

Midterm 3 Study Guide

Date: 11/17 (Thursday)

Time: 11:00 am - 12:15 pm

Location: CLRE 207 (our regular classroom)

Format: 40 multiple-choice problems

Coverage: Ch.10 (from public and private policies, at the end of page 2 of lecture note), Ch.11, Ch.13, Ch.14, and Ch.15

Please bring a pencil and a non-graphing calculator. Cell phone calculator or graphing calculator is not allowed. Remember your student ID.

Ch.10

- Public policies toward externalities, command and control-Regulation, market-based policy (corrective taxes, tradable pollution permits)
- Private solutions toward externalities, coase theorem, why private solutions do not always work?

Ch.11

- Excludability, rival in consumption
- Private goods, public goods, Club goods, common resources, examples of each, Roads to 4 different goods
- free-rider's problem, Tragedy of commons, Policy options to prevent overconsumption of common resources

Ch.13

- TR, TC, Profit, Implicit costs, explicit costs, economic profit, accounting profit, review LN, and practice problems regarding implicit/explicit costs
- Production function, marginal product, diminishing marginal product,
- Fixed cost, variable cost, total cost, AVC, ATC, AFC, MC, shape of the each curve, relationship between MC&ATC
- LRATC with 3 factory size, a typical LRATC curve, economies of scale, constant returns to scale, diseconomies of scale

Ch.14

- 3 characteristics of a competitive market,
- AR, MR, profit-maximizing decision rule (Produce where $MR = MC$), MC curve is the firm's supply curve.
- SR decision to shut down ($TR < VC$), LR decision to exit ($TR < TC$)
- Positive economic profits, negative economic profits (=loss), 0 economic profit, a competitive firm's D curve, S curve in SR/LR, competitive market D curve in SR/LR, market S curve in SR/LR, economic profit in SR/LR, In the LR, firm earns zero profit, graph? LR market supply curve is horizontal at $P = \text{minimum ATC}$

Ch.15

- Characteristics of a monopoly, 3 main resources of barriers to entry (why monopoly arise?)
- Demand curve, MR curve, ATC curve, profit-maximizing monopoly output and price, welfare cost of monopoly, DWL
- Price discrimination, effects of perfect price discrimination (DWL? CS?), examples of price discrimination
- Public policies toward monopoly (Antitrust Laws, Public ownership, doing nothing), Clayton Act (1914), Sherman Act (1890)