

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 TBD in class, probably Thursday 4/25.

Chapter 11: What are **barriers to entry**? How can the following cause barriers to entry? **Economies of scale, government licensing, patents, and control over a resource.** Be able to use the cost curves and demand diagram for a **monopoly** to find the quantity produced, profits or losses, and dead-weight loss. *This is the same as monopolistically competitive firms except that there is no entry, so the firm can make profits in the long run.* What is meant by an **oligopoly**? Oligopolies can have **identical** or **differentiated products**. Use a diagram with a horizontal LRATC curve to find output for the industry if they **collude** and if they compete. What is a **cartel**? Why do firms in a cartel have incentive to cheat? Understand why the following make it harder for collusion to be successful: large number of firms, difficult to detect price cuts, low barriers to entry, unstable demand, and vigorous **anti-trust** action by the government. Be able to find the **Cournot-Nash** equilibrium for **game theory** in a **payoff matrix**. *Note, the party on the top can only move left and right and only looks at the top numbers. The party on the left can only move up and down and only looks at the left number. Cross out whichever is worse and circle the better number. The equilibrium is the pair of **strategies** not the **payoffs** nor the square. List the one on the left first. There could be zero, one, or two equilibria in a 2x2 matrix. If you want more examples, look at the exams for ECON 477. However, those exams ask for things you do not need to know. So ignore what the question asks and just find the equilibrium.* Be able to draw the cost/demand diagram for a **natural monopoly**. Know why they are called that. How will they want to price? Where is the optimal point? Where should the government try to get the firm? What are the problems with trying to regulate prices? *They are **lack of information, cost shifting, and special-interest influence (regulatory capture).***

Chapter 12: What are **resource markets**? What are **non-human resources, human resources, and human capital**? Why do we call these demand “**derived demand curves**”? How do the availability of **substitutes in production** and **substitutes in consumption** affect the elasticity of demand for the resource? How does time change the demand? How do the following move the demand curve for the resource: change in the demand for the product, change in the productivity of the resource, change in the price of a substitute resource, and change in the price of a complementary resource? Why does the firm pay the **MRP** for the resource? What are the differences between **MRP, MP, MR, and VMP**? Be able to fill in a table like the one on Page 237 which has L, TPL a.k.a. Q, MPL, P, TR, and MRPL. Why should  $MRPL/P_L = MRPK/P_K = MRPH/P_H$  etc.? *Note that I use H to denote human capital.* Why does the supply of a resource depend upon the **mobility of the resource** and time? Be able to put the supply and demand curves together and move them.

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Non-graded Homework Assignment #10A to be reviewed with Assignment #10.

- 1) (20 points each) Use the supply and demand for a resource to illustrate the effects of the events described. What happens to the price of the resource and the quantity used? State any assumption you make.
  - A) An increase in the productivity of labor on the s/d for labor.
  - B) A decrease in the price of furniture on the s/d for wood.
  - C) An increase in the price of computer hard drives on the s/d for fans for inside computers.
  - D) An increase in the price of capital on the s/d for labor.
- 2) (10 points) Explain why  $MRPL/P_L = MRPK/P_K$ .
- 3) (10 points) Which labor supply is going to be more elastic, college professors or cleaning people? Why?