Snazzlefrag's Macroeconomics CLEP Study Notes

Contact: http://www.degreeforum.net/members/snazzlefrag.html

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Allocative Efficiency: Resources are used for society's most desired goods. (P=MC).
Perfect Competition.
Monopolistic Competition, Oligopolies, Monopolies. (P>MC).
Comparative Advantage: Lower Opportunity Cost (better use of resources). Specialize.
Economic Efficiency: Full employment and full production (assuming the right goods are produced)
Fallacy of Composition: Mistaken assumption that what applies in one case will apply in other cases.
Lorenz Curve: / Measures distribution of a populations Income
Normative Analysis: "What ought to be" (passes judgement). Cigarette Tax.
Positive Analysis: "What if". Theories/models to Predict the impact of choices.
Productive Efficiency: Least costly method of production is being used to produce goods/services.
Scarcity: Resources = Land, Labour, Capital (plant & equipment), Entrepreneurial Ability
Slope: Rise over run (y-vertical divided by x-horizontal)
Sherman Antitrust Act (1890): Price fixing, attempts to monopolize.
Clayton Antitrust Act (1914): Prevent monopolies through mergers.
Price Discrim, Interlocking, Tying, Exclusive Deals (labor unions exempt).
Federal Trade Commission Act (1914): FTC enforces Sherman & Clayton Acts.
Approve Mergers, False Advertizing.

Opportunity Costs: Cost of goods sacrificed to produce an alternative good.
Production Possibilities Curve: (opportunity cost - Concave graph=Increasing Opportunity Costs)
Graph: **Inefficient <) > Unattainable** (as you buy more of one, you have to sacrifice another).
1) Full Production/Full Employment (5%). 2) Fixed Resources. 3) Fixed Technology. 4) Only two products.
Shift: **Left** = Economic Decline. **Right** = Economic Growth (invest in capital goods/new technology).
Supply: **/** The amount of goods or service producers plan to sell in a given period. **Price up=Supply up**.
Shift in supply other than prices = Shift in curve. **Decreased Supply = < / > = Increased supply**.
1) Technology. 2) Resource Price. 3) Taxes. 4) Related Goods Price. 5) Expected Price. 6) # of sellers.
Tax increase: Lowers supply. **Perfectly Inelastic Supply = Seller Bears Tax Burden**.

Demand: **** The amount of goods or service consumers plan to buy in a given period.
Price up=Demand down.
Shift in demand other than prices = Shift in curve. **Lower Demand = < \ > = Higher demand**.
1) Prices. 2) Related Goods Price. 3) Expected Price. 4) Income. 5) Population. 6) Preferences.
Substitute Effect: High prices = choose cheaper alternatives.
Income Effect: Low prices = buy more AND buy alternatives.
Price UP: Demand down/Supply up. **Demand UP**: Price up/Supply up. **Supply Up**: Price down/Demand up.
Increase in supply: price will decline & quantity will rise
Increase in demand: price & quantity will increase
Decrease in demand: price & quantity will decrease
Decrease in supply: price rises & quantity declines

Elastic (>1): Change in price makes a **big difference**. **Perfect Elastic Demand = Horizontal line** (P=MR) Infinity.
1 = Unit Elastic: Price increase = Demand decreases, No change in revenue. 1:1 ratio, change in price:revenue
>1 = Elastic: Price increase = Demand decreases, Revenue decreases
Inelastic (<1): Change in price makes **no difference**. **Inelastic = steeper slope (Price/Quantity)**.
0 = Perfectly Inelastic: Price increase = No change in demand, Revenue increases **Vertical Line**.
<1 = Inelastic: Price increase = Demand decreases slightly, Revenue increases
Price Elasticity of Demand: \ **%Change in Q / %Change in P**.
Change in Quantity=**Q2-Q1 / Q2+Q1**. **Change in Price**=**P2+P1 / P2-P1**.
Price Elasticity of Supply: / **%Change in S / %Change in P**.
Cross-price Elasticity of Demand: **%Change in Q(of item1) / %Change in P(of item2)**. Comp=Neg, Substit=Pos.

Utility: (satisfaction) (Eg, 1st@$2.75, 2nd@$2, 3rd@$1, 4th@25c).
Marginal Utility: Additional utility from buying one more. Less and less (=actual price. MU of 2nd=$2).
When MU is zero, TU is at its highest (consuming more will not increase satisfaction/utility).
Marginal Utility Per Dollar: **MU / P**. As price increases, MU per dollar decreases.
Total Utility: Add up all the marginal utility of all items bought so far. (TU of 2nd=$2.75+$2=$4.75).
Consumer Surplus: Difference b/n what you paid, and what you would have been willing to pay.
3@$1=$3. But you would have been willing to pay (TU) $5.75. Consumer Surplus = $2.75.
As prices decrease, Consumer Surplus increases.
Compliment Goods: If Price of Y goes up, demand for X goes down (Milk expensive=won't buy Cornflakes)

Inferior Goods: If income goes up, demand goes down.
Normal Goods: If income goes up, demand goes up.
Substitute Goods: If Price of Y goes up, Demand for X goes up (because it's cheaper).
Veblen Goods: Status Symbol (Higher the price, higher the Demand).
Giffen Goods: If price of Bread rises, poor people have less money for meat, so they buy MORE bread.

Average Fixed Cost (AFC): \ **FC / Q**. Decreases as Output increases. Down to zero in long-run.
Average Total Costs (ATC): U **TC / Q**. Down=EofS, Up=DofS. ATC rises as rising AVC overcomes falling AFC
Average Variable Costs (AVC): / **VC / Q**.
Average Revenue: Shown as Demand Curve.
Fixed Costs (FC): — Horizontal. Fixed Cost per unit of Output.
Variable Cost (VC): / Variable Cost per unit of Output.
Marginal Cost (MC): / **Change in Total Costs / Change in Output**. Cost of producing one extra unit of output.
ALWAYS intersects with ATC at its lowest point.
Marginal Revenue (MR): **Change in TR / Change in Q**. (actual increase in total revenue). Same as Demand.
Marginal Revenue Product (MRP): \ Profit from hiring 1 more worker. Hire until **MRP=Wages** (MRP=ME).
Total Variable Cost (TVC): / **VC * Q**.
Total Cost (TC): / **FC + VC**.
Total Profit: **(P-ATC)*Q**.
Total Revenue (TR): **P*Q**.

Short-run: Shut down/Cease Operations or continue to operate (fixed costs = can't go out of business).
Operate: If Sales **TR (P*Q) > VC**. Or if **P > AVC**. (Operate if price is **above shutdown** point).
Shutdown: If **VC > TR (P*Q)**. Or if **AVC > P**. (Shutdown if price is **below shutdown** point).
Short-run Shutdown Point (Efficient Output)=lowest point of **AVC** curve (where MC intersects AVC).
Long-run: Stay in business or go out of business. Monopoly=highest LR Price. PerfComp=highest LR Quantity.
Stay in business: If Sales **TR (P*Q) > TC (FC+VC)**. (Stay in Business if price is **above breakeven** point).
Go out of Business: If **TC > TR** (sales).
Short-run Breakeven Point (Most Profitable)=lowest point on **ATC** curve (where MC intersects ATC)
Minimum Efficient Scale: When output cost per unit is at its lowest.
In LR competetive firms have ZERO Economic Profit (except for monopolies).
Maximum Profit: When **MR \ = MC /**. Perfect quantity (output). **Not enough output < X > Too much output**.

Increasing Quantity makes MR go down, and MC go up.
If MR exceeds MC, keep increasing Q until MR=MC(maximum profit). If MC exceeds MR, profit decreases.

Perfect Competition: — Many sellers (no price influence), **same product**, free entry.
Price Taker (**P/D/MR=Horizontal**) <--- Perfectly Elastic Demand.
SR Profit: **MC=MR** or TR=TC. Big vertical difference b/n TR & TC curve = Maximum Profits.
Short Run: **P=MC=MR**. **Long Run**: All firms breakeven/zero economic profit (**P=ATC**)
Monopolistic Competition (99%): Many sellers (no price influence), **differentiated product**, free entry.
Maximized Profit: MC=MR then find the Demand Curve. Elastic demand curve (substitutes). Shallow slope.
Long-run: Breakeven/zero economic profit.
Oligopoly: **Few sellers** (Mutual Interdependence/can influence price), same/different product, entry is difficult.
Restrict Output = Higher Prices. **High Concentration Ratio**.
Long-run AND Short-run: Firm makes an economic profit.
Kinked Demand Curve: Firms follow price cuts but not price increases. Price stays at the kink.
Cartel -> Collusion/Cooperation -> Price Leadership --> Mild Competition -> Cutthroat Competition
Monopoly: \ One seller, no substitutes, no entry (economies of scale, economies of being established).
Control of Essential Resource, Govt Franchise, First There.
Maximised Profit: MC=MR then find the Demand Curve.
Short Run: **P>MC**. **Long Run AND Short Run**: Firm makes an economic profit.
MC curve is the Supply curve (starting above breakeven point).
Concentration Ratio: 4 Largest Firms in an industry. 10%+8%+7%+5%=30 (80% is high).
Herfindahl Index: 10,000 = monopoly, 0 = perfect competition. Sum of Squares of Market Shares.
Diseconomies of Scale: / Increasing Output = Rising LR ATC. (decreasing return to scale).
Economies of Scale: \ Increasing Output = Declining LR ATC. (increasing return to scale).