**Instructional Objectives**

**MICROECONOMICS**

**McConnell, 19e**

**Chapter 1 Limits, Alternatives, and Choices**

After completing this chapter, students should be able to:

1. Define economics.
2. Describe the “economic way of thinking,” including definitions of purposeful behavior, utility, opportunity costs, marginal costs, marginal benefits and how these concepts may be used in decision-making.
3. Explain how economists use the scientific method to formulate economic principles.
4. Explain the importance of *ceteris paribus* in formulating economic principles.
5. Explain the steps used by policy makers.
6. Differentiate between micro- and macroeconomics.
7. Differentiate between positive and normative economics.
8. Explain the economizing problem from the individual’s perspective
9. Construct and explain a budget line.
10. Describe the economizing problem facing society.
11. Identify types of economic resources and types of income associated with various factors.
12. Construct a production possibilities curve when given appropriate data.
13. Illustrate economic growth, unemployment and underemployment of resources, and increasing costs using a production possibilities curve.
14. Give some real-world applications of the production possibilities concept.
15. Summarize the general relationship between investment and economic growth.
16. Explain and give examples of the fallacy of composition, post hoc fallacy, and other logical pitfalls. (Last Word)
17. Explain and illustrate a direct relationship between two variables, and define and identify a positive sloping curve. (Appendix)
18. Explain and illustrate an inverse relationship between two variables, and define and identify a negative slope. (Appendix)
19. Identify independent and dependent variables. (Appendix)
20. Define and identify terms and concepts listed at end of chapter and appendix.

**Chapter 2 The Market System and the Circular Flow**

After completing this chapter, students should be able to:

1. Highlight the main features of a market economy and a command economy.
2. List and explain the important characteristics of the American market system.
3. State the Five Fundamental Questions faced by any economic system.
4. Describe how the market system answers each of these five fundamental questions.
5. Explain how the consumer influences the “What goods and services will be produced?” question.
6. Explain how a market system achieves economic efficiency.
7. Explain how markets answer the “Who will get the output?” question.
8. Describe how prices drive the movement of resources in a market system.
9. Describe how the market system promotes technological improvements and capital accumulation.
10. Explain the role of self-interest and “invisible hand” in promoting economic efficiency.
11. Explain why the command systems of the Soviet Union, Eastern Europe, and China failed.
12. Identify the decision makers and the markets in a market system using the circular flow diagram.
13. Identify the two roles each that households and businesses play using the circular flow diagram.
14. Differentiate between product and resource markets.
15. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 3 Demand, Supply, and Market Equilibrium**

After completing this chapter, students should be able to:

1. Explain who and what demand and supply represent.

2. Differentiate between demand and quantity demanded; and supply and quantity supplied.

3. Graph demand and supply curves when given demand and supply schedules.

4. State the Law of Demand and the Law of Supply, and explain why price and quantity demanded are inversely related, and why price and quantity supplied are directly related.

5. List the major determinants of demand, and explain how a change in each will affect the demand curve.

6. List the major determinants of supply, and explain how a change in each will affect the supply curve.

7. Explain the concept of equilibrium price and quantity.

8. Illustrate graphically equilibrium price and quantity.

9. Explain the rationing function of prices.

10. Define productive and allocative efficiency, and explain how competitive markets achieve them.

11. Explain and graph the effects of changes in demand and supply on equilibrium price and quantity, including simultaneous changes in demand and supply.

12. Define price ceilings and price floors, and provide examples.

13. Graph and explain the consequences of government-set prices.

14. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 4 Elasticity**

After completing this chapter, students should be able to:

1. Define demand and supply and state the laws of demand and supply (review from Chapter 3).
2. Determine equilibrium price and quantity from supply and demand graphs and schedules (from Chapter 3).
3. Define price elasticity of demand and compute the coefficient of elasticity given appropriate data on prices and quantities.
4. Explain the meaning of elastic, inelastic, and unitary price elasticity of demand.
5. Recognize graphs of perfectly elastic and perfectly inelastic demand.
6. Use the total‑revenue test to determine whether elasticity of demand is elastic, inelastic, or unitary.
7. List four major determinants of price elasticity of demand.
8. Explain how a change in each of the determinants of price elasticity would affect the elasticity coefficient.
9. Define price elasticity of supply and explain how the producer’s ability to shift resources to alternative uses and time affect price elasticity of supply.
10. Explain cross elasticity of demand and how it is used to determine substitute or complementary products.
11. Define income elasticity and its relationship to normal and inferior goods.
12. Define and identify the terms and concepts listed at the end of the chapter.

**Chapter 5 Market Failures: Public Goods and Externalities**

After completing this chapter, students should be able to:

1. Distinguish between demand-side and supply-side market failures and the kinds of externalities that are created by each.
2. Define, measure, and graphically identify consumer surplus.
3. Define, measure, and graphically identify producer surplus.
4. Identify and explain efficiency (or deadweight loss) using consumer and producer surplus.
5. Explain how equilibrium achieves both productive and allocative efficiency.
6. Identify the characteristics of public goods and explain how they differ from private goods.
7. Describe graphically the collective demand curve for a particular public good and explain this curve.
8. Explain why the supply curve for public goods is upward sloping and explain how the optimal quantity of a public good is determined.
9. Identify the purpose of cost-benefit analysis and explain the major difficulty in applying this analysis.
10. Explain what is meant by externalities.
11. Describe graphically and verbally how an over allocation of resources results when negative externalities costs are present and how this can be corrected by government action.
12. Describe graphically and verbally how an under allocation of resources occurs when positive externalities are present and how this can be corrected by government action.
13. Describe government policies that would reduce negative externalities.
14. Analyze government’s role in the economy and government’s inefficiencies.
15. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 6 Consumer Behavior**

After completing this chapter, students should be able to:

1. Define marginal utility and state the law of diminishing marginal utility.
2. Explain and graph the relationship between marginal utility and total utility.
3. List four assumptions made in the theory of consumer behavior.
4. State the utility‑maximizing rule.
5. Use the utility‑maximizing rule to determine a consumer’s spending (and demand curve) when given income, utility, and price data.
6. Use the theory of consumer behavior to define the market shift from portable CD players to iPods since their introduction in 2001.
7. Explain the diamond-water paradox.
8. Explain how the value of time fits in the theory of consumer behavior and give two examples of implications that result.
9. Describe how the theory of consumer behavior helps us understand different values placed on time.
10. Explain why a cash gift will give the receiver more utility than a noncash gift costing the same amount.
11. Describe how prospect theory explains consumer decision making with negative possibilities.
12. Relate the idea of status quo to prospect theory and give examples of the role of a change in status quo to consumers’ choices.
13. Explain how consumers account for diminishing marginal disutility and what it means for people to be loss averse.
14. Define and identify terms and concepts listed at the end of the chapter.
15. After completing the appendix, students should be able to:
16. Define a budget constraint line and explain shifts in a budget constraint line.

b. Explain three characteristics of indifference curves.

1. Identify a consumer’s equilibrium position, given a set of indifference curves and a budget constraint line.
2. Use indifference curve analysis to derive an individual’s demand curve for a product by showing consumption responses to a change in the price of the product.
3. Define and identify terms and concepts listed at the end of the appendix

**Chapter 7 Businesses and the Costs of Production**

After completing this chapter, students should be able to:

1. Distinguish between explicit and implicit costs, and between normal and economic profits.
2. Explain why normal profit is an economic cost, but economic profit is not.
3. Explain the law of diminishing returns.
4. Differentiate between the short run and the long run.
5. Compute marginal and average product when given total product data.
6. Explain the relationship between total, marginal, and average product.
7. Distinguish between fixed, variable and total costs.
8. Explain the difference between average and marginal costs.
9. Compute and graph AFC, AVC, ATC, and marginal cost when given total cost data.
10. Explain how AVC, ATC, and marginal cost relate to one another.
11. Relate average product to average variable cost, and marginal product to marginal cost.
12. Explain what can cause cost curves to rise or fall.
13. Explain the difference between short‑run and long‑run costs.
14. State why the long‑run average cost is expected to be U‑shaped.
15. List causes of economies and diseconomies of scale.
16. Indicate relationship between economies of scale and number of firms in an industry.
17. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 8 Pure Competition in the Short Run**

After completing this chapter, students should be able to:

1. List the four basic market models and characteristics of each.
2. Describe characteristics of a purely competitive firm and industry.
3. Explain how a purely competitive firm views demand for its product and marginal revenue from each additional unit sale.
4. Compute average, total, and marginal revenue when given a demand schedule for a purely competitive firm.
5. Use both total-revenue—total-cost and marginal-revenue—marginal-cost approaches to determine short‑run price and output that maximizes profits (or minimizes losses) for a competitive firm.
6. Find the short‑run supply curve when given short‑run cost schedules for a competitive firm.
7. Explain how to construct an industry short‑run supply curve from information on single competitive firms in the industry.
8. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 9** **Pure Competition in the Long Run**

After completing this chapter, students should be able to:

1. Distinguish between the short run and the long run in pure competition.
2. Explain the long run equilibrium position for a competitive firm using entry and exit of firms to explain adjustments from nonequilibrium positions.
3. Describe the role of profits and losses in achieving the long run equilibrium.
4. Explain the shape of long‑run industry supply curves in constant‑cost and increasing‑cost industries.
5. Differentiate between productive and allocative efficiency.
6. Explain why allocative efficiency and productive efficiency are achieved where P = minimum ATC = MC.
7. Explain why allocative efficiency and productive efficiency are consistent with maximizing consumer and producer surplus and an efficient use of resources.
8. Evaluate the impact of creative destruction on purely competitive industries.
9. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 10 Pure Monopoly**

After completing this chapter, students should be able to:

1. List the five characteristics of pure monopoly.
2. Explain the difference between a “pure” monopoly and a “near” monopoly.
3. List and give examples of the four barriers to entry.
4. Describe the demand curve facing a pure monopoly and how it differs from that facing a firm in a purely competitive market.
5. Compute marginal revenue when given a monopoly demand schedule.
6. Explain why the marginal revenue is equal to the price in pure competition but not in monopoly.
7. Determine the price and output level the monopoly will choose given demand and cost information in both table and graphic form.
8. Discuss the economic effects of pure monopoly on price, quantity of product produced, allocation of resources, distribution of income, and technological progress.
9. Give examples of how new technology has lessened monopoly power.
10. List three conditions necessary for price discrimination.
11. Explain why profits and output will be higher for a discriminating monopoly as compared to non-discriminating monopoly.
12. Identify two pricing strategies of monopoly regulation and explain the dilemma the regulators face in utilizing these strategies.
13. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 11 Monopolistic competition and Oligopoly**

After completing this chapter, students should be able to:

1. List the characteristics of monopolistic competition.
2. Explain how product differentiation occurs in similar products.
3. Determine the profit‑maximizing price and output level for a monopolistic competitor in the short run when given cost and demand data.
4. Explain why a monopolistic competitor will realize only normal profit in the long run.
5. Identify the reasons for excess capacity in monopolistic competition.
6. Explain how product differentiation may offset these inefficiencies.
7. Describe the characteristics of an oligopolistic industry.
8. Differentiate between homogeneous and differentiated oligopolies.
9. Identify and explain the most important causes of oligopoly.
10. Describe and compare the concentration ratio and the Herfindahl index as ways to measure market dominance in an industry.
11. Use a profit-payoffs matrix (game theory) to explain the mutual interdependence of two rival firms and why oligopolists might tempt to cheat on a collusive agreement.
12. Identify three possible models of oligopolistic price-output behavior.
13. Use the kinked demand curve theory to explain why prices tend to be inflexible.
14. Explain the major advantages of collusion for oligopolistic producers.
15. List the obstacles to collusion behavior.
16. Explain price leadership as a form of tacit collusion.
17. Explain why oligopolies may prefer nonprice competition over price competition.
18. List the positive and negative effects of advertising.
19. Explain why some economists assert that oligopoly is less desirable than pure monopoly.
20. Explain the three ways that the power of oligopolists may be diminished.
21. Define and explain the terms and concepts listed at the end of the chapter.

**Chapter 12 The Demand for Resources**

After completing this chapter, students should be able to:

1. Present four major reasons for studying resource pricing.
2. Explain the concept of derived demand as it applies to resource demand.
3. Determine the marginal-revenue-product schedule for an input when given appropriate data.
4. State the principle employed by a profit‑maximizing firm in determining how much of a resource it will employ.
5. Apply the MRP = MRC principle to find the quantity of a resource a firm will employ when given the necessary data.
6. Explain why the MRP schedule of a resource is the firm’s demand schedule for the resource in a purely competitive product market.
7. Explain why the resource demand curve is downward sloping when a firm is selling output in a purely competitive product market; an imperfectly competitive product market.
8. List the three determinants of demand for a resource and explain how a change in each of the determinants would affect the demand for the resource.
9. Explain what demand factors have influenced the growth and decline of the occupations listed in Tables 12.5 and 12.6.
10. List three determinants of the price‑elasticity of demand for a resource, and state how changes in each would affect the elasticity of demand for a resource.
11. State the rule for determining the least‑cost combination of resources.
12. Find the least‑cost combination of resources when given appropriate data.
13. State the rule used by a profit‑maximizing firm to determine how much of each of several resources to employ.
14. When given necessary data, find the quantities of two or more resources a profit‑maximizing firm will hire.
15. Explain the marginal productivity theory of income distribution and present two criticisms of it.
16. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 13 Wage Determination**

After completing this chapter, students should be able to:

1. Differentiate between nominal and real wages.
2. List those factors that have led to an increasing level of real wages in the U.S. historically.
3. Determine the equilibrium wage rate and employment level when given appropriate data for a firm operating in a purely competitive product and labor market; a firm operating in a monopolistically competitive product market and a purely competitive labor market; and a firm operating in a purely competitive product market and a monopsonistic labor market.
4. Illustrate graphically how wage rates are determined in purely competitive and monopsonistic labor markets.
5. List the methods used by labor organizations to increase wages and the impact each has on employment. Give specific examples.
6. Illustrate graphically how an inclusive (industrial) union and an exclusive (craft) union would affect wages and employment in a previously competitive labor market.
7. Explain and illustrate graphically wage determination in the bilateral monopoly model.
8. Present the major points in the cases for and against the minimum wage.
9. Explain the demand factors that create wage differentials.
10. Explain the supply factors that create wage differentials.
11. Describe briefly salary systems in which pay is linked to performance rather than to time.
12. Describe the negative side effects of poorly planned incentive pay plans.
13. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 14 Rent, Interest, and Profit**

After completing this chapter, students should be able to:

1. Explain what determines economic rent.
2. Explain what determines rent differentials.
3. Describe why economic rent is a surplus payment.
4. Distinguish between nationalized land and private ownership of land and how each affects allocative efficiency.
5. Explain the single-tax theory and its criticisms.
6. Explain how rent functions as a cost to the individual firm.
7. Analyze how the interest rate is determined using the loanable funds theory of interest.
8. Explain how business firms make investment decisions.
9. State four factors that may cause interest rates to differ.
10. Analyze the idea of the time-value of money and how that relates to compound interest, present value, and future value.
11. Describe the role of interest in the economy.
12. Distinguish between nominal and real interest rates.
13. Distinguish between economic, normal, and accounting profits.
14. Analyze the relationship between entrepreneurs, profits, and risk.
15. State four sources of uninsurable risk.
16. List three sources of economic profits.
17. Describe the general function of profits.
18. Summarize the current relative shares of national income.
19. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 15 Natural Resources and Energy Economics**

After completing this chapter, students should be able to:

1. Summarize Malthus’ population theory
2. Use data and the relationship between fertility rates and replacement rates to help explain why global population is likely to peak and then decline.
3. Explain what commodity prices tell us about the availability of resources.
4. Describe patterns of U.S. consumption of energy and water use, and trash generation.
5. Explain why it may be more economically efficient to use multiple energy sources rather than to specialize in a single source.
6. Explain why running out of oil does not mean running out of energy.
7. Demonstrate how a change in oil prices can make alternative fuels economically viable.
8. Describe the differences between renewable and non-renewable resources.
9. Explain how present values are used to determine the optimal rate of natural resource extraction.
10. Demonstrate how a company should decide how much of a non-renewable natural resource a company should extract now versus extracting in the future.
11. Explain how market failures can result in inefficient rates of resource extraction.
12. Describe the experiences of the forestry and fisheries industries, and explain how property rights have affected the two industries differently.
13. Explain how clearly defining and protecting property rights encourages conservation of natural resources.
14. Describe and evaluating policies used to discourage overfishing.
15. Explain why economic growth is not necessarily bad for the environment.
16. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 16 Public Finance: Expenditures and Taxes**

After completing this chapter, students should be able to:

1. Understand the circular flow model with the addition of the government sector.
2. Differentiate between government purchases and transfer payments and the relative and absolute importance of each over time.
3. Identify the major categories of federal spending and the major sources of federal revenue.
4. Differentiate between marginal and average tax rates.
5. Identify the major categories of spending for state and local governments and the major sources of revenue for each.
6. Describe employment in government jobs.
7. Differentiate between the benefits-received and ability-to-pay principles of taxation.
8. Identify which taxes are progressive, proportional, and regressive.
9. Describe how elasticities of demand and supply are related to the incidence of a sales or excise tax.
10. Explain the relationship between the elasticities of demand and supply and the efficiency loss of a particular tax.
11. Describe the probable incidence of the personal income tax, corporate income tax, sales and excise taxes, and property tax.
12. Explain the U.S. structure relative to the progressivity or regressivity of Federal, state, and local taxes.
13. Define and identify the terms and concepts listed at end of the chapter.

**Chapter 17 Asymmetric Information, Voting, and Public Choice**

After completing this chapter, students should be able to:

1. Give two examples of how inadequate information about sellers can create a market failure.
2. Explain the moral hazard and adverse selection problems faced by sellers.
3. Explain the problems created with majority voting and the median-voter outcome.
4. State four reasons given by public choice theorists for government’s inefficiency in providing public goods and services.
5. Explain why representative democracy suffers from the principal-agent problem.
6. Define and identify the terms and concepts listed at end of the chapter.

**Chapter 18 Antitrust Policy and Regulation**

After completing this chapter, students should be able to:

1. Outline the major provisions of each of the following: Sherman Act, Clayton Act, Federal Trade Commission Act, Wheeler-Lea Act, and Cellar-Kefauver Act.
2. Identify major issues in antitrust enforcement by reviewing decisions in Standard Oil, U.S. Steel, Alcoa, and DuPont cellophane Supreme Court cases.
3. Identify the different perspectives on antitrust enforcement and how that affects the strictness with which antitrust laws are enforced.
4. Analyze effectiveness of antitrust laws by noting how they have been applied to monopolies, mergers, and price fixing.
5. Distinguish between three types of mergers.
6. Explain how the Herfindahl index is used as a guideline by the government in deciding whether to permit horizontal mergers.
7. Define *price fixing,* *price discrimination,* and *tying contracts*, and explain which are strictly prohibited, which are permitted, and why.
8. Identify the options that government might use when a natural monopoly exists.
9. Explain why a regulated monopoly does not have an incentive to reduce costs.
10. Explain two major problems encountered in regulating natural monopolies.
11. Discuss the history and results of deregulation in the U.S. since 1970.
12. Explain the difference between *industrial regulation* and *social regulation*.
13. State the major arguments for and against social regulation.
14. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 19 Agriculture: Economics and Policy**

After completing this chapter, students should be able to:

1. Describe both the long‑run and short‑run farm problems.
2. State three causes of short‑run price and income instability in agriculture.
3. State two causes of the long‑run decline in the agriculture industry.
4. Explain the rationale for the past government farm policies.
5. Define and explain the significance of parity.
6. Explain price supports verbally and graphically.
7. State seven effects of price supports.
8. Describe two government policies used to limit surpluses.
9. Present three criticisms of the price-support system.
10. Use public choice theory to explain the contradictions in U.S. farm policy.
11. Explain how the politics of the farm-subsidy program have changed.
12. Describe the world trade impact of current farm programs in the European Union and the U.S.
13. Explain the features of the Food, Conservation, and Energy Act of 2008.
14. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 20 Income Inequality, Poverty, and Discrimination**

After completing this chapter, students should be able to:

1. Describe the distribution of income in the United States by personal income categories by households and quintile distribution by households.
2. Explain how a Lorenz curve is used to describe income inequality.
3. Explain how a Gini ratio measures income inequality and is related to the Lorenz curve.
4. Discuss the impact of income mobility on income distribution data.
5. Explain the broadened concept of income, which includes the effects of taxes and transfer payments, and how this affects the extent of inequality of income and poverty in the U.S.
6. List seven causes of an unequal income distribution.
7. Describe changes and causes for the changes in inequality since 1970.
8. State and evaluate the cases for and against income inequality, using the equality vs. efficiency argument.
9. Define poverty as the Federal government does.
10. Identify the rate of poverty in the U.S., and the incidence of poverty for various demographic groups, including African-Americans, Hispanics, and female-headed households; identify some of the reasons for the poverty of each group.
11. Identify the measurement issues that can make interpretation of poverty data difficult.
12. Contrast social insurance and public assistance (welfare) programs.
13. Describe the major social insurance programs.
14. Describe and evaluate the major public assistance (welfare) programs.
15. Explain the differences between social insurance programs and public assistance programs.
16. Describe and evaluate the goals and conflicts inherent in public assistant programs.
17. Explain the criticisms of the old welfare system.
18. Describe the major provisions of the Personal Responsibility Act of 1996.
19. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 21 Health Care**

After completing this chapter, students should be able to:

1. Describe what is meant by the health care industry and approximate its size with relevant data.
2. Identify the problem connected with rising health care costs.
3. Give the negative effects associated with rising health care costs.
4. Identify two consequences associated with employer provided health insurance in the U.S.
5. Explain what is meant by the overallocation of resources to the health care industry.
6. Describe the extent of the problem regarding a lack of health insurance coverage.
7. Identify four special characteristics of the health care market.
8. Give four factors that have contributed to the rise in the demand for health care.
9. Explain the role of physicians in increasing the demand for health care.
10. Explain the “moral hazard” problem arising from health insurance coverage.
11. Explain how the Federal income tax structure subsidizes health care demand.
12. Identify three supply factors that contribute to rising health care costs.
13. Describe how rationing health care services can reduce costs.
14. Explain how deductibles and copayments, health savings accounts (HSAs), managed care, Medicare and DRG, and limits on malpractice awards can decrease incentives to overconsume health care thereby reducing costs.
15. Present arguments for and against the PPACA.
16. Explain the major provisions of the Patient Protection and Affordable Care Act.
17. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 22 Immigration**

After completing this chapter, students should be able to:

1. Understand the historical pattern of legal and illegal immigration the United States.
2. Understand what motivates an individual to migrate.
3. List the factors influencing the decision to migrate.
4. Understand the potential impact immigration can have on wage rates, efficiency, and output.
5. Understand how immigration can affect income shares.
6. Identify potential complications with the traditional model of immigration: Remittances, Full-Employment or Unemployment, and Complements and Substitutes.
7. Understand the effect immigration to the United States has on Federal, State, and Local governments’ fiscal position.
8. Understand the illegal immigration debate in the context of job “crowding-out.”
9. Explain the potential price effects that illegal immigration can have on an economy.
10. Understand the concept of ‘optimal’ immigration.

**Chapter 23 International Trade**

After completing this chapter, students should be able to:

1. Summarize the importance of international trade to the U.S. in terms of overall volume.
2. List the major imports and exports of the United States.
3. State two economic points that explain why nations trade.
4. Compute, when given appropriate data, the relative costs of producing two commodities in two countries and determine which nation has the comparative advantage in each good.
5. Compute, when given appropriate data, the range for the terms of trade.
6. Calculate the potential gains from trade and specialization for each nation and the world when given appropriate data.
7. State the economist’s case for free trade.
8. Explain the relationship between world prices and American export supply curve, and the relationship between world prices and American import demand curve.
9. Explain international equilibrium price and quantity using a two-nation market model for import demand and export supply.
10. Identify four types of trade barriers.
11. Describe the economic impact of tariffs, including both direct and indirect effects.
12. Contrast the economic impact of a quota with that of a tariff.
13. List seven arguments in favor of protectionist barriers, and critically evaluate each.
14. Identify the costs of protectionist policies and their effects on income distribution.
15. Describe the major provisions of the WTO, and explain why some protest against the WTO.
16. Explain how trade adjustment assistance is used to mitigate harmful effects of world trade.
17. Define and identify terms and concepts listed at the end of the chapter.

**Chapter 24 The Balance of Payments, Exchange Rates, and Trade Deficits**

After completing this chapter, students should be able to:

1. Explain and identify the various components of the balance of payments.
2. Identify trade and balance of payments deficits or surpluses when given appropriate data.
3. Explain how a nation finances a “deficit” and what it does with a “surplus.”
4. Explain how exchange rates are determined in a flexible system.
5. Explain how U.S. exports create a demand for dollars and a supply of foreign exchange; and how U.S. imports create a demand for foreign exchange and a supply of dollars.
6. Explain how flexible exchange rates eliminate balance of payments disequilibria.
7. List five determinants of exchange rates.
8. List three disadvantages of flexible exchange rates.
9. List four ways a nation could control exchange rates under a fixed‑rate system.
10. Describe the causes and two effects of a trade deficit.
11. Define and identify terms and concepts listed at the end of the chapter.
12. (Content Option for Instructors 2) Describe a system based on the gold standard, the Bretton Woods system, and a managed float exchange rate system.