Review for Midterm 1: Chapters 1-5

I. Introduction to Economics
   A. Opportunity Cost
   B. Marginal Cost
   C. Causation versus correlation

II. Supply and Demand
   A. Shifters of each
   B. Equilibrium P and Q - what changes equilibrium
   C. Price ceilings and floors

III. Rational Consumer Choice Theory
   A. Budget Constraints - graphically and algebraically
      1. opportunity cost
      2. nonlinear
   B. Preferences: Indifference curves
      1. Assumptions: Why they have the shape they do - most are convex, U-shaped, why?
      2. Special cases: Perfect complements and perfect substitutes, bads, neutral goods
   C. Maximizing satisfaction: MRS=price ratio

IV. Consumer Optimization under a change in income
   A. Normal and Inferior goods
   B. Food stamps
      1. Equivalent to cash?
      2. Efficient?
      3. Whitmore study

V. Consumer Optimization under a change in price
   A. Price changes all else constant
   B. Deriving Individual Demand Curves fromPreferences
   C. Substitution and Income Effects
      1. Normal goods
      2. Inferior Goods
      3. Marshallian demand curve and Hicksian demand curve
      4. Special case: Perfect Complements

VII. Market Demand
   A. Deriving from Individual Demands: Graphically and algebraically
   B. Price Elasticity of Demand
      1. What it is and why it is more than slope.
      2. How to calculate it.
      3. How it is related to total expenditure/total revenue.
   C. Taxes
      1. on producer
      2. on consumer
      3. who bears the burden - relate to elasticity of demand
   D. Consumer surplus