

EXAM #3: Chapters 14, 15, 16, and 17

All firms maximize profit by producing an output level where $MR=MC$.
Be able to identify this output level on a graph or a table.

PERFECT COMPETITION (Chapter 14)

Characteristics:

- Many firms
- Identical product
- Free entry/exit
- Firm is a price taker
- $P=MC$
- Positive, negative, or zero short-run profits
- Zero long-run profits

Be able to graph the demand curve for an individual firm and for the market.

Why does $P=MR$ for a firm operating in a perfectly competitive industry?

Firm maximizes profit by producing an output level where $P=MR=MC$.

Be able to graph TR, TC, and Profit for the three possible short-run outcomes:

- Firm makes positive profit.
- Firm makes negative profit.
- Firm makes zero profit.

Be able to explain what happens in the long run in each of these cases.

Be able to identify the supply curve for the firm ($P=MC$ where MC is above min AVC).

Be able to identify the break-even price ($P=MC=\min ATC$).

Be able to identify the shut-down price ($P=MC=\min AVC$).

Be able to explain the differences between accounting costs and economic costs.

Be able to explain the differences between accounting profit and economic profit.

Be able to graph and explain a constant cost industry and an increasing cost industry.

Be able to explain the shapes of the long-run supply curves for these industries.

MONOPOLY (Chapter 15)

Characteristics:

- One firm
- Product without close substitutes
- Barriers to entry/exit
- Firm is a price setter (price maker)
- $P>MC$
- Positive short-run profits
- Positive long-run profits

Monopolist maximizes profit by producing an output level where $MR=MC$.

Be able to identify on a graph and algebraically TR, TC, and Profit.

Be able to compare P^* , Q^* , and Profit between a monopoly and perfect competition (remember the graphs).

Be able to describe price discrimination.

Why are natural monopolies allowed by our government? What are the advantages?

For a natural monopoly, be able to identify the monopoly price, perfectly competitive price, and the regulated price.

Be able to identify sources of monopoly power.

Be able to identify the welfare cost of monopoly.

Be able to identify and calculate deadweight loss.

Be able to identify the four public policies toward monopolies.

Be able to define and calculate the CR4 and HHI.

MONOPOLISTIC COMPETITION (Chapter 16)

Characteristics:

Many firms

Differentiated product

Free entry/exit

Firm has some control over price

$P > MC$

Positive, negative, or zero short-run profits

Zero long-run profits

Be able to describe the short-run and long-run TR, TC, and profit situation (remember the graphs).

Read the section entitled “Advertising.”

OLIGOPOLY (Chapter 17)

Characteristics:

Few firms

Similar product

Barriers to entry/exit

Firm has more control over price

$P > MC$

Positive short-run profits

Positive long-run profits

Be able to define a duopoly, cartel, collusion, Nash equilibrium, prisoners’ dilemma, and dominant strategy.

Know how to apply the game theory methods to prisoners’ dilemma-type problems (like the advertising problem we did in class).

Read the section entitled “Public Policies Toward Oligopolies.”