

Test 2 will focus on chapters 5, 6, 7, 8 + additional readings/material/videos we covered since Test 1.

**Note:** Questions will focus on but not be limited to the following list of concepts. When studying, be sure to be able to define a concept or principle, explain it, give an example and **graph carefully** when appropriate. (Be sure to label graphs fully and correctly, including listing assumptions.)

1. Elasticity; Elasticity of Demand: Price Elasticity of Demand, Midpoint Formula and Calculation, Variety of Demand Curves, Elasticity of a Linear Demand Curve, Total Revenue and Elasticity, Income Elasticity of Demand, Cross-Price Elasticity of Demand
2. Price Elasticity of Supply: Midpoint Formula and Calculation, Variety of Supply Curves
3. Determinants of Elasticity
4. Applications of Elasticity
5. Frederic Bastiat: "broken window" fallacy; the seen vs the unseen effects
6. Price Controls: Price Ceilings and Price Floors, Examples, Effects
7. Rent Control and Min Wage: Effects (short run, long run)
8. Taxes and their impact on the market outcome: graphical representation of tax on sellers and tax on buyers and the tax wedge; Tax Incidence; Elasticity and Tax Incidence
9. Welfare economics, productive vs. allocative efficiency (and their representation on PPF)
10. Willingness to pay, consumer surplus; price and consumer surplus
11. Cost, willingness to sell, producer surplus; price and producer surplus
12. Demand curve, willingness to pay, marginal benefit (value to marginal buyer)
13. Supply curve, willingness to sell, marginal cost (cost of marginal seller)
14. Total surplus and allocative efficiency
15. Market Equilibrium and efficiency; assumptions of perfect competition and no externalities
16. Taxes and deadweight loss; taxes and government revenue
17. Determinants of deadweight loss: elasticities of supply and demand; size of tax
18. Taxes and trade-off between efficiency and equality
19. Government tax revenue and size of tax; Laffer curve; supply side economics
20. Henry George and the ideal tax