Review Sheet #2

Chapter 6

1. What are the four characteristics of perfectly competitive markets? What does it mean when we say the firms in a market are price takers?
2. Be able to define the terms short run and long run. Will the short run be the same length of time for a firm in the dry cleaning industry as for a firm in the steel industry? Explain your answer.
3. Be able to define and calculate the marginal product of labor.
4. Be able to explain the difference between implicit and explicit costs. What are some of the implicit and explicit costs of attending college?
5. Be able to define and calculate: total fixed costs, total variable costs, total costs, and marginal costs.
6. What is the formula describing the relationship between MPL and MC? If MPL is falling, what will happen to MC? Why?
7. Be able to define and calculate AFC, AVC, and ATC.
8. Three rules about drawing cost curves were listed in class. What were they? Be able to draw a graph with ATC, AFC, AVC, and MC.
9. How does the demand curve faced by the firm in a competitive market differ from the market demand curve? Why is the output for a firm in a competitive market represented by a horizontal line?
10. Given the market price and values for TC, be able to calculate MC, TR, and profit.
11. Be able to define the term marginal revenue. Why is MR equal to the price of a unit of output if the firm is a price taker?
12. What is the rule for choosing the profit-maximizing level of output? Be able to explain why a firm should produce more output if MC<MR, or produce less output if MC>MR.
13. Be able to show the following graphically: supply and demand for the market, and the demand, MR, MC, and ATC curves for an individual firm. Be able to identify the profit-maximizing level of output and the area representing the firms’ profits or losses.
14. What is the shutdown rule? Be able to explain it both in terms of TVC and AVC. What is the shutdown price?
15. How do we find the short run market supply curve from the supply curves of the individual firms?
16. How do changes in technology and changes in input prices alter the location of the MC curve?
17. How are the law of diminishing returns and the law of supply related?
18. Be able to define the term producer surplus and identify the area representing the producer surplus.

Chapter 7

1. Be able to define the term Pareto efficient.
2. Explain why the equilibrium quantity produced in a competitive market is efficient.
3. Define the term deadweight loss.
4. Be able to show how the imposition of a price ceiling, price floor, or tax change producer and consumer surplus.
5. When a tax is imposed on a good, is the deadweight loss larger or smaller when demand is inelastic?

Chapter 8

1. Be able to define the terms: implicit costs, explicit costs, accounting profits, economic profits, and normal profit. Be able to calculate the amount of account and economic profit earned by a firm.
2. What is the rationing function of price? The allocative function?
3. In the long run, how do profits sign where resources should be increased and how do they create incentives for firms to move resources to those industries?
4. Explain what will happen in the long if firms in an industry are earning economic profits?
5. What are barriers to entry?
6. What is economic rent? Give an example of someone earning economic rent.

Chapter 9

1. Be able to define the term economies of scale. In the long run, if there are economies of scale how does average cost change as more output is produced? How can this result in a natural monopoly?
2. Be able to define the terms patent, copyright, and government franchise.
3. How can control of a key input result in a market being monopolized?
4. What is a network externality, how can it lead to a smaller number of producers?
5. What are the characteristics of a pure monopoly?
6. Be able to define the term marginal revenue. Explain why MR is less than price if the firm is facing a downward-sloping demand curve.
7. Be able to show graphically the profit-maximizing level of output of a monopolist and the area representing the monopolist's profits (you will need to draw demand, MR, MC, and ATC).
8. In what way does a monopolist impose a welfare loss on society? Do the economic profits of the monopolist impose a welfare loss? Graphically, what area represents the deadweight loss created by a monopolist?
9. What is price discrimination? What requirements must be met for price discrimination to occur? Be able to give some examples of price discrimination.
10. What is perfect price discrimination?
11. How does price discrimination increase efficiency?
12. What is the hurdle method of price discrimination?
13. What is cost-plus regulation? Antitrust legislation?
14. What are the three characteristics of a market with monopolistic competition?
15. Is a firm in a market with monopolistic competition a price taker or a price setter?
16. Be able to show graphically the profit-maximizing price and level of output for a monopolistically competitive firm.
17. Will firms in a monopolistically competitive market earn profits in the long run? Be able to explain your answer.
18. What are the characteristics of an oligopoly?

Chapter 10

1. What is a dominant strategy? A Nash equilibrium? Be able to determine if a dominant strategy or Nash equilibrium exists?
2. Be able to describe the prisoner’s dilemma. How does the game change if the game is played repeatedly?
3. What is a cartel? How could the prisoner’s dilemma be used to model the behavior of the cartel?
4. What is the “tit-for-tat” strategy? Why is it important that the number of rounds remain unknown?
5. What is the “marriage game”?
6. Be able to define and discuss the importance of the terms: credible threat, credible promise, commitment problem, commitment device.