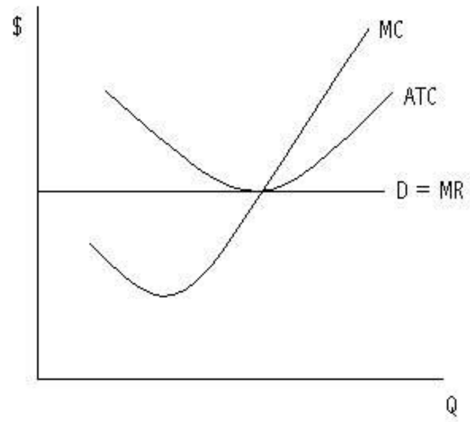
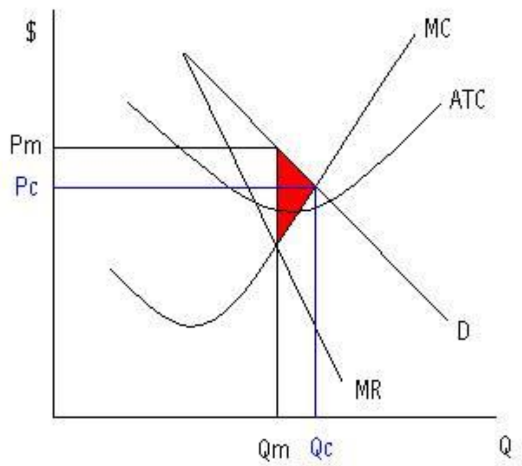
AP Microeconomics Review

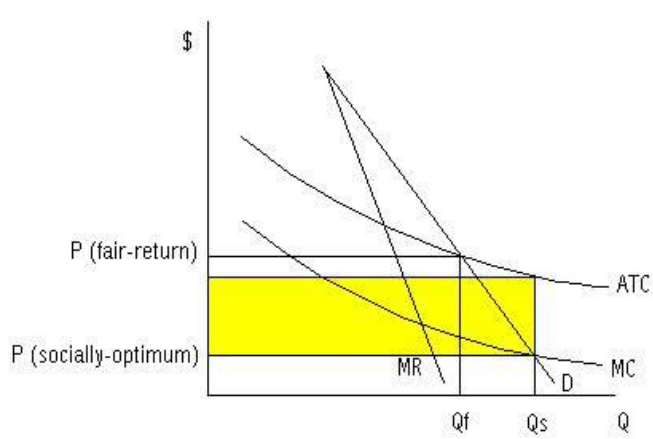
1. Firm in Perfect Competition (Long-Run Equilibrium)



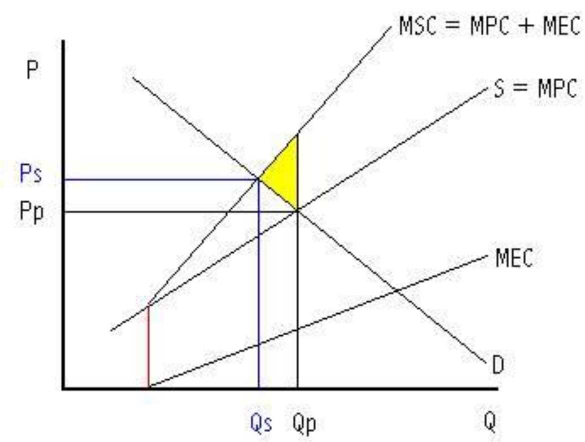
2. Monopoly Industry with comparison of price & output of a Perfectly Competitive Industry



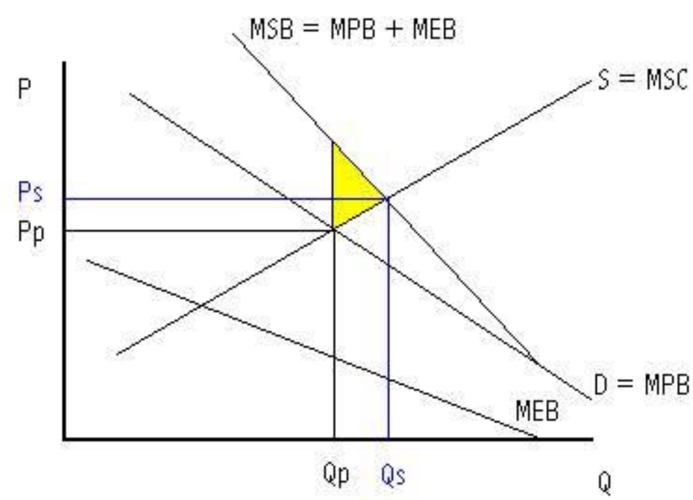
3. Natural Monopoly with Fair-Return and Socially-Optimum Regulation



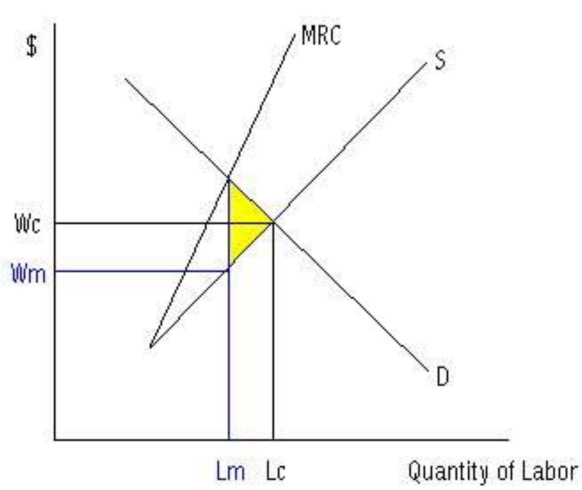
4. Negative Externality showing that too much is being produced at too low of a price



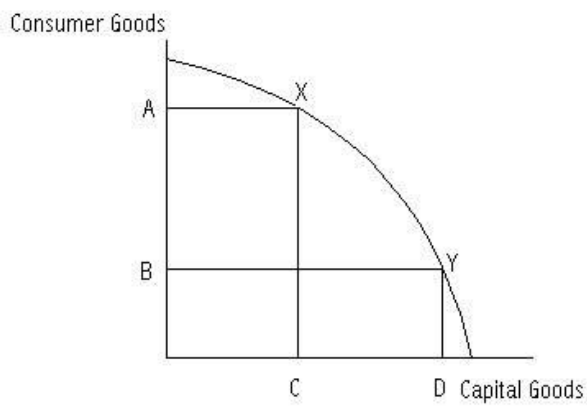
5. Positive externality showing that too little is being produced at too low of a price



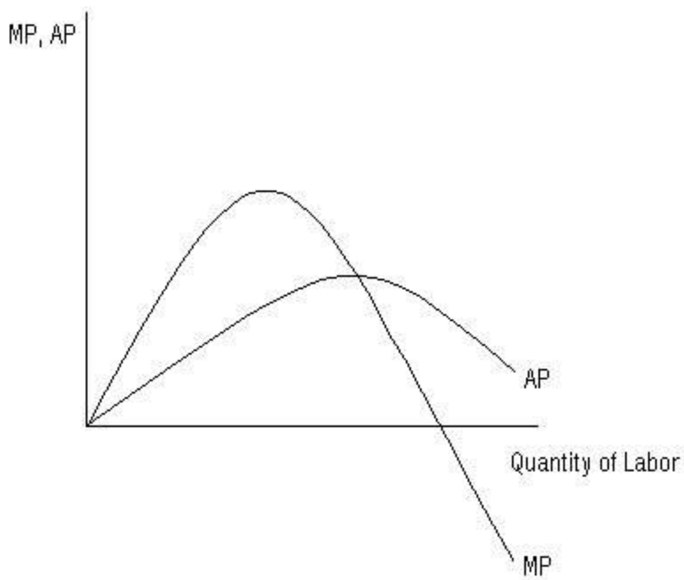
6. Monopsony Labor Market with comparison of workers hired and wage rate in a p.c. labor mkt.



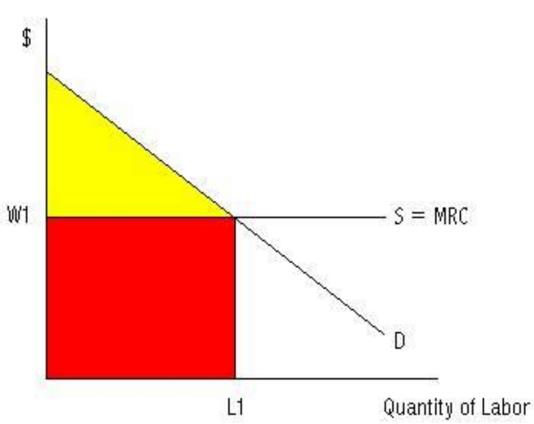
7. Production Possibilities Curve illustrating the concept of opportunity cost



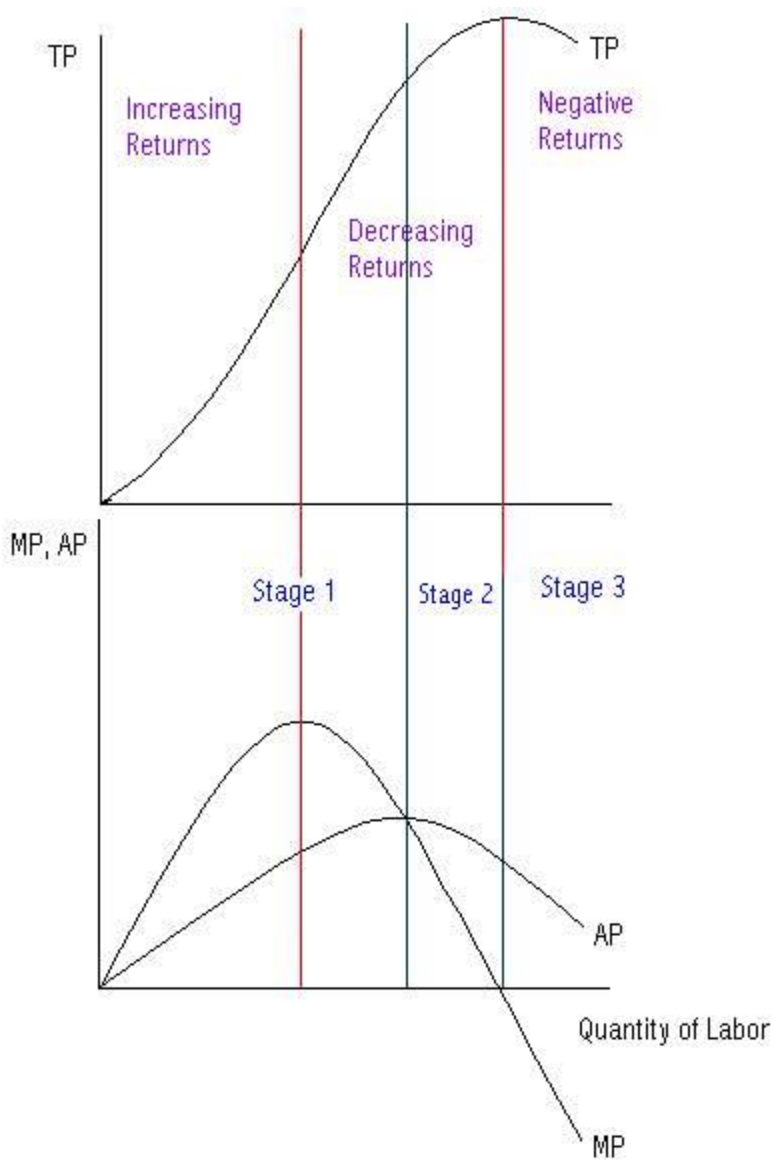
8. MP_L and AP_L (As long as the additional worker (MP_L) is > than the average, AP_L is rising)



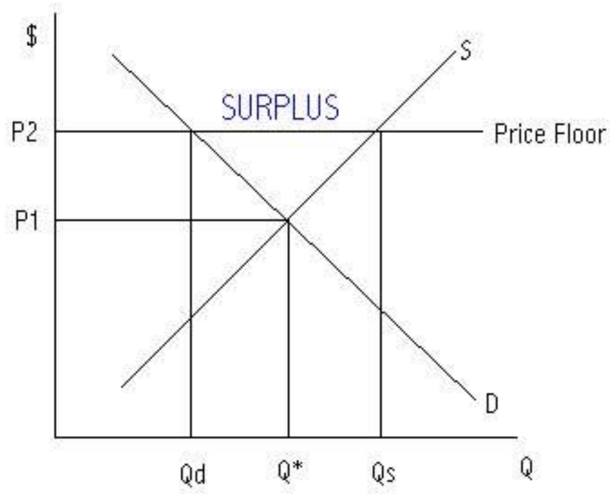
9. Perfectly Competitive Labor Market with Total Labor Costs in red and Non-labor Costs in yellow



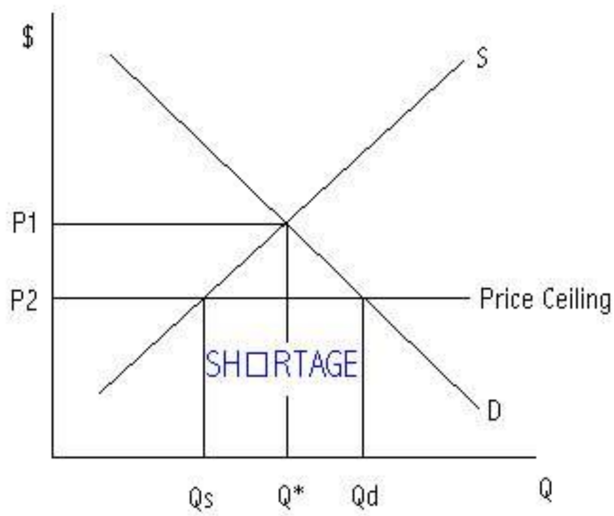
10. TP (Total Product) with MP and AP curves below to show the stages of production, return rates,and relationship between MP and TP (As long as MP > 0, TP is increasing)



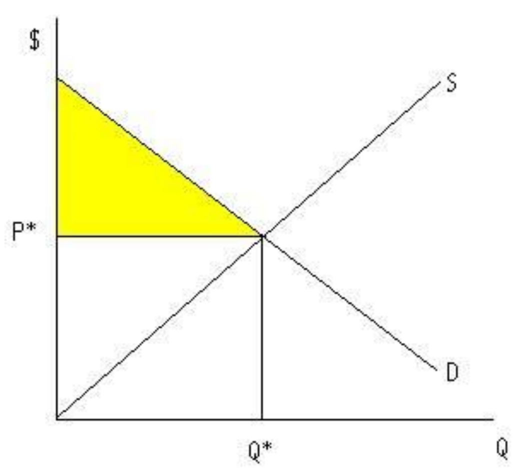
11. Illustration of an effective Price Floor creating a Surplus since Qs > Qd



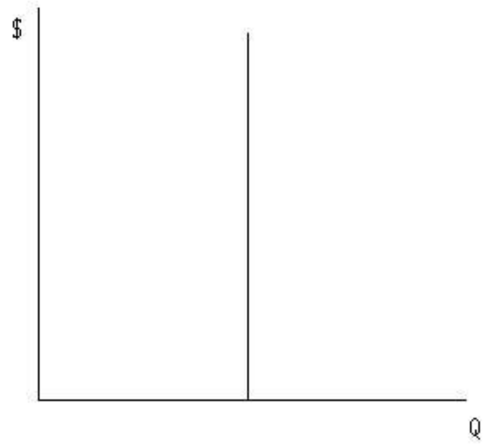
12. Illustration of an effective Price Ceiling creating a Shortage since Qd > Qs



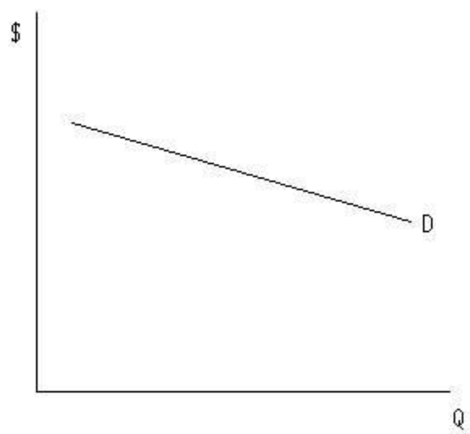
13. Market in equilibrium with Consumer surplus shaded in yellow



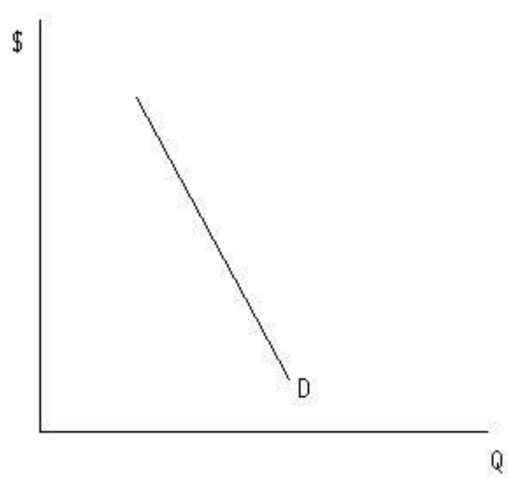
14. Illustration of Perfectly Inelastic supply or demand



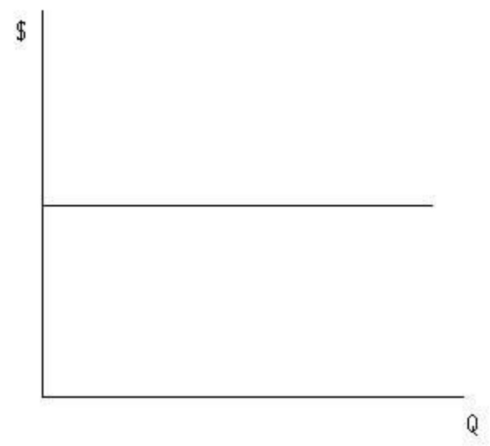
15. Illustration of Elastic Demand



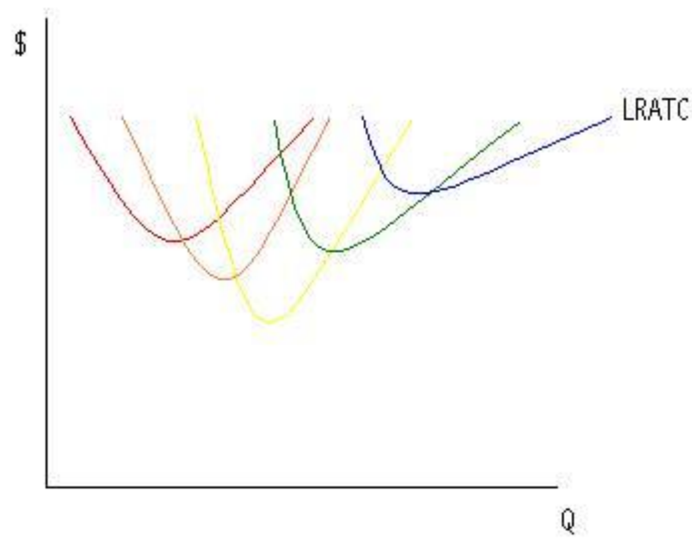
16. Illustration of Inelastic Demand



17. Illustration of Perfectly Elastic supply or demand



18. Illustration of a Long-Run Average Total Cost Curve (∑ ATC curves for various plant sizes)



19. TFC + TVC = TC

20. TFC / Q = AFC

21. TVC / Q = AVC

22. AFC + AVC = ATC

23. TC / Q = ATC

24. Δ TC / Δ Q = MC

25. TR / Q = AR or P

26. ∑ MP = TP (Output)

27. $P \times Q = TR$

28. $\Delta TR / \Delta Q = MR$

29. $\Delta TP / \Delta L = MP_l$

30. $TP / L = AP_L$

31. $AR < AVC$: Shutdown

32. $\% \Delta QD / \% \Delta P = E_d$ (Elasticity of Demand) Coefficient

33. $P = ATC$: Fair-Return Regulation (0 Economic Profit or Normal Profit)

34. $P = MC$: Socially-Optimum Price Regulation (Allocative Efficiency)

35. $P > MC$: Underallocation of Resources

36. $P < MC$: Overallocation of Resources

37. $MU_A / P_A = MU_B / P_B$: Equimarginal Rule (Utility Maximization Rule)

38. $MP_A / P_A = MP_B / P_B$: Least-Cost Rule

39. $MR = MC$: Optimal Output Rule

40. $MRP = MRC$: Hiring Rule

41. $MP \times P$ = Marginal Revenue Product (MRP)

42. $MRP_A / P_A = MRP_B / P_B = 1$: Profit-Maximization Rule

43. $TR - TC$ = Profit

44. $P > ATC$: Economic Profit

45. $P < ATC$: Economic Loss

46. $MR < 0$: Demand is inelastic (TR is declining)

47. $MR > 0$: Demand is elastic (TR is rising)

48. $MR = 0$: Demand is unit elastic (TR is at a maximum)

49. $\Delta TR / \Delta$ Input = Marginal Revenue Product (MRP)

50. $\Delta TC / \Delta$ Input = Marginal Resource Cost (MRC)

51. P = Min ATC : Productive Efficiency

52. $e_d < 1$: Demand is inelastic

53. $e_d > 1$: Demand is elastic

54. $e_d = 1$: Demand is unit elastic

55. Δ Price = Movement Along the Curve

56. Δ Non-Price Determinant = Shift of the Curve

57. P Increases, TR increases : Demand is inelastic

58. P increases, TR decreases : Demand is elastic

59. P decreases, TR decreases : Demand is inelastic

60. P decreases, TR increases : Demand is elastic

ADDITIONAL THINGS YOU SHOULD KNOW!

1. Ways for the government to correct positive externalities.

2. Ways for the government to correct negative externalities.

3. Justification for government regulation of a monopoly.

4. Definition of inferior goods.

5. Definition of normal goods.

6. Assumptions of the PPC (Production Possibilities Curve).

7. What would cause the PPC to shift inward and outward.

8. Adam Smith's view on the nature of the economy and economic growth.

9. Fair-Return vs. Socially-Optimum Return (Which one might require a payment of a subsidy to the firm?).

10. Characteristics of elastic and inelastic goods (elastic, inelastic, perfectly elastic, perfectly inelastic).

11. Economic Roles of the government.

12. What are variable costs?

13. Derived Demand.

14. Determinants of Resource Demand.

15. Determinants of Supply and Demand.

16. Definition of Marginal Resource Cost, Marginal Revenue Product, Marginal Revenue, and Marginal cost (in words).

17. How to apply the Least-Cost Rule.

18. What to do when facing a surplus or shortage in order to clear the market (to reach equilibrium).

19. Definition of Price Discrimination.

20. Concepts involving the Production Possibilities Curve.

21. What would cause a firm's short run cost curves (MC, AVC, and ATC) to shift?

22. Definition of Diminishing Marginal Returns and the point at which it occurs.

23. Definition/Characteristics of Perfect Competition, Monopolistic Competition, Oligopoly, Monopoly, and Monopsony.

24. Why is a monopolistically competitive firm allocatively inefficient in the long run?

25. How to apply the Total Revenue Test.

26. What can happen during the short run?

27. Nominal Wages vs. Real Wages.

28. What are the factor payments for land, labor, Capital, and Entrepreneurship?

29. Definition of Free-Rider and how it applies to public goods.

30. Characteristics of Natural Monopolies.

31. What are some barriers to entry?

32. Why do long run average total costs eventually rise as a firm grows larger?

33. Explain the relationship between Demand and Marginal Revenue for a Monopoly.

34. Allocative and Productive Efficiency in the various market structures.

35. Entry and Exit into various market structures in the long run.

36. Graphical representations of Perfect Competition, Monopoly, Purely Competitive Labor Market, and Monopsony.

37. How to properly label economic graphs!