

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session will be at a time to be determined in class, probably Tues. 3/8 in the Richardson 110.

Chapter 12 starting with 12.4: 12.4 is covered in more detail in Chapter 13. Understand the **prisoners' dilemma**. What are **non-cooperative** and **cooperative** games? How does the **kinked demand** cause **price rigidity**? Also, be able to explain how we got that demand and its MR curves. Understand the **price leadership**, a.k.a., **dominant firm with competitive fringe** diagram. Be able to explain the **cartel** diagram in this book. (It is not the one in your *Principles of Economics* book.)

Chapter 13: What are **games**, **payoffs**, **strategies**, **dominant strategy**, and **optimal strategy**? How do we find the **Nash Equilibrium** and **maximin**, a.k.a., **safe or secure strategies**? What are **mixed** and **pure strategies**? Why does it matter how long a **repeated game** is repeated? How can the **tit-for-tat** strategy possibly yield a cooperative equilibrium? Be able to find the **extensive form**, a.k.a., **decision tree** for a **sequential game** and its solution. Why are **threats**, **commitments** and **credibility** important for trying to achieve a cooperative situation especially **entry deterrence**? What are the differences between these types of auctions **English**, **Dutch**, **open**, **sealed bid**, **first price**, **second price**, **private value** and **common value**? What is the **winner's curse** and why might it occur? Why do you want many bidders in a private value auction? Why should a common value auction be open not sealed bid? Why would you want a minimum bid on a private value auction?

Chapter 14 - 14.1: What is meant by a **derived demand**? Why is the  $MRP_L$  for a monopolistic firm different from a perfectly competitive firm? Understand the **S/D for labor diagram** with fixed capital. Why does it take its shape? What moves the lines? Why is the  $D_L$  different from the  $MRP_L$  line when capital is variable? Why is the industry demand for labor different from the sum of the firms' demand curves? How does the demand for inputs differ in the short-run and the long-run? Be able to use the **S/D for inputs** to derive the firm's **ME/MRP** diagram for inputs. Be able to derive the **backwards bending labor supply** diagram from the indifference curve/budget constraint diagram for income versus labor.

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Non-graded Homework Assignment #4A to be reviewed with Assignment #4.

- 1) (20 points) Draw the  $MRP_L$  diagram for a monopolistic firm and a perfectly competitive firm. Explain why they have different slopes.
- 2) (20 points) Define a *common value* auction. Explain why it should be an open bid auction rather than a sealed bid auction.
- 3) (20 points) Draw the demand for labor when capital is variable. Explain why it is not the same as the  $MRP_L$ . Explain how you found it.
- 4) (25 points) Draw an indifference curve/budget constraint diagram for income vs. leisure. Draw an increase in the wage rate. Explain why the line(s) moved as drawn. Given your diagram, are you in the upward sloping or the downward sloping part of the supply of labor curve? Explain your logic.
- 5) (15 points) When might you want a sealed bid auction rather than an open auction? Explain your logic.