Dunbar's Big Review Sheet - AP Microeconomics Exam

Content Area [Hubbard textbook pages] (percentage coverage on AP Microeconomics Exam)

I. Basic Economic Concepts (8–14%)

A. Scarcity [4, 38], choices [5], opportunity cost [8, 39, 220, 247, 303], and trade-offs [8]
B. Production possibilities curve [38]
C. Specialization [44] and trade [44, 249-250]
D. Absolute advantage [46, 248], Comparative advantage [47, 247], mutually advantageous trade [47, 249]
E. Economic systems [9-10]; what, how, who [8]; efficiency [10]; voluntary exchange [10]
F. Property rights [54, 140] and the role of incentives in free markets [5, 52]
G. Marginal analysis [7]; Positive analysis [14], Normative analysis [14]

II. The Nature and Functions of Product Markets (55–70%)

A. **Supply and demand (15–20%) [68, 76]**
1. Market equilibrium [79-80]
2. Determinants demand [70, 74] and determinants of supply [77, 78]
   a. how changes in these determinants affect equilibrium price and output [74, 78, 86]
   b. distinction between movements along the curves and shifts in the curves: demand [73], supply [79]
3. Price and quantity controls [114]
   (impact of government policies on the free-market price and quantity exchanged)
   a. price floors [100] and price ceilings [100]
   b. excise taxes [605], tariffs [244], and quotas [257]
4. Elasticity [174, 197]
   a. Price [174, 197], cross-price [186, 197], and income [187, 197] elasticities of demand
   b. Price elasticity of supply [191, 197]
5. Consumer surplus [100], producer surplus [104] and market efficiency/economic efficiency [80, 105, 107]
6. Tax incidence [116] and deadweight loss [107]

B. **Theory of consumer choice (5–10%)**
1. Utility/total utility [286], marginal utility [287], the law of diminishing marginal utility [287]
2. Utility maximization: equalizing marginal utility per dollar [293, 328]; the law of demand [69]
3. Individual and market demand curves (demand side of the product market) [296]
   a. how incomes, prices, and tastes affect consumer purchases [317-329]; Indifference curve and MRS [318]
4. Income effect [69, 294] and substitution effect [69, 294], and the shape of the demand curve

C. **Production and cost analysis (short run and long run) (10–15%) [335, 353]**
1. Production functions: in the short run and in the long run [338, 335]
   a. short run production function: relationship between quantity of inputs and quantity of output [338]
2. Average product [341], marginal product [339], and the law of diminishing marginal returns [340]
3. Short-run costs: total, average, and marginal; link between productivity and costs [335, 338, 343, 353]
4. Long-run costs: economies of scale [347], diseconomies of scale [349], constant returns to scale [348]
5. Cost minimizing input combination [365-373]; Isoquant graph, isocost line, MRTS [365]

D. **Firm behavior and market structure (25–35%)**
1. Profit (definition): [220, 381]
   a. Accounting profits [220] versus economic profits [221]
   b. Normal profit (same thing as "zero economic profit") [418, 421-422]
   c. Profit-maximizing rule: MR=MC; using marginal analysis [384-387]
2. Perfect competition [379, 404]
   a. Profit maximization [381, 384-385]
   b. Determining short run and long run equilibrium for profit-maximizing individual firm and for industry [395]
   c. Short-run supply and shutdown decision [391]
   d. Behavior of firms and markets in the short run and in the long run [396-397]
   e. Equilibrium relationships: price [379], marginal revenue [382], average revenue [382], marginal cost [391], average cost [391], and profits [381]
   f. Efficiency [399, 401] and perfect competition [379]; adjustment process to long-run equilibrium [395-396]
3. Monopolistic competition [412, 432]
   a. Product differentiation and role of advertising (marketing and brand management) [425-427]
   b. Profit maximization [415]
   c. Behavior of firm in the short-run [415] and in the long-run equilibrium [417, 421]
   d. Excess capacity [423] and inefficiency [424]

4. Oligopoly [442, 464]
    a. Interdependence [442], collusion [446] and cartels [452]
    b. Game theory [445] and strategic behavior [445]; identification of dominant strategies [446]
5. Monopoly [474, 498]
    a. Sources of market power [487]
    b. Relationship between a monopolist's demand curve and marginal revenue curve [482]
    c. Profit maximization [483]
    d. How a monopoly's total revenue changes along its demand curve as price varies [482]
    e. Inefficiency of monopoly [486-487]; compare a monopolist's price, level of output, and profit with those of a firm operating in a perfectly competitive market [485]
    f. Concept of allocative efficiency [10]; why competitive markets achieve an efficient allocation of resources [485]
    g. Concept of deadweight loss [486]
    h. Price discrimination [510]
    i. Natural monopoly [479]

III. Factor Markets (10–18%)

A. Apply supply and demand to markets for factors of labor, capital, and land [536]
B. Derived factor demand (derived demand) [536]
C. How marginal product (of labor) [536] and marginal revenue product (of labor) [537] affect the demand for factors
    1. Role of factor prices in the allocation of scarce resources [536]
D. Labor market, labor supply, wage, firms' hiring of labor [539-545]
E. Effects of deviations from perfect competition: minimum wages [672, 692] , unions [556], monopsonies [562], product market monopolies [474]
F. Markets for land [561] and capital [560]: determination of economics rent [561] and the price of capital [560]
G. Market distribution of income [563]; sources of income inequality in a market economy [548-552]

IV. Market Failure and the Role of Government (12–18%)

A. Arguments for and against government intervention in an otherwise competitive market [147, 600]
B. Externalities [138]
    1. Marginal social benefit [139] and marginal social cost [138]; market failures [140]
    2. Positive externalities [138-140]
    3. Negative externalities [138-140]
    4. Remedies (effectiveness of government policies to control market failures and achieve economic efficiency)
        a. subsidies [150], taxes [150, 604-605], quality controls [150], public provision of goods and services [153]
C. Public goods [153]
    1. Public versus private goods [152-153]
    2. Provision of public goods [155-158]
D. Public policy to promote competition (when monopolies cause market failures by using their market power to engage in behavior that restrains competition) [488 - 494]
    1. Antitrust policy [489]
    2. Regulations [494]
E. Income distribution [615-618]
    1. Equity (judging the equity of an economy's income distribution) [11, 615]
        a. using key measures such as the Lorenz curve [618] and the Gini coefficient [619]
    2. Sources of income inequality [617-618]
F. Impact of government tax policies and transfer programs both on the distribution of income and on economic efficiency [621-623].