Study Guide
Comprehensive Final Exam

I) Negative Externalities: Chapter 12
a. Define negative externality and give examples.
b. Explain why social costs equals the sum of private costs plus external costs.
c. What happens to a firm’s product price and level of output when they are forced to pay the social costs of producing their product?
d. If the firms in an industry are forced to internalize the external costs they create, how is the burden of paying those costs is changed between buyers and sellers?
e. Explain the purpose of a pollution tax.
f. What is the Coase Theorem? How is it relevant to eliminating negative externalities?

II) Positive Externalities, Technology and Public Goods: Chapter 13
a. Define positive externality and give examples.
b. Define external benefit and give examples.
c. Will pure private goods tend to be under-produced or over-produced in a market economy? Explain why.
d. Explain the difference between private goods and public goods. Give examples.
e. How may private goods still yield positive benefits to society? Give examples.
f. What is the free rider problem? How can we avoid this problem?
g. What is the Coase Theorem? How is it relevant to eliminating negative externalities?

III) The Aggregate Supply and Demand Model: Chapter 24
a. What is demand-side economics? Supply-side economics?
b. What are the disadvantages and advantages of stimulating aggregate demand?
c. What are the disadvantages and advantages of stimulating aggregate supply?
d. What do we assume consumers will do when government implements a demand-side policy?
e. What do we assume producers will do when government implements a supply-side policy?
f. What is the Phillip’s curve?
g. Define Say’s Law. How is this law relevant to supply-side economics?
h. Define Keynes’s Law. How is this law relevant to demand-side economics?
i. In our economy, what does full employment mean?
j. Be able to graphically analyze and draw shifts in the AS and AD curves.
   1- Be able to explain why AS and AD may increase or decrease.
IV) **Money and Banking: Chapter 27**

a. List and explain the basic functions of money.
b. Explain the fractional reserve principle.
c. How do banks create money?
d. What is the money multiplier?
e. What does M1, M2 and M3 consist of? Why does the Federal Reserve divide the money supply in this manner?

V) **The Federal Reserve: Chapter 28**

a. What did the Federal Reserve Act of 1913 accomplish?
b. List and explain the functions of the Federal Reserve.
c. What is the primary function of the Federal Reserve today?
d. Why do policy actions of the Fed sometimes not have the intended effect on the economy?
e. How does the Fed attempt to control the nation’s money supply?
f. What is an easy money policy?
   i. How does the Fed create an easy money policy?
   ii. Why would the Fed pursue an easy money policy?
g. What is a tight money policy?
   i. How does the Fed create a tight money policy?
   ii. Why would the Fed pursue a tight money policy?
h. List and explain the advantages and disadvantages of the Fed attempting to manage the economy.

VI) **Fiscal Policy, the Federal Budget: Chapter 30**

a. Define progressive tax, regressive tax and proportional tax.
   i. Which tax is the most fair, in your opinion? Why?
b. Define fiscal policy.
c. Explain the difference between a budget deficit, budget surplus, and the federal debt.
d. What events may cause an unplanned budget deficit?
e. What are the criticisms of the federal debt and deficit, i.e., what problems may occur when the federal government allows a large budget deficit and large debt to exist?
f. How might “crowding out” occur?
g. List and explain the advantages and disadvantages of Congress attempting to manage the economy using fiscal policy.
h. List the two automatic stabilizers? How do they work?
i. What is the effect of built-in stabilizers on the federal budget during a recession?
j. According to the Keynesian model, an attempt to balance the budget during a period of unemployment would have what effect on the economy?
k. Explain what discretionary fiscal policy is. Why does discretionary fiscal policy have an “expansionary bias.”
l. When compared to the overall tax rates of other developed countries, how does the U.S. rank?
m. Compare and contrast expansionary policy and contractionary policy.
VII) **Chapter 1: The Interconnected Economy**
   a. List and explain the four categories of economic resources. Give examples of each.
   b. Why are economic theories useful? What are their limitations?

VIII) **Chapter 2: Choice and Scarcity**
   a. Define opportunity cost.
   b. What is the opportunity cost of a college education?
   c. Explain the significance of the PPC.
   d. Analyze and calculate opportunity cost using a PPC graph.

IX) **Chapters 33 & 34: International Trade and Trade Policy**
   a. Explain the concepts of absolute advantage and comparative advantage.
   b. What are the effects of tariffs on imported products? On domestic products?

X) **Chapter 3: Demand and Supply**
   a. Explain the law of demand and the law of supply. Give examples.
   b. Define market equilibrium. What three conditions are met at this point?
   c. Be able to interpret a change in market equilibrium when supply and demand changes on a graph.

XI) **Chapter 4: Labor and Financial Capital Markets**
   a. What market effects do price floors tend to create?
   b. What market effects do price ceilings tend to create?
   c. Is the minimum wage a price floor or ceiling? What typically is the effect of the minimum wage on the labor markets?

XII) **Chapter 5: Elasticity**
   a. Define price elasticity of demand.
   b. What are the two primary determinants of the elasticity of demand of any good?

XIII) **Costs and Cost Curves: Chapter 7**
   a. Explain and give examples of each of the following type of costs:
      1- Fixed costs
      2- Variable costs
      3- Sunk costs
      4- Marginal costs
      5- Average variable costs
      6- Average total costs
      7- Marginal revenue
   b. Be able to calculate marginal costs, fixed costs and average total costs from a chart.
   c. Be able to calculate the profit maximizing point, total revenue and overall profit from a graph depicting a firm operating in a competitive (monopolistic competition or oligopoly) market.

XIV) **The Macroeconomic Perspective: Chapter 19**
   a. List and explain the four phases of the business cycle.
   b. What are the main components of GDP when measuring with what is demanded?

XV) **Economic Growth: Chapter 20**
   a. What is the aggregate production function? Describe each component.
   b. What is capital deepening? How can the United States increase its capital deepening?

XVI) **Unemployment: Chapter 21**
   a. What are the different types of unemployment and what causes each type of unemployment?
   b. What are the guidelines used by the Bureau of Labor Statistics to count a person as unemployed?
   c. Why does the unemployment rate not reflect the actual condition of the labor markets?

XVII) **Inflation: Chapter 22**
   a. Who is most likely to benefit and to suffer from unanticipated inflation?
   b. Explain how the Consumer Price Index attempts to measure the rate of inflation.