Microeconomics (ECON 101) Elasticity, Tax Incidence, and Deadweight Lo

University of Michigan | ECON 101 - Microeconomics | Exam Review

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Overview

A finals-week review that helps ECON 101 students solve elasticity and tax questions fast: set up supply and demand shifts, compute incidence, and explain deadweight loss clearly. This note helps students review price elasticity of demand vs supply and determinants, point vs midpoint (arc) elasticity, total revenue test and elastic/inelastic regions with clear examples and study prompts.

Key topics

- price elasticity of demand vs supply and determinants
- point vs midpoint (arc) elasticity
- total revenue test and elastic/inelastic regions
- tax incidence with elasticities and wedges
- deadweight loss and efficiency without algebra overload

How to use it

- compute elasticity using midpoint method on 6 scenarios
- use the total revenue test to predict revenue changes for 8 price changes
- solve 4 tax incidence questions with labeled graphs
- write a 3-sentence deadweight loss explanation for a tax and a price floor
- do a 12-minute mixed drill (graphs and computations)

Common mistakes

- using the point formula when the question expects midpoint
- confusing movement along a curve with a shift
- forgetting to use absolute value for elasticity
- mixing up who pays the tax with who remits it
- drawing the tax wedge on the wrong side of the market