

## Chapter 5 Economics Study Guide

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45 Questions + EC

The Ceteris Paribus conditions that affect "supply:" (At least 3 questions on this!!)

These are assumed to be held constant when you draw a supply curve, and allow you to move ALONG the curve and trust the results.

- Input Prices (if the price of batteries increases, car manufacturers will make fewer cars)
- Technology (Bessemer process for making steel made it much cheaper to produce)
- Taxes or the level of subsidies
- Expectations
- Number of firms in the industry
- Government regulations (cigarette production)
- "Z-factor": Weather for crops, etc.

Know the difference between "supply" and "quantity supplied." Quantity supply refers to MOVEMENT ALONG the supply curve; "supply" refers to shifts of the supply curve

- If a supply curve shifts to the right, more product is being supplied. This could be caused by increases in productivity, lower prices for inputs, decreased taxes, increases in consumer income, or more firms in the industry
- The use of e-mail to replace "snail mail" is an example of lower production costs brought about by the use of technology.
- Import restrictions on goods causes prices to rise.
- Sellers store goods if they expect the price of goods they have to increase dramatically in the near future.
- Be ready to identify an example of supply and demand along with an example of a good with an inelastic supply.
- Know the relationship between quantity supplied and the quantity demanded.
- Know that time has the greatest influence on elasticity and inelasticity of supply.
- Know what is a fixed cost for a store.
- Increased government regulations cause the supply curve to shift to the right.
- If a business's fixed costs are large relative to its variable costs, it is likely to operate longer hours than a firm whose fixed costs are small relative to variable costs.
- Profit is maximized when marginal cost = marginal revenue
- An increase in supply will lower prices UNLESS demand is perfectly elastic.
- Taxes shift supply curves to the left; they act like an increase in input prices.

Be aware of the following terms:

- subsidy
- Supply Schedule
- Market Supply Schedule
- Supply Curve
- Elasticity of Supply
- Excise Tax
- Law of Supply
- Variable Cost
- Marginal Analysis
- Increasing Marginal Returns

- Diminishing Marginal Returns
- Marginal Revenue
- Marginal product of labor
- Marginal Cost
- Supply vs. Quantity Supplied
- Regulation (how does it affect supply?)

**Know the ceteris paribus conditions that affect Supply.**