Principles of Microeconomics  
ECON 1101 - Spring 2010

Department of Economics  
University of Minnesota

Midterm #2 Review

Lectures: M W F 9:05pm - 9:55pm (Rm. WilleyH 175)  
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Hours: M 10:45am - 1:00pm  
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This Second Midterm is be held on Friday, April 9th during regular lecture time. The exam will end promptly at 9:55am so make sure that you are are time so that you can be given the full 50 minutes.

I will be holding two review sessions during this week

- Tuesday, April 6th – 4pm - 5pm – Hanson 1-111
- Thursday, April 8th – 5pm - 6pm – TBA

These sessions are just to clarify any questions that you might have about the material.

When studying for this exam I would advise you to look over the following material.

- Recitation Questions – These question were posted each week and are just old questions which were asked on previous midterms. Answers to these questions were given during recitation.

- Handouts – I have posted a few handouts that review certain topics as well as give a few examples on the material. You can access these handouts clicking "Handouts" on my webpage or following this link


- You should look over any notes that you have taken during lecture as well as during recitations.

- Finally I would advise that you look over any of the Aplia homework you may have had issues with.
Topics for the Midterm

You should be familiar with the following topics

- **Definitions** – You should be familiar with these terms both in terms of their written definitions as well as application which use them. This is a broad list of terms but I am not limited to just these terms.
  - Consumer Surplus (CS)
  - Producer Surplus (PS)
  - Deadweight Loss (DWL)
  - First Welfare Theorem (FWL)
  - Small Open Economy (SOE) This was from Chapter 9 (App. of International Trade)
  - Tariffs and Subsidies
  - Quotas
  - Laffer Curve
  - All of the cost terms (i.e. Implicit and Explicit Costs as well as Fixed, Variable, Marginal, etc.)
  - Diminishing Marginal Product
  - Economies of Scale

- **Equilibrium vs. Efficiency**
  - We spent a great deal of time talking about the importance between these two concepts. I used to the First Welfare Theorem to relate these two terms. Think about the reasons why we have added this efficiency definition into the mix. What does it buy us?

- **Taxes and Subsidies**
  - You should be able to calculate all surpluses and any possible deadweight losses with taxes, and you should be able to identify all of these areas on a diagram with a subsidy.
  - You should be familiar with the relationships between tax burden and elasticities as well as subsidy benefits and elasticities.
  - You should also be identify all surpluses and deadweight losses when we are looking at the effects of Tariffs. (Chapter 9)

- **The Costs of Production**
  - You should understand all aspects of costs and profits. The means you should be familiar with all definitions and you should have a good grasp on why we concentrate on Economic Profits.
  - You have a complete understanding of why the cost curves take certain shapes (i.e, ATC curve is U-shaped, MC is increasing, etc).
  - You should understand the difference between long-run and short-run.
• Perfectly Competitive Market
  
  – You should know the definition (which has four parts). You should have a good understanding of what each of the points buys you.
  
  – You should be able to identify the profit maximizing quantity both graphically and algebraically.
  
  – You should have a firm understanding of why MC = MR is the profit maximizing decision.
  
  – You should know how the firm’s decision differ as we look between long-run and short-run decisions.
  
  – You should think about any assumptions which we have made which are important to getting our profit maximizing quantity.
  
  – You should be able to identify the short-run supply curve for a perfectly competitive firm.

• Monoploy
  
  – Know the definition.

This should cover MOST of the points which will be tested on the exam