

Micro Exam Review for 1st Exam: Key principles to understand

Chapter 2

1. Supply/Demand (shifters)
2. Market Mechanism (surplus/shortage)
3. Changes in Market Equilibria
4. Elasticities of Supply, Demand, Cross-Price and Income (arc elasticity and point-slope formulas, and determinants of)
5. Price Controls

Chapter 3

1. Budget Constraints effects of changes in income and prices (market exchange)
2. Consumer Preferences (market baskets, assumptions about preferences, indifference curves, marginal rate of substitution) know special indifference curves (perfect substitutes/perfect complements, bads, bliss points, etc)
3. Utility Function know how to utility maximize subject to budget constraint
4. Consumer Choice know how to find optimal consumption bundle, even for corner solutions

Chapter 4

1. Deriving demand (you may have to show graphically)
2. Price-consumption curves (be able to show graphically and explain what this implies)
3. Income-consumption curves (be able to show graphically and explain what this implies)
4. Engel Curves
5. Income and Substitution Effects (be able to describe graphically, explain intuitively, and identify you won't have to do this free hand)
6. Giffen goods
7. Calculating Market Demand from Individual Demand
8. Elasticity of Demand be able to describe total revenue/expenditures relationship to elasticity of demand
9. Consumer Surplus

Chapter 5

1. Probability, Expected Value, and Variability (be able to calculate standard deviations as well as expected values)
2. Expected Utility attitudes toward risk (risk aversions, risk neutral, and risk loving) be able to associate risk preferences with utility functions and calculate the certainty equivalence and amount someone would be willing to pay for insurance Based on their attitude towards risk.
3. Adverse Selection and Moral Hazard Problems

Practice Problems from Chapter 4 and Chapter 5 also homework 1 and 2 and inclass problems from Chapter 3 and 4

1. Exercises page 142 number 1
2. Exercises page 142 number 4
3. Exercises page 143 number 6
4. Exercises page 143 number 7
5. Exercises page 184 number 1
6. Exercises page 184 number 3
7. Exercises page 184 number 6