

Test March 29

Chapters 7, 8, 10 + 11

Practice Test - Friday website

Answers to Chapter MC Qs. - website.
Friday

Area - Industrial Organization

Firms - internal organization

↳ cost function
 production function
 objectives

Markets - structure - number
 of firms

Oligopoly - few
 same product ↳
 Monopolistic many - Competition
 Competition ↳ price
 characteristics

Structure - # of firms

Conduct - { pricing
characteristics
location
length of warranty

Performance - profits ?

Chapter 13 Cost & Production

Chapter 15 - Monopoly

life cycle - idea: new product
- only 1 producer - Monopoly
If success → profits
- enter industry
copyists

Starbucks - coffee industry

Pet Rock - no industry

Monopoly \Rightarrow profits
 entry of imitators

"un-cola"

- patent } - 20 years
- trademark } forever
- copyright } erode?
- product similar but different
- conduct \rightarrow product differentiation
- η_{xy} - close substitutes?
- share the market
drive profits \downarrow

Production - recipe: inputs +
technology → output

Production function $Q = Q(K, L)$ K - capital
L - labor

K & L - used together

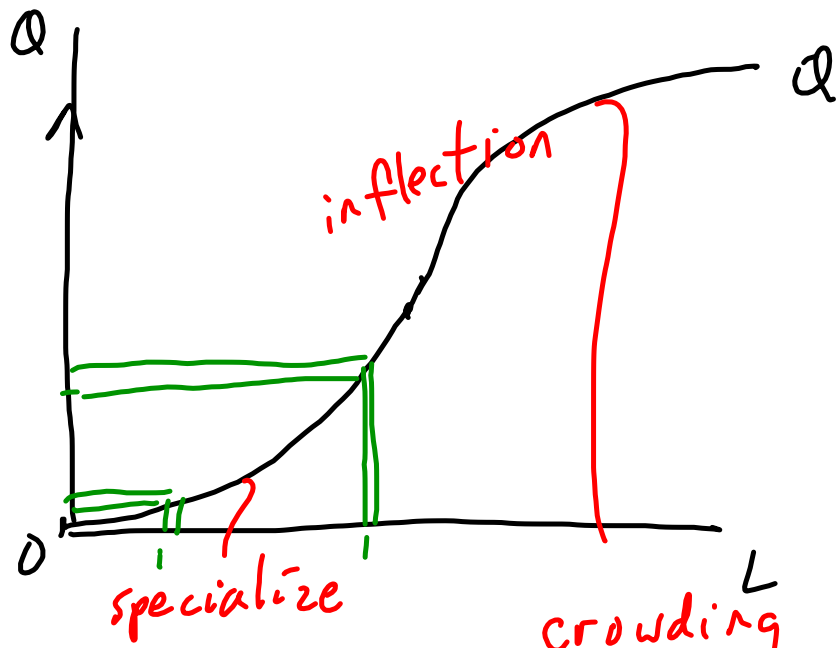
- substitutions $K \uparrow$ $L \downarrow$

relative prices of K, L

Short run - K fixed & L variable

Long run - K & L variable

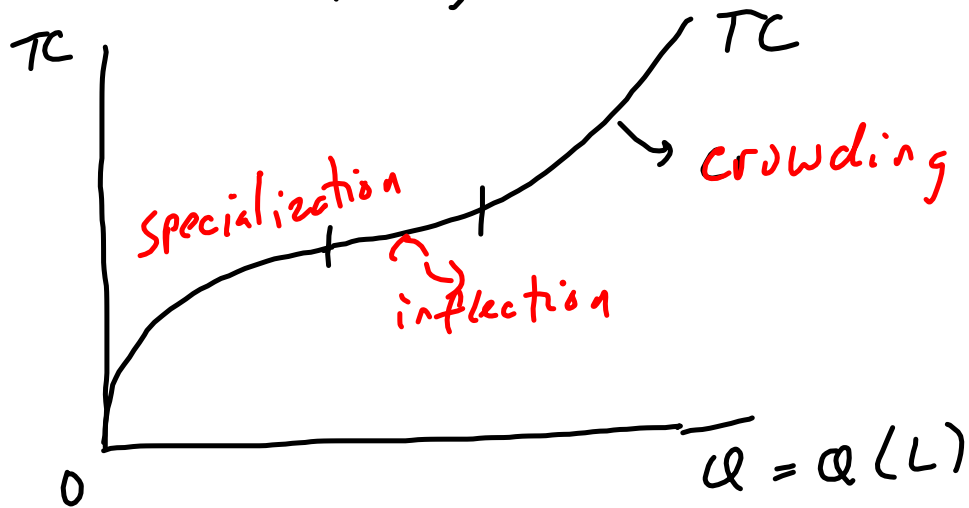
Short run $Q = Q(L) |_{K^*}$



crowding
Diminishing marginal
product

Production \rightarrow Cost - labor homogeneous
 - constant wage

$$\text{Cost} = f(L)$$



Economic Cost vs Accounting Cost

- explicit cost
+ implicit cost

- explicit cost
transfer of money

eg Start-up - Loan - interest
- use own cash
- forego interest

Accounting
ignore cost
opp cost

owner labor cost - opp wage

Q2 p 276

Fig 1 p 262

Total Cost - components

$$TC = FC + VC$$

Capital ↗ Labor ↘

Table 3

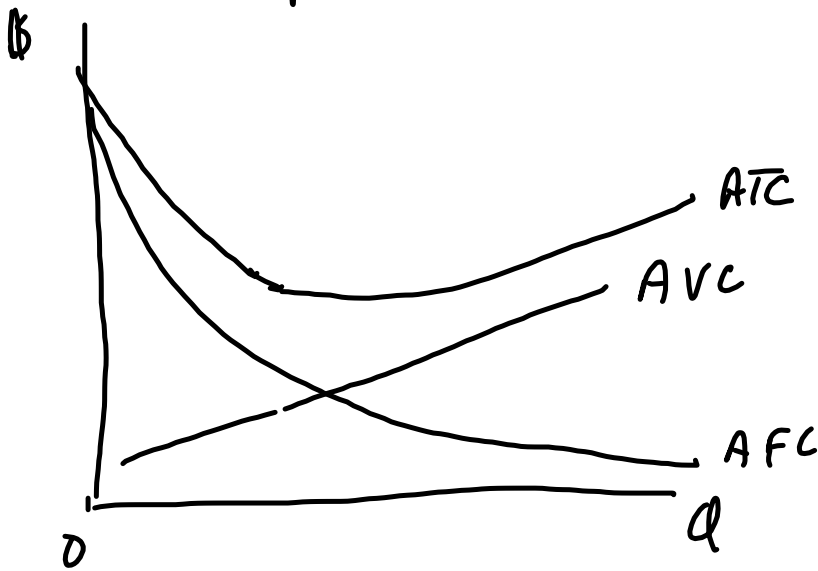


Fig 4 p 269.

- effect of ΔQ .

$$AFC = \frac{FC}{Q}$$

$$AVC = \frac{TVC}{Q}$$

$$ATC = \frac{TC}{Q}$$