# Review Sheet for *Unit 2: How Markets Work*

1. What is the law of demand?

2. Which two behavior patterns effect the law of demand? Describe them.

a.

b.

3. What is a demand curve?

4. Name 2 limits of a demand curve.

a.

b.

5. Explain the concept of ceteris paribus.

6. Explain the following factors, which influence demand

1. Income
2. Utility or consumer expectations
3. Population
4. Complements
5. Substitutes

7. Define elastic and inelastic

a.

b.

8. What is total revenue?

9. How does a product’s elasticity often affect a business firm’s pricing policies?

10.What is the law of supply?

11. How does price affect supply?

12. What is a supply curve?

13. Explain elasticity of supply.

14. How is elasticity of supply in the short run different from elasticity of supply in the long run?

1. Short-
2. Long-

15. What does the marginal product of labor demonstrate?

16. What are increasing marginal returns, diminishing marginal returns, and negative marginal returns?

a.

b.

c.

17. Explain the concepts of variable, marginal, fixed, and total cost

a.

b.

c.

d.

18.When marginal revenue increases above marginal cost due to increased prices, what should businesses do in regards to production?

19. When marginal revenue goes below marginal cost, what usually occurs within a business?

20. What happens to supply if the cost of inputs (raw materials, machinery, labor, etc…) increases?

21. Why does increased technology often lowers production costs?

22. What are subsidies?

23. Why would governments choose to provide subsidies to businesses or markets?

24. What is an excise tax?

25. How would an anticipated price for the next month (July) affect current supply in June?

26. What is equilibrium?

27. What market conditions occur to create excess demand?

28. What market conditions occur to create excess supply?

29. How does minimum wage effect both prices and the demand for labor?

a.

b.

30. How does decreased production cost effect prices?

31a. What is a shortage?

31b. What is a surplus?

32. How so prices act as both incentive and signals?

33. What is supply shock?

34. What is the purpose of rationing?

35. How does the black market affect the economy?

36. What was Adam Smith’s main point discussed within his book *The Wealth of Nations?*

37. What are spillover costs?

38. Name and describe the four conditions for perfect competition

a.

b.

c.

d.

39. Name and describe the barriers to entry which lead to perfect competition

a.

b.

40. Provide information on the following characteristics of perfect competition:

1. Number of firms
2. Variety of goods
3. Barriers to entry
4. Control over prices
5. Use of non-price competition
6. Common examples of products sold in a perfectly competitive market

41. Define a pure monopoly

42. What is economy of scale?

43. How is a natural monopoly different from a pure monopoly?

44. Provide information on the following characteristics of monopolies:

1. Number of firms
2. Variety of goods
3. Barriers to entry
4. Control over prices
5. Use of non-price competition
6. Common examples of products sold in a monopoly

45. What is a patent and how do they encourage monopolies.

46. How does the law of demand effect price under monopolies?

47. Explain the concept of falling marginal revenue.

48. Provide information on the following characteristics of monopolistic competition:

1. Number of firms
2. Variety of goods
3. Barriers to entry
4. Control over prices
5. Use of non-price competition
6. Common examples of products sold in a monopolistic competition

49. What is non-price competition?

50. Why are prices under monopolistic competition typically higher than those under perfect competition?

51. Provide information on the following characteristics of oligopolies:

1. Number of firms
2. Variety of goods
3. Barriers to entry
4. Control over prices
5. Use of non-price competition
6. Common examples of products sold in an oligopoly

52. Define the following terms:

1. Price war
2. Collusion
3. Price fixing
4. Cartels

53. What is predatory pricing?

54. What is a trust?

55. Why would the government wish to create anti-trust laws?

56. What are mergers?