

Review sheet.

The first midterm will be held on Wednesday, March 2 during the class. It will take 50 minutes and have 3 problems. The best way to prepare for the exam is to go over lecture notes, problem sets 1-3, and practice problem set 1. Please look at the list of topics from **Microeconomics, Katz and Rosen** that we covered in the first part of the class:

Chapter 2. Consumer Choice.

Part 2.2 Tastes pp. 23-32

- Assumptions
- Indifference curves (Figures 2.4 and 2.5)
- Marginal rate of substitution (Figure 2.6)
- Deriving an indifference map (Figures 2.7-2.10)
- Perfect Substitutes (Figure 2.11)
- Perfect Complements (Figure 2.12)

Part 2.3 Budget Constraint pp 37-40.

- Budget constraint
- Feasible set (Figure 2.15)
- Changes in prices and income (Figures 2.16-2.18)
- Normal and inferior goods

Part 2.4 The consumer equilibrium pp 43-50.

- Interior solution (Figures 2.21-2.23)
- Corner Solution (Figure 2.24)
- Conditions of the optimality for the interior and corner solutions

Chapter 3 Comparative Statics and Demand.

Part 3.1 Price and income changes pp 56-63, 67-68.

- Own price change (Figure 3.1)
- Derivation of the individual's demand curve (Figure 3.3)
- Cross-price change (Figures 3.4 and 3.5)
- Substitutes
- Complements
- Income changes (Figures 3.8 and 3.9)
- Market demand (Figure 3.13)

Part 3.3 Elasticity pp 73-85.

- Price elasticity of demand. Inelastic, unit elastic, and elastic demand
- Price elasticity and total expenditures (Table 3.2)
- Determinants of the price elasticity of demand
- Price elasticity for some special cases (Figures 3.20-3.23)
- Cross-price elasticity of demand
- Income elasticity of demand

Chapter 4. Price Changes and Consumer Welfare.

Part 4.1 Income and substitution effects pp. 94-101.

- Income effect
- Substitution effect
- Graphical representation for normal, inferior and Giffen goods (Figures 4.1-4.4, Table 4.1)
- Slutsky equation

Part 4.2 Compensating and equivalent variations pp101-103.

- Compensating variation (Figure 4.2)
- Equivalent variation (Figure 4.5)

Part 4.4 Consumer surplus pp. 108-115.

- Demand as a marginal valuation schedule (Figures 4.8 and 4.9)
- Prices and consumer surplus (Figures 4.10-4.12)
- Analysis of a trade quota (Figure 4.13)

Chapter 6 Choice under Uncertainty.

Part 6.1 Gambles and contingent commodities pp. 159-172

- State of the world
- Contingent Commodities
- Budget constraint (Figures 6.1-6.3)
- Probability and expected value
- Fair odds line
- Preferences for a risk averse individual (Figure 6.6)
- Equilibrium (Figures 6.9 and 6.10)

Part 6.2 Some applications of contingent commodities pp 173-176

- Risk premium (Figure 6.12)
- Diversification