total cost.

53. Explain the condition under which a perfectly competitive firm will continue to operate despite making a loss.
  - Do this both in words and using a graph.
  - Connect this condition to the concept of average variable cost.
54. Compare and contrast the effect of a change in variable cost on the profit maximizing output level with the effect of a change in fixed cost.
55. Explain how the firm's marginal cost curve and the firm's supply curve are related.
56. Define and explain the significance of the term producer surplus.
57. Calculate producer surplus using a linear supply curve.
58. Define efficiency and explain how it is represented in a supply and demand diagram.
59. Understand why efficiency is *an* important social goal but not the *only* social goal.
60. Understand the role played by economic profit in decision-making by firms.
61. Analyze how changes in demand and supply affect an individual firm's profits.
62. Discuss the allocative function of price.
63. Explain the difference between economic rent and positive economic profit.
64. Understand and explain the difference between market equilibrium and a social optimum.
65. Define imperfect competition and explain how it differs from perfect competition.
66. Discuss the three types of imperfect competition.
67. Explain the term market power and relate this to the demand curve facing a firm.
68. Discuss five important sources of market power.
69. Explain how a monopolist chooses an output level that maximizes its profit.
70. Find the profit-maximizing level of output and price for a monopolist using a table of data.
71. Analyze the effects of monopoly on consumer surplus, producer surplus and total economic surplus.