

**Econ Unit II study guide 1011. Answer each question completely, in the format in which the question is asked, using the letters for those questions that are in multiple parts. Terms to especially know: oligopoly, externality, complement, price floor, price ceiling, shortage, complement, monopolistic competition, equilibrium price, demand**

1. Define the following for money:
  - a) Medium of exchange:
  - b) Store of value:
  - c) Measure of value:
2. If the price of kumquats rises dramatically, more people will get into the kumquat business. What fundamental Law of economics is seen at work here?
3. Define demand:
4. What occurs at the market clearing price? (And what is another name for this price?)
5. Will the introduction of new technology – that works – cause an increase or decrease in the supply of a product?
6. How do prices act as incentives for buyers and sellers?
7. Rent control is
  - a) an example of a price \_\_\_\_\_.
  - b) This will always cause a \_\_\_\_\_ in the supply of apartments.
  - c) This can be found \_\_\_\_\_ the equilibrium price.
8. If people continue to buy a product at normal rates even though the price goes up, demand for the product can be said to be \_\_\_\_\_.
9. If you are starting a business and you want the business model that best protects you personally against lawsuits from angry customers, which one would be best:
  - a) sole proprietorship, partnership, or corporation?
  - b) Why?
10. What is the primary motivation for someone opening a business?
11. Know and understand the concept of monopolistic competition.
12. If demand for a product is high and production of it is low, what is likely to happen to the price of the product?
13. Which way will the decrease in the price of a complementary good cause the demand curve to shift,
  - a) left or right?
  - b) Why?
14. Price ceilings always cause
  - a) \_\_\_\_\_ in supply,
  - b) while price floors always cause \_\_\_\_\_.
15. Review the Circular Flow of Economic Activity, especially where YOU as a factor of production fit in.
16. What happens to output/production when people specialize in an economic activity and divide the labor?
17. What does the production possibilities curve show?
18. What are the economic/social goals discussed in the text and in class? List all of them in a column and label them a, b, c, ...
19. Market failure occurs when the market is unable to allocate \_\_\_\_\_ correctly.
20. What makes an externality NEGATIVE?
21. If prices for a good or service are set LOWER than the equilibrium price, economics call this
  - a) a price \_\_\_\_\_
  - b) resulting in a \_\_\_\_\_ of the good or service.
22. A corporation seeks to expand its operations by selling \_\_\_\_\_, which allows an individual to own a small piece of the company.
23. Chefs buy a lot of pots and pans. If changes in the demand for eating out lead to rapidly increasing wages for chefs, how would this affect the demand curve for pots and pans, and how would it affect the price and quantity of pots and pans?
24. When a celebrity does a sales pitch for a product or service and consequently the popularity of the good or service rises, what could be expected to happen to the supply and price of the good or service?
25. If demand for kumquats remains the same but the supply is reduced, what is likely to happen to the price of kumquats?
26. Profits motivate businesses to do what?
27. What makes a good or service elastic?
28. What are the conditions of a perfectly competitive market?
29. How does a monopoly differ from an oligopoly?
30. How does a monopoly differ from monopolistic competition?
31. The price at which total supply equals total demand is the \_\_\_\_\_ price.
32. Show how
  - a) a demand curve looks;
  - b) a supply curve looks
33. Are price ceilings
  - a) an advantage for a corporation?
  - b) Explain.
34. Are price floors
  - a) an advantage for a corporation?
  - b) Explain.