ECON 2200 Rudbeck Test # 1

Monday

August 17th

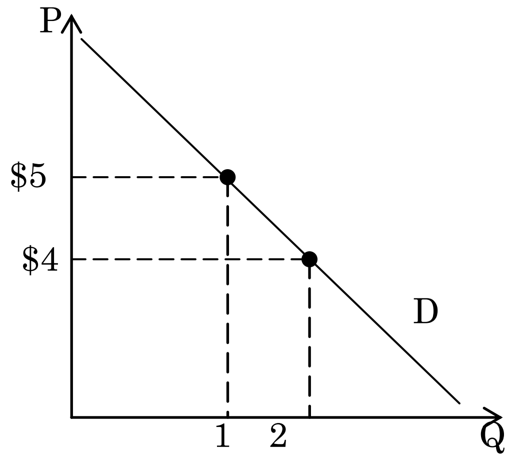
Went over syllabus and class was dismissed early.

Wednesday

August 19th

Supply and Demand Review

Reference Appendix #1 in the textbook for more on this topic.



Demand equals the marginal benefit which is the "willingness to pay."

I. Shifters of Demand

A. Income

i. For **normal goods**, when income rises, demand rises. In contrast, when income falls, demand falls.

a. Examples: Cotton, cars, and restaurant meals.

ii. For **inferior goods**, when income rises, demand falls. In contrast, when income falls, demand rises.

a. Examples: Ramen, wool, public transit, and cigarettes.

B. Quality

i. When the quality of a good increases, the demand for that good also increases.

ii. When the quality of a good decreases, the demand for that good also decreases.

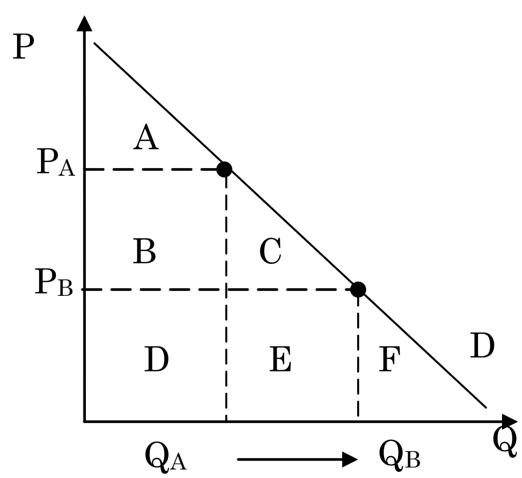
II. Welfare Economics

A. This measures buyer and seller happiness.

i. Buyer happiness is also known as **consumer surplus.**

a. Consumer surplus = Willingness to Pay – Price

b. **or** CS = WTP - P



As seen in the diagram:

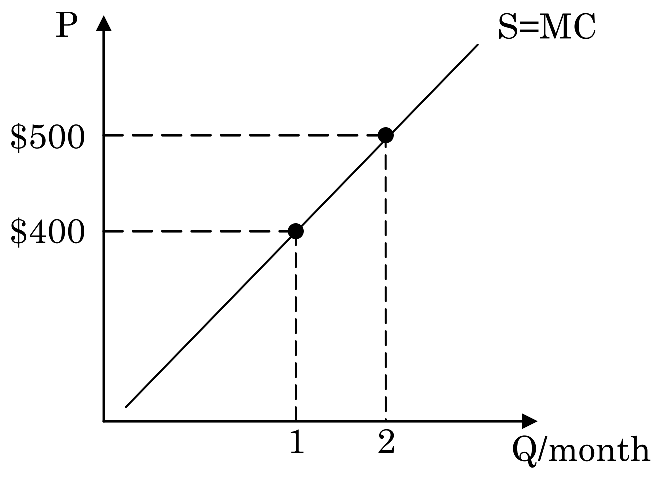
- At P_A Consumer Surplus = A
- At P_B Consumer Surplus = ABC

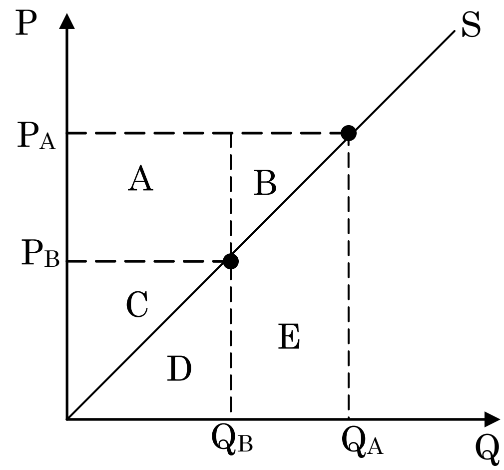
The change in consumer surplus from P_A to P_B is equal to BC.

ii. Seller or producer happiness is also known as **producer surplus.**

a. Producer surplus = Price – Marginal Cost

b. **or** PS = P – MC





As seen in the diagram:

- At P_A Producer Surplus = ABC
- At P_B Producer Surplus = C
- The change in producer surplus from P_A to P_B is equal to AB.

III. Shifters of Supply

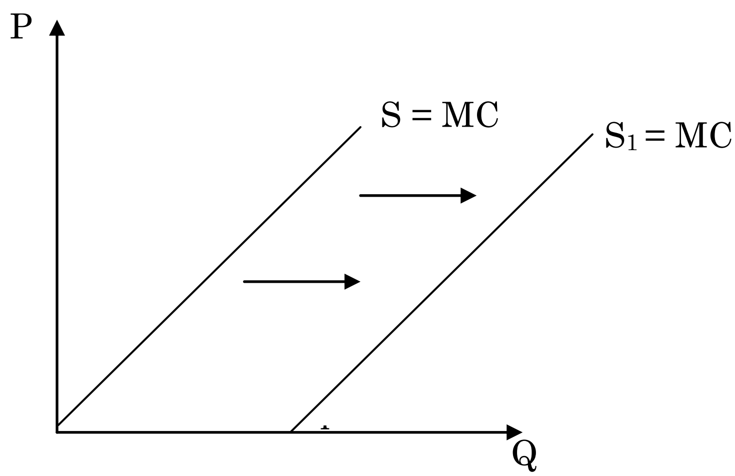
A. Technological Advances

i. These advances changed the "how to" or "method" of production.

ii. Example: Henry Ford's assembly line.

iii. These advances led to the supply of the good increasing (shifting supply curve to the right).

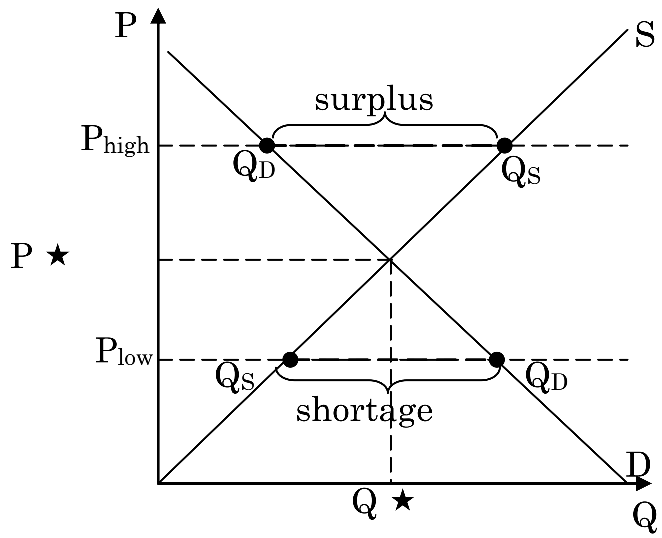
iv. An increase in the supply leads to the marginal cost being lower for every unit.



B. Change in Input Prices (P_{input})

i. If the input price decreases, the supply will increase (shift right).

ii. If the input price increases, the supply will decrease (shift left).

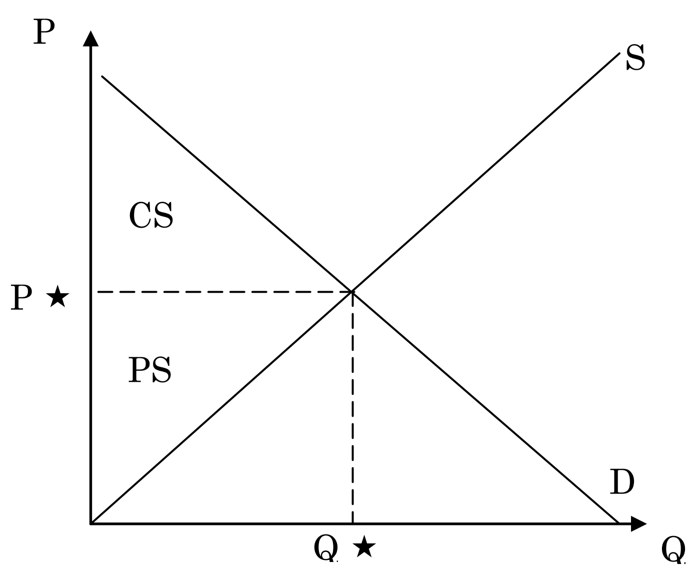


Friday

August 21st

Supply and Demand of Labor

Reference Appendix #7 in the textbook for more on this topic.



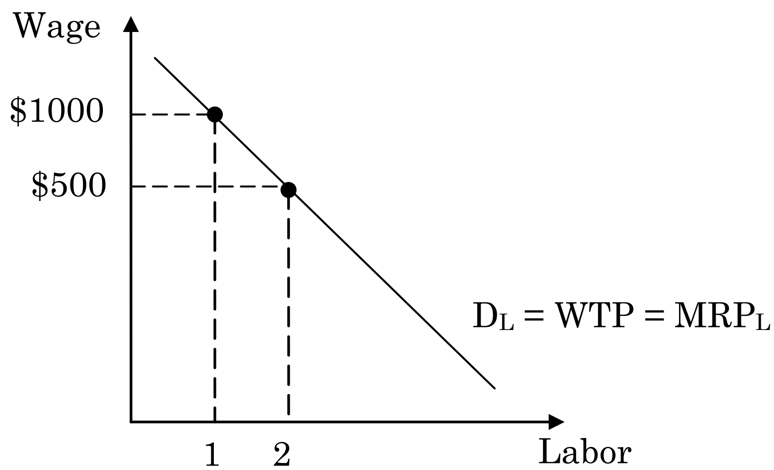
As seen in the diagram:

Total surplus = Producer Surplus + Consumer Surplus

Or TS = PS + CS

At this point, Total Surplus is maximized, which is economically efficient.

I. Demand for Labor



A. Marginal Revenue Product of Labor = Marginal Product of Labor x Price of the good.

i. $MRP_L = MP_L - P_{good}$

ii. Example: 10 units X \$2 = \$20

II. Shifters of the Demand for Labor

A. Marginal Product of Labor increases (MP_L), the Demand for that labor increases (D_L)

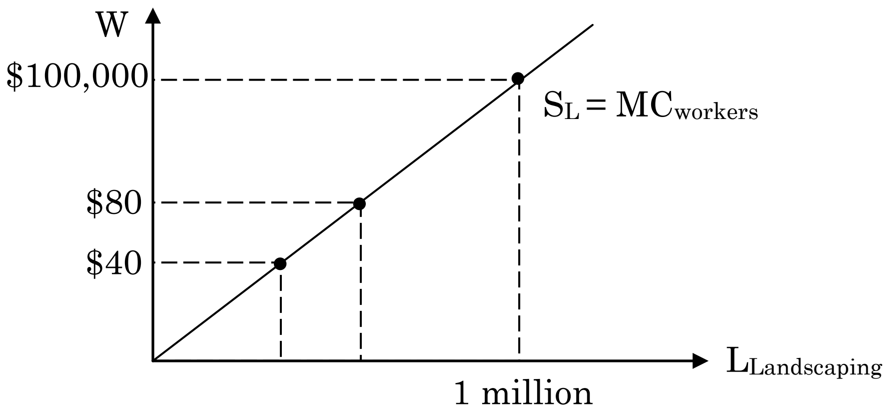
i. Example: For a technological advancement, MP_L increases.

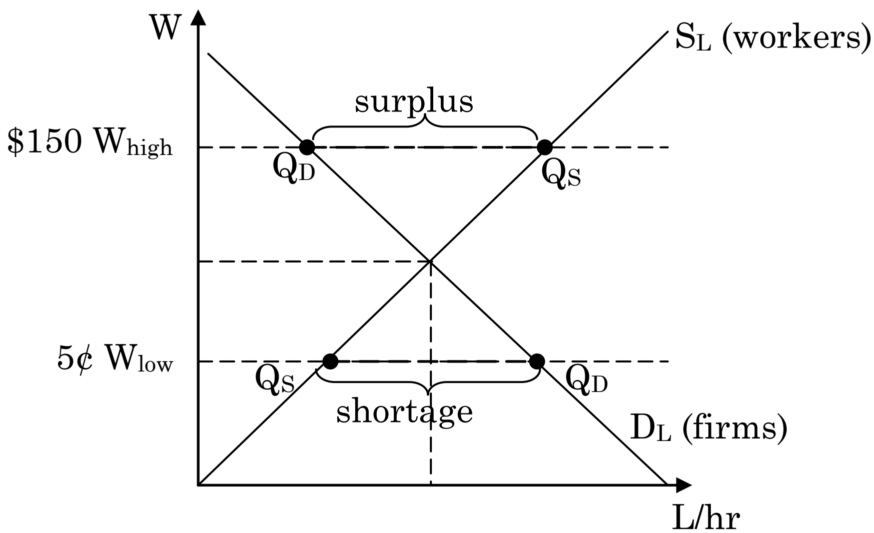
ii. Conversely, if MP_L decreases, D_L decreases.

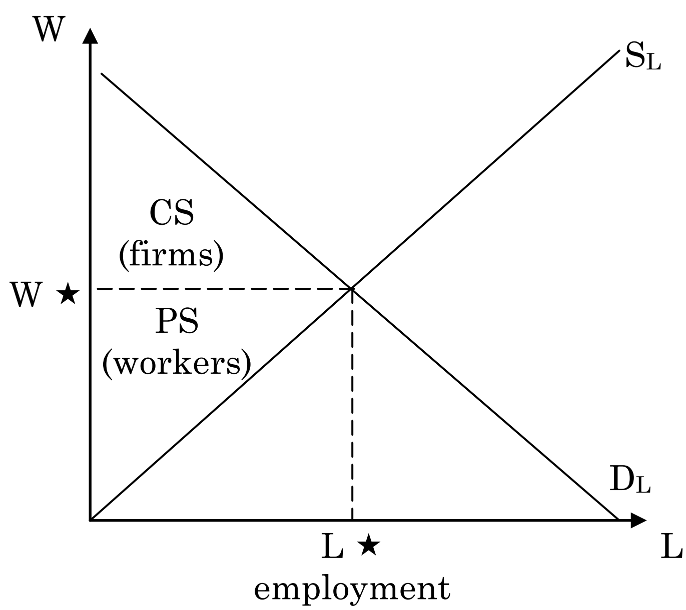
B. As the price of a good increases (P_{good}), the demand for that labor decreases (D_L).

i. Conversely, if P_{good} decreases, D_L decreases.

III. Supply of Labor







Chapter One - Colonization, the American Revolution, and the Constitution

I. Colonization

A. Military Ports begin forming in the colonies.

B. Colonization begins around the late 1500's. 3/4ths of these colonists are indentured servants.

C. Colonization becomes relatively stable in the late 1600's.

i. John Smith begins "family based" colonization.

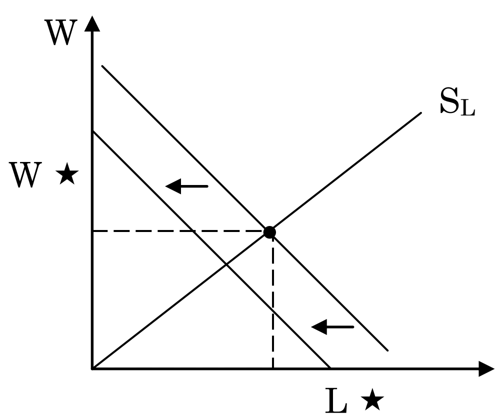
ii. Women, children, and men of the colonies begin to specialize in their skills.

D. The trends in immigration begin to change.

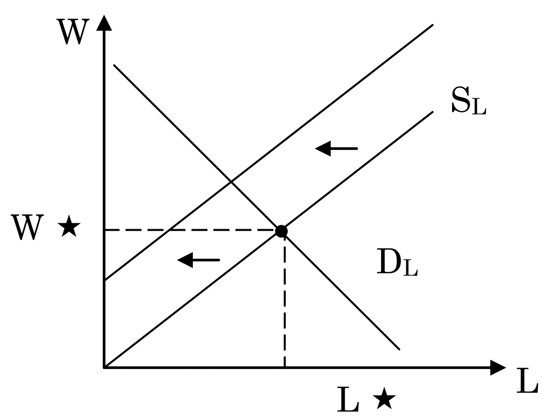
i. The number of slaves coming from Africa increases.

ii. The number of indentured servants decreases.

iii. Slaves and indentured servants are *substitute goods*.



(indentured servants



(indentured servants

Demand Side:

- Slaves from Africa are increasing (substitute).
- Demand for indentured servants is decreasing.

Supply Side:

- Transport costs are falling for Europeans coming over to the colonies.
- European incomes are rising.