AP Microeconomics Cheat Sheet

Practice AP Microeconomics

Unit 1: Basic Economic Concepts

- **Scarce resources:** Limited supply vs. unlimited demand.
- **Factors of production:** Land, labor, capital, and entrepreneurship.
- **Opportunity cost (OC):** The value of the next best alternative.
- **Efficiency:** Producing maximum goods with minimal resources.
- **Economic systems:** Free market vs. command economy.
- **Comparative advantage:** Producing a good at a lower OC than others.
- **Absolute advantage:** Producing more of a good using the same resources.
- **Law of diminishing returns:** More resources lead to diminishing utility over time.

Additional Notes:

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Unit 2: Supply & Demand

- **Law of demand:** As price increases, quantity demanded decreases.
- **Law of supply:** As price increases, quantity supplied increases.
- **Market equilibrium:** Quantity demanded equals quantity supplied (Qd = Qs).
- **Price elasticity of demand (PED) and price elasticity of supply (PES):** Measure sensitivity to price changes.
- **Income elasticity of demand (IED) and cross-price elasticity of demand (XED):** Identifies normal/inferior goods and complements/substitutes.
- **Price floor and ceiling:** Government-imposed limits on price.
- **Consumer/producer surplus:** Difference between willingness to pay/accept and the actual price.

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Unit 3: Production, Cost, & the Perfect Competition Model

- **Total cost (TC):** Combination of fixed and variable costs.
- **Short-run and long-run costs:** Difference in how firms handle inputs.
- **Economic profit:** Total revenue minus explicit and implicit costs.
- **Perfect competition:** Firms are price takers with low barriers to entry.
- **Allocative and productive efficiency in perfect competition:** Allocative in the short-run; both in the long-run.

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Unit 4: Imperfect Competition

- **Monopolies:** Single sellers with prohibitive barriers to entry.
- **Deadweight loss (DWL):** Result of monopolies producing less output at higher prices.
- **Price discrimination:** Charging consumers the maximum they are willing to pay.
- **Monopolistic competition:** Firms with product differentiation.
- **Oligopoly:** Market with few interdependent sellers.
- **Game theory:** Nash equilibrium and dominant strategies.

Additional Notes:

Unit 5: Factor Market

- **Factor markets:** Labor is the product, demand comes from firms, and supply comes from individuals.
- **Perfect competition in factor markets:** Firms are wage takers.
- **Monopsony:** Single employer with power over wages and hiring.
- **Unions:** Advocate for better wages and labor conditions.

Additional Notes:

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Unit 6: Market Failure & the Role of Government

- **Externalities:** Costs or benefits experienced by a third party; positive externalities lead to underallocation, negative externalities to overallocation.
- **Public goods:** Non-excludable and non-rival goods benefiting multiple people.
- **Market failure:** Occurs due to imperfect competition, externalities, or information failures.
- **Lorenz curve and Gini coefficient:** Measure income inequality.

Additional Notes: