Study guide

Literature, Russian Literature

STUDY GUIDE COSTS OF PRODUCTION: Total Physical Product (TP)- total output or quantity produced Marginal Product (MP)- the additional output generated by additional inputs (workers). Average Product (AP)- the output per unit of input. Stage 1: Increasing Marginal Returns Stage 2: Decreasing Marginal Returns Stage 3: Negative Marginal Returns TC- Total Costs: Sum of Fixed and Variable Costs VC- Variable Costs: Costs for variable resources that do change with the amount produced. FC- Fixed Costs: Costs for fixed resources that don't change with the amount produced. AFC AVC ATC MC MC = Change in Total Cost/Change in Quantity ATC = Total Costs/Quantity AVC= Variable Costs/Quantity AFC= Fixed Costs/Quantity Long-Run ATC: Economies Of Scale Constant Returns To Scale Diseconomies of Scale ATC II. PERFECT COMPETITION: Characteristics: Many Small Firms Identical Products (Perfect Substitutes) Easy for firms to enter and exit the industry Seller has no need to advertise Firms are price takers: the seller has no control over price Firm and Industry in Short-Run Making Profit: Firm and Industry in Short-Run Making Loss: MC AVC ATC MC AVC ATC Firm and Industry in Long-Run Equilibrium: ATC MC MR= D How Economic Profit and Loss disappear in the Long-Run: MR= D ATC MC TC = TR III. MONOPOLIES: Characteristics: Single Seller: One firm controls the market and the firm is the industry Unique good with no close substitutes “ Price Maker": The firm can manipulate the price by changing the quantity it produces. Demand and MR for imperfectly competitive firms (Elastic and Inelastic Range): Q TR D Q MR P Elastic Inelastic TR Monopoly making a profit (Graph- Label Profit, Consumer Surplus, and DWL) D S = MC MR CS PS Perfectly Price Discriminating Monopoly: D = MR MC ATC Regulating Monopolies: Fair

Return and Socially Optimal Fair-Return Price (Break-Even) P= ATC (Normal Profit) Socially Optimal Price P= MC (Allocative Efficiency) IV. MONOPOLISTIC COMPETITION Characteristics: Relatively Large Number of Sellers Differentiated Products Some control over price Easy Entry and Exit (Low Barriers) A lot of non-price competition (Advertising) Firm Making Short-Run Profit: D MR MC ATC P1 Firm Making Short-Run Loss: ATC D MR MC Q1 P1 Firm in Long-Run Equilibrium: D MR MC ATC QLR PLR V. OLIGOPOLIES Characteristics: A few large producers (less than 10) Identical or Differentiated Products High Barriers to Entry Control Over Price (Price Maker) Mutual Interdependence Firms use Strategic Pricing Firm 2 Firm 1 $100, $50 High Low High Low $50, $90 $80, $40 $20, $10 Game Theory Model (Matrix) D Pe Qe P2 Q2 P1 Q1 Kinked Demand Curve: ELASTIC INELASTIC Profit Maximization with Collusion: D MC ATC MR