Economics Chapter 6 Review

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- Know what happens when wages are set above or below the equilibrium level by law.
- Be able to identify an example of what happens to a market in equilibrium when there is either an increase or decrease in supply.
- Know that essential goods that are too expensive for customers are the ones that have a price ceiling placed on them by the government.
- Be able to identify an example of what happens to a good when the supply is greater than the demand.
- Know that minimum wage is the smallest amount of money that can legally be paid to most workers for an hour of work.
- Be able to give an example of an item that has a price reduction due to improvements in technology.
- Know the definition of equilibrium and be able to give and identify examples of it.
- Be able to identify the reason why the U.S. government used rationing for some foods and consumer goods during World War II.
- Know why the Communist government used a command economic system.
- Be able to identify examples of a situation where the market behaves inefficiently.
- KNOW HOW TO DETERMINE THE CHANGES IN PRICE FROM THE INTERACTION OF SUPPLY CURVES AND DEMAND CURVES!!!!!! EXTREMELY IMPORTANT
- At equilibrium Qd= Qs
- If a firm's marginal product of labor is less than it's average product of labor, an increase in the quantity of labor it employs will decrease its average product of labor. Remember, marginal can be compared to the average.
- The more strictly a price ceiling is enforced, the larger the difference between the black market and legal prices of the good.
- At equilibrium, ceteris paribus, there is no tendency for any price movement.
- Price ceilings and price floors lead to a reduction in the quantity o a good bought and sold.
- If demand and supply both increase, the equilibrium quantity rises, but we don't have enough information to determine what happens to equilibrium demand. It could go up or down.
- In order for the agricultural policy of setting grain prices to succeed, the government must purchase any surplus grain.
- Price floors in agricultural markets decrease the amount that farmers are permitted to produce.

- Economies of scale occur if output **more than doubles** when capital and labor double.

Know the Following Terms:

Disequilibrium
Equilibrium
Excess demand
Excess supply
Minimum wage
Price ceiling
Price floor
Rationing
Rent control
Search costs
Shortage
Spillover costs
Supply shock
Surplus
Diminishing Returns