

ECN 2010  
Winter 2018

Instructor: Julie Granthen

Section: 11257

Class Meets: M, W, & F 9:20 am – 10:27  
am

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Texts: Microeconomics, Campbell R. McConnell, 20<sup>th</sup> edition  
ISBN 0-07-766081-1

Study Guide to Accompany McConnell Microeconomics, 20<sup>th</sup> edition  
ISBN 0-07-766067-6

Course Objectives:

1. To recognize the breadth of issues and problems that economic analysis helps to answer.
2. To become familiar with the terminology of microeconomics and to understand the basic methods and the analytical tools which economists use to study microeconomic problems.
3. To understand the following major microeconomic concepts:
  - a. The use of appropriate supply and demand models to analyze basic market processes.
  - b. The nature of competitive markets and the efficiency associated with such markets.
  - c. Decision-making in both competitive and monopolistic settings.
  - d. Applications of economic concepts to topics such as externalities, antitrust, and labor markets.
4. To recognize the role of government in economic regulation, market failures, and public goods provision.
5. To recognize how people use economics in their daily lives.

Grades:

Grades will be determined on the basis of the scores of four (4) exams. Each exam will consist of multiple choice and short answer (mainly problems) questions.

In numerical terms:

Exam 1	25 %	100 points
Exam 2	25 %	100 points
Exam 3	25 %	100 points
Exam 4	25 %	100 points

I anticipate using the following grading scale:

95-100	4.0
93-94	3.9
91-92	3.8
89-90	3.7
87-88	3.6
85-86	3.5
83-84	3.4
81-82	3.3
79-80	3.2
77-78	3.1
75-76	3.0
74	2.9
73	2.8
72	2.7
71	2.6
70	2.5
69	2.4
68	2.3
67	2.2
66	2.1
65	2.0
64	1.9
63	1.8
62	1.7
61	1.6
60	1.5
59	1.4
58	1.3
57	1.2
56	1.1
55	1.0
54-below	0.0

#### Student Responsibilities:

Students are expected to attend class regularly. I will take attendance at each class meeting. No make up exams will be given. Turn off cell phones, beepers, and pagers during class sessions. Five (5) points will be deducted from a student's course total for each telephone ring.

Students are encouraged to participate in class discussions and to ask questions.

Note: Reading Assignments for the 21st Edition will be posted on Moodle

Date:	Reading Assignment:
January 3	Introduction
January 5	Lecture on Chapter 1: Limits, Alternatives, and Choices
January 8 & 10	Lecture on Chapter 2: The Market System and the Circular Flow
January 12 & 17	Lecture on Chapter 3: Demand, Supply, and Market Equilibrium
January 15	No Class: Martin Luther King Day Recess
January 19	Lecture on Chapter 4: Market Failures: Public Goods and Externalities
January 22	Lecture on 4A: Information Failures
January 24	Lecture on Chapter 5: Government's Role and Government Failures
January 26 & &29	Lecture on 5A: Public Choice Theory and Voting Paradoxes
January 31	<b>Exam (Chapters 1 through 5 and appendices)</b> Bring scantron form 882 E or 882 ES and #2 pencil A calculator that adds, subtracts, divides, and multiplies <b>only</b> is permitted. Programmable calculators, scientific calculators, graphing calculators, iPods, and cell phones are <b>not allowed</b> .
February 2 & 5	Lecture on Chapter 6: Elasticity
February 7	Lecture on Chapter 7: Utility Maximization
February 9 & 12	Lecture on Chapter 9: Businesses and the Costs of Production
February 14	Lecture on Chapter 10: Pure Competition in the Short Run
February 16	Lecture on Chapter 11: Pure Competition in the Long Run
February 19&21&23	No Class – Winter Recess
February 26 & 28	Lecture on Chapter 12: Pure Monopoly

March 2	<b>Exam (Chapters 6 and 7 and 9 through 12)</b> Bring scantron form 882 E or 882 ES and #2 pencil A calculator that adds, subtracts, divides, and multiplies <b>only</b> is permitted. Programmable calculators, scientific calculators, graphing calculators, ipods, and cell phones are <b>not allowed</b> .
March 5 & 7	Lecture on Chapter 13: Monopolistic Competition and Oligopoly
March 9	Lecture on Chapter 14: The Demand For Resources
March 12 & 14	Lecture on Chapter 15: Wage Determination
March 16	Lecture on Chapter 15 Appendix – Labor Unions and their Impact
March 19	Lecture on Chapter 16: Rent, Interest and Profit
March 21 & 23	Lecture on Chapter 18: Public Finance: Expenditures and Taxes
March 26	<b>Exam (Chapters 13-18 and appendices)</b> Bring scantron form 882 E or 882 ES and #2 pencil A calculator that adds, subtracts, divides, and multiplies <b>only</b> is permitted. Programmable calculators, scientific calculators, graphing calculators, ipods, and cell phones are <b>not allowed</b> .
March 28 & 30	Lecture on Chapter 19: Antitrust Policy and Regulation
April 2 & 4	Lecture on Chapter 20: Agriculture: Economics and Policy
April 6 & 9	Lecture on Chapter 21: Income Inequality, Poverty, and Discrimination
April 11 & 13	Lecture on Chapter 22: Health Care
April 16	Lecture on Chapter 23: Immigration
April 25 8:00 – 11:00 am	<b>Exam (Chapters 19 through 23)</b> A calculator that adds, subtracts, divides, and multiplies <b>only</b> is permitted. Programmable calculators, scientific calculators, graphing calculators, ipods, and cell phones are <b>not allowed</b> .

**Study Suggestions:**

1. Read Chapters before class. If time permits, reread chapters after the class lecture.
2. For exam preparation, outline chapters and prepare flashcards for new terms.
3. To study for exams, read your class notes and chapter outlines. Review flash cards. Answer end-of-chapter questions and study guide multiple choice questions. Review worked problems for each chapter.
4. If you miss class, copy notes from your neighbor(s).
5. Study every week – don't cram one night before the exam!

## **Study Questions for Exam One**

What is a brief definition of economics? What are the conditions that give rise to this definition?

What do economists mean when they say that “there is no free lunch?” Give an example to which this statement applies.

Is rational self interest the same thing as selfishness? Explain.

What are the two major reasons for studying economics? Explain thoroughly.

What is the basic difference between theoretical economics and policy economics? Explain thoroughly.

Explain several significant points that can be raised about economic goals in terms of definition, complementarity, tradeoffs, and priorities.

List and give examples of the pitfalls to economic thinking.

What are four basic functions does the entrepreneur perform in the economy? Explain.

What do economists mean when they say that economic resources are scarce in supply? Explain thoroughly.

Explain the relationship between full employment of resources and full production.

Differentiate between allocative efficiency and productive efficiency.

Comment on the statement from an opportunity cost perspective. “The major cost of going to college is the \$15,000 per year tuition.” Assume that a person could have earned \$30,000 a year if the person did not go to college.

Explain how increasing opportunity costs are reflected in the production possibilities curve. How would the curve appear if opportunity costs were constant? Illustrate your response with diagrams.

What is the relationship between business and households in the circular flow model? Draw a diagram to assist in your explanation.

Explain the term “laissez faire capitalism.”

Explain the importance of the ceteris paribus or “other things being equal assumption.”

Describe the adjustments in the production possibilities curve in each of the following situations for the U.S. economy. Draw graphs for each event.

- a. the economy moves from full employment into a deep recession
- b. the economy makes great strides in eliminating discrimination
- c. the end of the cold war leads to cuts in military spending
- d. Congress significantly increases government spending for health and education

Distinguish between: (a) macroeconomics and microeconomics; (b) positive and normative economics; (c) induction and deduction; (d) correlation and causation; and (e) fallacy of composition and loaded terminology. Give examples of each.

Discuss eight widely accepted economic goals of the United States. Are the goals compatible or do they conflict?

Describe the basic features of the circular flow model. Draw a diagram in your description.

What are the economic costs of attending college?

What is meant by the economizing problem?

Below are three statements. Each of them is an example of one of the pitfalls often encountered in the study of economics. Indicate following each statement the type of pitfall involved. Explain your reasoning. (a) "July is the month with the most ice cream sales and also the month with the most drownings. Therefore, the more ice cream people eat, the more likely they are to drown." (b) "Dry weather in the county where Farmer Brown lives decreased last year because his crop was so poor. Therefore, when there is dry weather in the nation as a whole, farm incomes will suffer." (c) "National Health insurance plans are socialistic."

List the four resource categories and give a brief description and example of each.

Explain how each event affects production possibilities. Draw graphs for each event. (a) The population becomes more educated over time as the number of high school dropouts falls and the number of college graduates rises; (b) The unemployment rate declines from 5.3 to 4.5 percent of the labor force; (c) Advances in telecommunications and new technology significantly contribute to economic growth over time; (d) The Congress and the President decide to allocate more resources to national defense; (e) A nation participates in increased international trade with other nations of the world.

Define demand. State the law of demand. Give and explain three explanations for the law of demand.

Give examples of two substitute goods and two complementary goods. In each case, explain why the goods are substitutes or complements.

What is the difference between a change in supply and a change in the quantity supplied? Explain and show by graph.

What effect should each of the following have upon the demand for portable music players in a competitive market? Explain your reasoning in each case.

- a. the development of improved, low-priced devices that compete with music players
- b. an increase in population and income
- c. a substantial increase in the number and quality of music for players
- d. consumer expectations of substantial price increases in music players

Define supply. Describe and give a reason for the law of supply.

Suppose the U.S. Congress is considering passing an excise tax that would increase the price of a pack of cigarettes by \$1.00. What would be the likely effect of this change on the demand and supply of cigarettes? What is likely to happen to cigarette prices and the quantity consumed if the tax is enacted? Explain and show by graph.

What effect will each of the following have upon the supply of corn in a competitive market? State what happens to supply. Explain your reasoning in each case and relate it to a supply determinant.

- a. the development of an improved corn seed that resists drought conditions
- b. an increase in the price of soybeans which can also be planted on land used for growing corn
- c. an increase in government payments for growing corn
- d. an increase in the price of fertilizer

What is a price ceiling and what are its economic effects? Explain and show by graph.

What is a price floor and what are its economic effects? Explain and show by graph.

Given the products below and the events that affect them, indicate what happens to demand or supply, and the equilibrium price and quantity in a competitive market.

Identify the determinant of demand or supply that causes the shift.

- a. Blue jeans. The wearing of blue jeans becomes less fashionable among consumers.
- b. Computers. Parts for making computers fall in price because of improvements in technology.
- c. Lettuce. El Nino produces heavy rains that destroy a significant portion of the lettuce crop.
- d. Chicken. Beef prices rise because severe winter weather reduces cattle herds.

List and explain the basic determinants of demand.



List and explain the basic determinants of supply.

What is the difference between a change in demand and a change in the quantity demanded? Explain and show by graph.

Distinguish between a normal and an inferior good. Give two examples of each.

What effect will each of the following have upon the supply of television sets? Explain your reasoning in each case. (a) An increase in the price of electronic equipment used in producing television sets. (b) A decline in the number of firms producing television sets. (c) A large new tariff on imported Japanese TV sets. (d) New inexpensive satellite dishes which make television more popular among consumers.

Distinguish between price ceilings and price supports. Show each by graph. Why would Congress impose them?

Explain the concepts of consumer surplus and producer surplus. Show each by graph.

Discuss what is meant by an efficiency loss. Show by graph.

Given the products below and the events that affect them, indicate what happens to demand, supply, equilibrium quantity, and equilibrium price. Identify the determinant of demand and supply that causes the shifts. (a) Calculators. More schools require students to buy and use calculators; improved productivity shortens the time it takes to make calculators. (b) Gasoline. Oil production declines due to a crisis in the Middle East; people take more car vacations and drive more. (c) New homes. The average incomes fall as the economy moves into recession; the productivity of home construction workers and builders increases. (d) Tobacco. The government cut its subsidy to tobacco farmers; more people quit smoking.

In the spaces below each of the following, indicate the (increase (+), decrease (-), or indeterminate (?)) on equilibrium price (P) and equilibrium quantity (Q) of each of these changes in demand and/or supply.

	P	Q
a. increase in demand, increase in supply	_____	_____
b. increase in demand, decrease in supply	_____	_____
c. decrease in demand, decrease in supply	_____	_____
d. decrease in demand, increase in supply	_____	_____

Why is the right to privacy an essential characteristic of a market system?

What role does freedom play in capitalism? How important is it to the operation of a competitive market economy?

What are the advantages of specialization? What are the disadvantages?

Explain the importance of self-interest in the operation of a market system.

What advantage does a money economy have over a barter economy?

How is consumer sovereignty at work in the U. S. economy? Give an example of a hit and a miss.

What are the fundamental questions that confront every economic system? How are the questions answered in a capitalistic economy?

Explain the characteristics of Pure Capitalism.

Explain the concept of the invisible hand.

Explain both the guiding and rationing functions of prices.

Define “consumer surplus.” Show consumer surplus on a graph.

Define “producer surplus.” Show producer surplus on a graph.

How do public goods differ from private goods? Give examples of each. How will the market demand curve for a public good differ from the market demand curve for a private good?

Contrast how you construct the demand curve for a public good with the procedure for constructing the demand curve for a private good using individual demand curves.

Describe benefit-cost analysis, and state the rules used to make decisions from marginal and total perspectives.

What are externalities and spillovers? Give two examples of positive externalities and two examples of negative externalities.

Discuss the Coase Theorem. Should the government intervene in an externality dispute between two property owners over the use of one party’s land? Should government intervene in the case of acid rain?

How do you create a market for externality rights in the case of pollution? What are some advantages and limitations of this approach to the pollution problem?

Describe how inadequate information about sellers creates market problems for buyers. Give examples.

Explain what is meant by a “moral hazard problem” and describe how it affects sellers. Give some examples of the application of this problem.

Explain the problem of adverse selection. How might this problem affect transactions in the insurance industry? Give some examples.

Describe how median voters influence the election results and debates over public issues. What are two important implications of the median voter model?

### Study Questions for Exam two

Assume the price of a product sold by a purely competitive firm is \$5. Given the accompanying table, at what output is total profit highest in the short run?

Output	Total Cost
20	\$70
25	75
30	85
35	100
40	125
45	155
50	190

Below is a demand schedule facing an individual firm. Complete the table by computing average revenue, total revenue, and marginal revenue. Then answer the following two questions: (a) How can you tell whether a firm is operating in a market that is purely competitive? (b) What relationship exists between average revenue and marginal revenue?

Price	Quantity Demanded	Average Revenue	Total Revenue	Marginal Revenue
\$30	0	\$_____	\$_____	
30	1	_____	_____	_____
30	2	_____	_____	_____
30	3	_____	_____	_____
30	4	_____	_____	_____
30	5	_____	_____	_____
30	6	_____	_____	_____

Describe in detail the characteristics of pure competition.

Explain how the firm in a purely competitive industry sees the demand for the product it produces in terms of the (a) price elasticity of demand, (b) the relationship of average to marginal revenue, and (c) behavior of total, average, and marginal revenues as the output of the firm increases. Draw graphs to illustrate your answers.

Describe the total-revenue-total-cost approach to profit maximization. Draw graphs for the three scenarios.

Explain the  $MR = MC$  rule and its three characteristics.

Explain how the short-run supply curve of an individual firm and of the purely competitive industry are each determined. Draw a graph to illustrate your explanation.

Describe the conditions for allocative efficiency. Why is it said that a purely competitive economy is an efficient economy?

When is the purely competitive industry in long-run equilibrium? Draw a graph and discuss productive and allocative efficiency.

What is pure monopoly? Define its characteristics?

Compare the pure monopolist and the individual pure competitor with respect to: (a) the demand schedule; (b) the marginal revenue schedule; (c) the relationship between marginal revenue and average revenue; (d) price policy; and (e) the ability to administer (or set) price. Use graphs in your comparisons.

How does the profit-maximizing monopolist determine what output to produce? What price will it charge? Explain and show by graph.

What is X-inefficiency? How does it affect the cost of production for the monopolist?

What is meant by price discrimination? What conditions must be realized before it is workable? Give some examples of price discrimination in the U.S. economy.

How does price discrimination affect the profits and the output of the monopolist? How does it affect consumers?

A monopolist can sell 20 toys per day for \$8.00 each. To sell 21 toys per day, the price must be cut to \$7.00. The marginal revenue of the 21<sup>st</sup> toy is:

A child is given \$1 of pocket money to be spent on either hard candies or chocolate. Chocolates cost 10 cents and hard candies 20 cents each. The marginal utilities derived from each product are as follows:

Number of items	MU of chocolates	MU of hard candies
1	60	150
2	50	140
3	40	120
4	30	100
5	20	80
6	10	70
7	5	50
8	0	20

What are two related effects that combine to make a consumer able and willing to buy more of a specific product at a lower price than a higher price? Explain the logic of both effects.

Describe the law of diminishing marginal utility. On what assumptions is this law based? How can the law be used to explain the law of demand?

Give and explain an algebraic restatement of the utility-maximizing rule.

Consider this. Why does a newspaper dispenser open to a stack of newspapers and essentially “trusts” a consumer to take just one copy whereas a soft drink vending machine does not “trust” consumers and dispenses one can for each purchase?

Can marginal utility be negative? Briefly explain with an example.

The table below shows the hypothetical utility schedule for a consumer of chocolate candy bars.

Number Consumed	Total Utility
0	0
1	5
2	11
3	18
4	24
5	30
6	35
7	32

- Refer to the above table. When does diminishing marginal utility set in?
- Refer to the above table. When does marginal utility become negative?

If average variable cost is \$74 and total fixed cost is \$100 at 5 units of output, then average total cost at this output level is:

If you know that when a firm produces 10 units of output, total costs are \$1,030 and averaged fixed costs are \$10, then total fixed costs are:

Distinguish between explicit and implicit costs. Give examples of each.

Distinguish between a fixed cost and a variable cost. Give two examples of each.

The fixed cost of the firm is \$500. The firm's total variable cost is indicated in the table.

Output	Total variable cost
1	\$400
2	720
3	1000
4	1400
5	2000
6	3600

- Refer to the above table and information. The average variable cost of the firm when 5 units of output are produced is:
- Refer to the above table and information. The average total cost of the firm when 3 units of output are being produced is:
- Refer to the above table and information. The marginal cost of the sixth unit of output is:

Use the following to answer the next questions.

Output	Total Fixed Cost	Total Variable Cost	Average Variable Cost
0	\$200	\$ 0	
1	200	50	\$50
2	200	90	45
3	200	120	40
4	200	160	40
5	200	220	44

- Refer to the above table. The total cost of five units of output will be:
- Refer to the above table. The average fixed cost of four units of output will be:
- Refer to the above table. The average total cost of two units of output will be:
- Refer to the above table. The marginal cost of the third unit of output is:

Jane quit her job at A T & T where she earned \$29,000 a year. She cashed in \$40,000 in corporate bonds that earned 10% interest annually to buy a mini-bus. Jane has decided to buy the mini-bus and set up a commuter service between Lincoln and Omaha. There are 1000 people who will pay \$400 a year each for the commuter service; \$280 from each person goes for gas, maintenance, insurance, depreciation, etc.

- Complete the following questions: (1) What are Jane's total revenues? (2) What are Jane's explicit costs? (3) What is her accounting profit?
- List two important implicit costs that Jane has not included?
- What is Jane's pure economics profit (loss)?

An airline is flying between two cities. The airline has the following costs associated with the flight:

Crew	\$4000	Plane daily depreciation	\$2000
Fuel	1000	Plane daily insurance	2000
Landing fee	1000		

The airline has an average of 40 passengers paying an average of \$200 for this flight. Do you think the airline should be flying between the two cities? Evaluate from a short-term and a long-term perspective.

What is the difference between normal profit and economic profit? Why is the former an economic cost? How do you define accounting profit?

What type of adjustments can a firm make in the long run that it cannot make in the short run? What adjustments can it make in the short run? Give examples. How long is the short run?

State precisely the law of diminishing returns. Exactly what is it that diminishes, and why does it diminish?

What is meant by economies of scale and by diseconomies of scale? What are the factors that cause both? Draw a graph indicating both economies of scale and diseconomies of scale?

Compute the elasticity of demand for the 9 price ranges for the following demand curve. Be sure to label the price ranges.

<u>Price</u>	<u>Quantity Demanded</u>
\$10	2
9	4
8	6
7	8
6	10
5	12
4	14
3	16
2	18
1	20

Calculate total-revenue data from the above demand schedule. Graph total revenue below the demand curve. Generalize about the relationship between price elasticity and total revenue.

A price increase from \$43 to \$49 results in an increase in quantity supplied from 220 units to 240 units. The price elasticity of supply in this price range is:

What is meant by perfectly elastic demand? By perfectly inelastic demand? What does the demand curve look like when demand is perfectly elastic and when it is perfectly inelastic? Draw graphs of each.

Define and explain the price elasticity of demand in terms of the change in total revenue when price changes.

Explain the effect of the number of substitutes on the price elasticity of demand. Give examples.

Why does the price elasticity of demand differ based on the price of a good as a proportion of household income? Give examples.

What role does time play in affecting the elasticity of demand? Give examples.

Explain the distinction between the immediate market period, the short run, and the long run with respect to elasticity of supply. Draw graphs for each time period.

Answer the next questions based on the following data.

<u>Price per Unit</u>	<u>Quantity demanded</u>
\$20	12
18	17
16	20
14	24
12	30
10	36
8	40
6	44
5	48

- Refer to the above data. Over which price range is the price elasticity of demand inelastic?
- Refer to the above data. Over which price range is the price elasticity of demand elastic?
- Refer to the above data. Over which price range is the price elasticity of demand unitary?
- Refer to the above data. What is the price elasticity of demand over the range of \$8 to \$10?

When the price of candy bars increased from \$.45 to \$.55 the quantity demanded changed from 21,000 per day to 19,000 per day. Compute the price elasticity of demand.



A gasoline station near a professional football stadium parks cars on its lot to make money on game days. Last year it charged \$4.00 per car and parked 1000 cars. This year it raised the parking price to \$5.00 and parked 850 cars. Did the station owner make a good economic decision in raising the parking prices from one year to the next? Explain.

Distinguish between the cross elasticity between substitute goods and complementary goods. Distinguish between the income elasticity between normal and inferior goods.

### **Study Questions for Exam Three**

How does the demand for a product differ from the demand for a resource? Explain why the demand for a resource is a derived demand.

Why is the demand schedule for a resource less elastic when the firm sells its product in an imperfectly competitive market than when it sells it in a purely competitive market?

Identify and describe three factors that will cause the demand for a resource to increase or decrease. Give examples of how each factor influences changes in demand.

What three methods might labor use to increase the demand for labor? If these methods are successful, what effects do they have on wage rates and employment?

What are the three factors that determine the elasticity of demand of a resource? Give examples in each case.

Assume that a firm employs resources in purely competitive markets. How does the firm know that it is spending money on resources in such a way that it can produce a given output for the least cost?

When is a firm that employs resources in purely competitive markets using these resources in amounts that will maximize the profits of the firm?

In the competitive model, what determines the market demand for labor and the wage rate? What kind of supply situation do all firms as a group confront? What kind of supply situation does the individual firm confront? Why? Show by graph.

In the monopsony model, what determines employment and the wage rate? What kind of supply situation does the monopsonist face? Why? How does the wage rate paid and the level of employment compare with what would result if the market were competitive? Show by graph.

What is the difference between an exclusive and an inclusive union? Give two examples of each type of union. What are the economic effects of each type?

What is a bilateral monopoly? What is the economic outcome from a bilateral monopoly? Is a bilateral monopoly a “bad” situation for society?

What are the arguments for and against the existence of a minimum wage? Offer an evaluation of the employment and antipoverty effects of the minimum wage based on past and current evidence.

Discuss the five types of union status.

Explain what determines the economic rent paid for the use of land. What is unique about the supply of land? Draw a graph of the supply of land.

What are the two basic philosophies for apportioning the tax burden in the United States? Explain each one and give an example of a tax for each philosophy. What are the problems encountered in any strict application of the two philosophies?

Explain the difference among progressive, regressive, and proportional taxes. Which types of taxes fall into each of these categories?

Why are payroll taxes regressive?

Illustrate with a supply and demand graph what part of an excise tax is passed on to the buyer and what part is borne by the seller. What determines the division of the tax between the buyer and the seller?

How does an excise tax produce an efficiency loss for society? Explain and illustrate with a supply and demand graph. How does elasticity affect the size of the efficiency loss?

Describe the probable incidence of the personal income tax, the sales tax, and the excise tax. Give your reasoning in each instance.

Assume the basic purpose is to raise additional revenue, should government levy an excise tax on cigarettes whose demand is highly inelastic or on a product whose demand is highly elastic? Are there any other reasons to levy such a tax?

Explain the characteristics of monopolistic competition.

Describe the elasticity of the demand curve faced by a monopolistically competitive firm in the short run. Draw a graph comparing the demand curve faced by an individually competitive firm and a monopolistically competitive firm.

At what level of output will the monopolistically competitive firm produce in the short run? What price will it charge for its product? Draw a graph to help explain your

answer. What determines whether a monopolistically competitive firm will earn economic profits or suffer economic losses in the short run?

What will be the level of economic profit that the monopolistic competitor will tend to receive in the long run? What forces economic profits toward this level? Why is this just a tendency?

Use the concepts of allocative and productive efficiency to explain excess capacity and the level of prices under monopolistic competition.

What are the essential characteristics of an oligopoly? How does oligopoly differ from pure competition, pure monopoly, and monopolistic competition?

Explain how the concentration ratio in a particular industry is computed. What is the relationship between this ratio and fewness? What are the shortcomings of the concentration ratio as a measure of the extent of competition in an industry?

What is the Herfindahl index? How can it be used to correct problems with concentration ratios?

What are the assumptions of the kinked-demand curve? Draw one. How can the kinked-demand curve be used to explain why oligopoly prices are relatively inflexible?

What is the price leadership model, and what leadership tactics do oligopolistic firms use?

### **Study Questions for Exam Four**

What is a Lorenz curve? How is it constructed? What is measured along each of the two axes when a Lorenz curve is drawn? (a) If the distribution of income were completely equal, what would the Lorenz curve look like? (b) If one family received all of the income of the economy, what would the Lorenz curve look like? (c) After the Lorenz curve for an economy has been drawn, how is the degree of income inequality in that economy measured? Illustrate your answers.

What affect do taxes and transfers have on the distribution of income in the United States? How much of this change in the distribution of income is the result of the transfer payments made by government?

Discuss seven causes of income inequality in the United States.

State the case for equal distribution of income.

Explain the advantage to the nation from an unequal distribution of income.

What is poverty? What is the minimum income level below which the Federal government defines a person or family as “in poverty?” How many people and what percentage of the U.S. population are “in poverty” using this definition?

What characteristics – other than the small amounts of money they have to spend – do the greatest concentrations of the poor families of the nation tend to have?

Explain the difference between social insurance and public assistance programs. Give examples of each. Which do you think is more important and why?

How can discrimination be viewed as resulting from a preference or taste for which the prejudiced employer is willing to pay? What will determine whether the prejudiced employer hires nonpreferred workers in this model?

Explain the concept of statistical discrimination and give an example of it. How can it lead to discrimination even in the absence of prejudice?

Describe the economic effects of occupational segregation on the wages of women and minorities. How does this type of segregation affect the domestic output of the economy? Give some examples of occupation segregation.

Construct a supply and demand model to explain the effects of the migration of labor from a poorer nation to a richer nation. Give your answer in terms of the effects on wage rate, domestic output, and business incomes in the two nations.

What are the economic implications of rising health care costs? What are the two reasons for rising health care costs in the United States?

Who are the uninsured in the United States? What are the characteristics of the uninsured?

How does income and price elasticity affect the demand for health care?

In what ways do an aging population and unhealthy lifestyles influence and shape the demand for health care?

What role does health insurance play in affecting health care costs? Explain the advantages and disadvantages of health insurance.

How have changes in medical technology affected health care costs?

What is the relative importance of demand and supply factors in affecting the rise in health care costs?

How would the play-or-pay or tax credit and voucher reforms be used to achieve universal health access to health care?

Discuss the arguments for and against national health insurance.

What actions have insurance companies and the Federal government taken to reduce or contain health care costs?

What are four peculiarities of the market for health care?

What is the moral hazard problem associated with health care insurance?

Define remittances and backflows.

Explain the reasoning behind why employment could increase for domestic-born workers if immigrant workers become complementary resources rather than substitute resources.

What effects do immigrants have on tax revenues and government spending in the United States?

Summarize the main research conclusions found by prominent economists on the economic effects of immigration.

What is the short-run farm problem and what are its causes?

Describe the long-run farm problem. What are its causes?

What are the effects of farm price-support programs on farmers, consumers, and resource allocation in the economy? Explain and show by graph

What programs has the government used to try to restrict farm production? Why have these programs been relatively unsuccessful in limiting agricultural production?

How has the Federal government tried to increase the demand for farm products?

What supply and what demand approaches have been used to reduce surpluses of farm commodities?

What have been three major criticisms of agricultural policies over the past half-century?

How do U.S. exports of agricultural products affect the demand for agricultural products?

Describe each type of merger and give examples of each.

Contrast the public interest theory of regulation with the legal cartel theory of regulation.

Describe the importance and major features of the Sherman Act of 1890.

How did the Clayton Act of 1914 strengthen and clarify the intent of the Sherman Act of 1890?

What was the importance of the Federal Trade Commission Act of 1914?

What was the purpose of the Celler-Kefauver Act of 1950?

Describe two historic legal cases to contrast the two different views of antitrust laws. One case would support the behavioralist view of antitrust laws. The other case would support the structuralist views of antitrust laws.

What are tying contracts?

What is social regulation? Give agency examples. What are the criticisms of social regulation?