**Economics**

**Unit 2 - Microeconomics Test Review - Key**

1. What is a Technical Monopoly? **When you own a patent on components or production method.**
2. What is collusion? **Formal agreement to set prices (coincides with price fixing).**
3. What is a price ceiling and what do they normally cause? (surplus/shortage) **Highest price that can legally be charged - shortage**
4. What is a price floor and what do they normally cause? (surplus/shortage) **Lowest price that can be legally paid - surplus**
5. What is market equilibrium? **Where demand & supply meet - AKA the market clearing price.**
6. What is elastic demand and elastic supply? **When a change in price causes a larger change in quantity supplied or quantity demanded.**
7. What is inelastic demand and inelastic supply? **When a change in price causes a small change in quantity supplied or quantity demanded.**
8. What is unit elastic demand and supply? **When there is a proportional change in price and quantity demanded.**
9. What are the reasons that demand can change? (6 choices from worksheet) **Income, complements, substitutes, taste & pref, # of buyers, change in expectations**
10. What are the functions that money serves? **Medium of exchange, store of value, measure of value**
11. What is monopolistic competition? **Many companies, selling similar but not identical products.**
12. What are the characteristics of money? **Portable, durable, divisible, limited in supply**
13. What causes the demand curve to shift? **Income, complements, substitutes, taste & pref, # of buyers, change in expectations**
14. What are the different incentives? **Rebates**
15. What type of business is the most common in the U.S.? **Sole proprietorship**
16. What is the law of Demand? **When price goes up, demand does down (inverse relationship)**
17. What is the law of Supply? **When price goes up, supply goes up (direct relationship)**
18. What market structure has interdependence and price leadership as characteristics? **Oligopoly**
19. What is unlimited liability**? Being responsible for all debts of a business.**
20. What causes a supply curve to shift? **Cost of inputs, subsidies, productivity, gov’t regulation, technology, # of sellers, taxes**
21. How are public goods paid for and who supplies them? **Taxes - Government**
22. What is a natural monopoly and a good example of one? **Public utility**
23. What is the circular flow model? (be able to read it) **Model that illustrates the flow of economic activity.**
24. What is microeconomics? **The area that deals with small units – individuals and firms.**
25. What is product differentiation and what market is it found in? **The process of making your product stand out and appear different – monopolistic competition**
26. What are product markets and a factor markets? Product markets – **Consumers buy goods & services and factor markets –firms buy resources (FOP or inputs).**
27. What is rationing and why is it good or bad? **The government decides who gets what – not fair, high admin cost, low incentives**
28. What is the difference between a general partnership and a limited partnership? **General partnership – both parties are equally share liability for any debts; Limited partnership – One person has liability, while an inactive partner has limited liability.**
29. How do prices act as signals? **Tells consumers & producers what to do**
30. What is the difference between surplus and shortage? **QS > QD = Surplus / QS < QD = Shortage**
31. What are the characteristics of perfect competition? **Large # of buyers & sellers, identical products, no control over price.**
32. Define externality. **A cost or benefit that accrues to a 3rd party not involved in the transaction.**
33. What direction does a supply curve travel? Demand Curve? **Supply travels upwards and demand travels downwards**
34. What is the difference between public goods and private goods? **Public goods are non-rival and non-excludable, while private goods are rival and excludable.**

**# of Questions for each concept on test**

Microeconomic decisions-1

Circular Flow Model—3

Functions of Money- 1

Characteristics of Money- 1

Law of Demand- 1

Change in Demand- 3

Demand elasticity/ranges- 2

Determinants of demand elasticity- 2

Supply curve- 1

Changes in supply- 3

Prices as signals- 1

Rationing problems- 1

Rebate- 1

Market equilibrium- 2

Surplus- 1

Price ceiling- 1

Price floor- 2

Legal forms of business/pie charts- 1

Limited partnership- 1

Unlimited liability- 1

Market structures- 5

Types of monopoly- 2

Externalities- 1

Public goods- 2