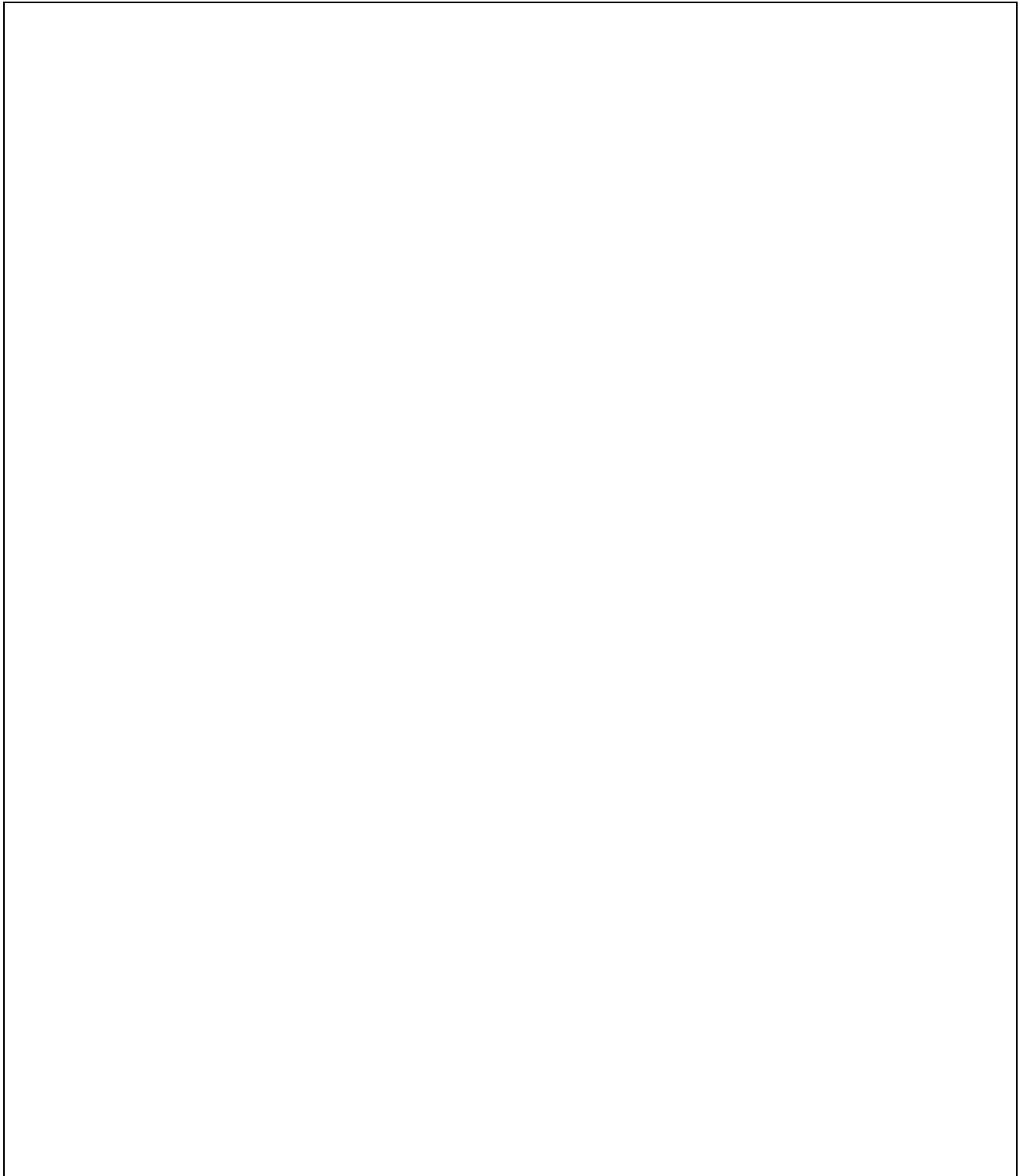


Review questions for EE211 Final Exam

On consumer choice

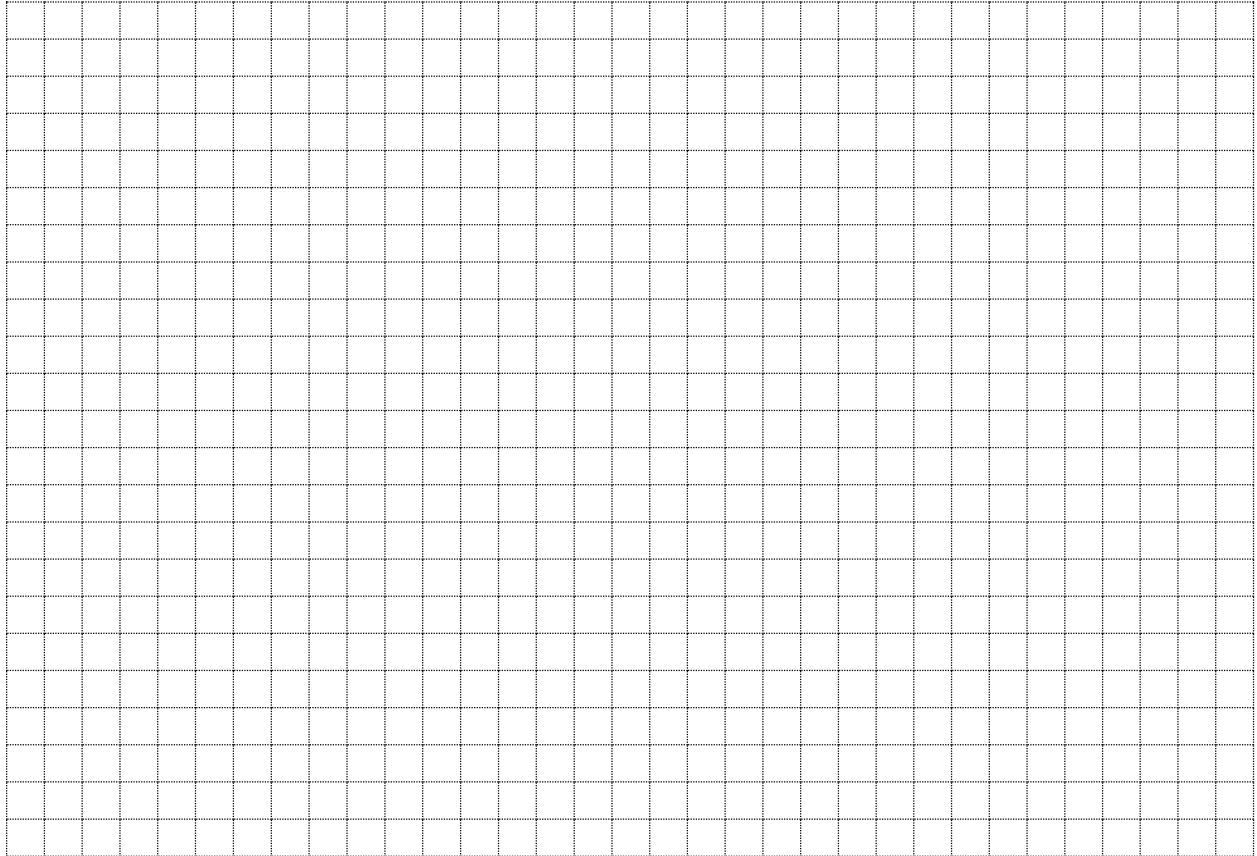
Explain law of diminishing marginal utility. Support your explanation with a diagram.

Explain the rational spending Rule: $MRS_{xy} = P_x/P_y$. If MRS is not equal to P_x/P_y , what will happen to the consumer's choice? Does he maximize his utility? If not so, give him an advice with a diagram.

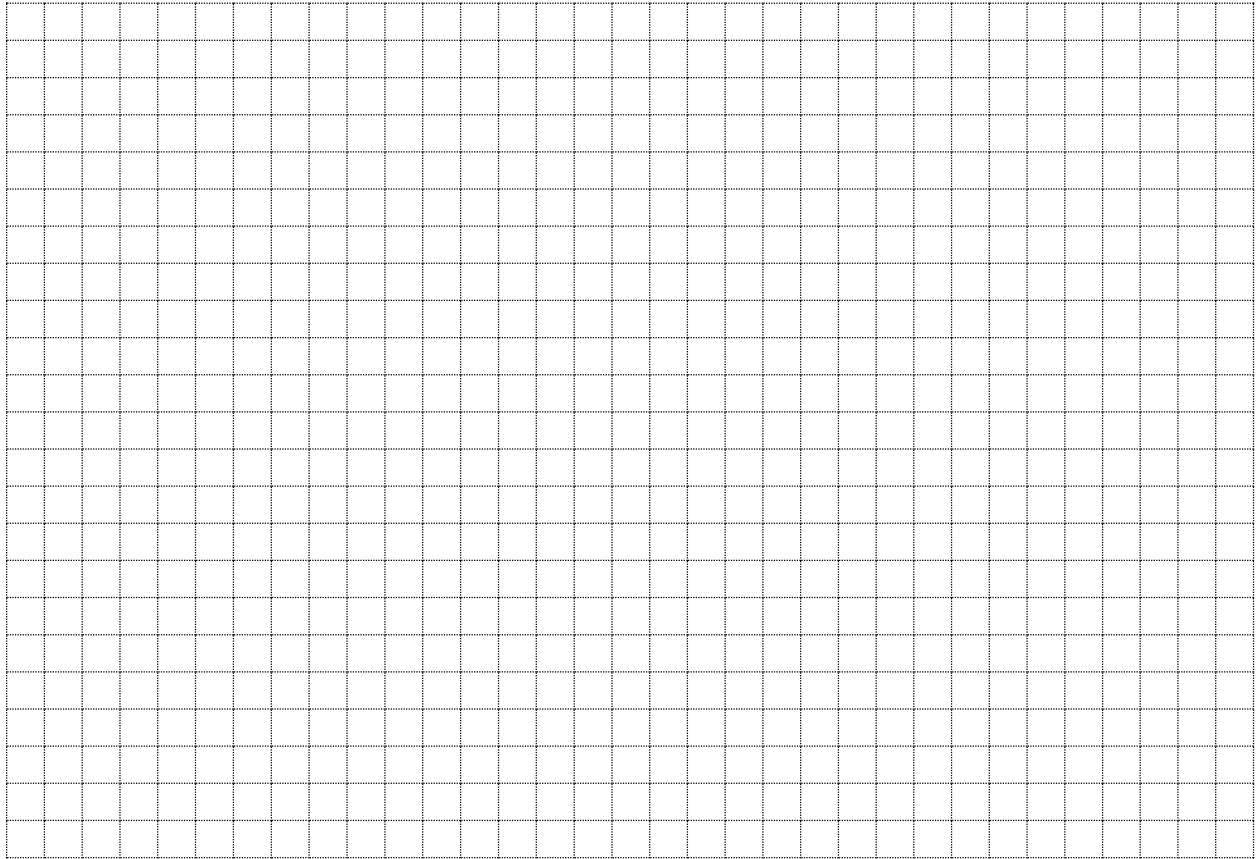


Consider good X and good Y. P_x , P_y , M denote price of good X, price of good Y, and money income, respectively.

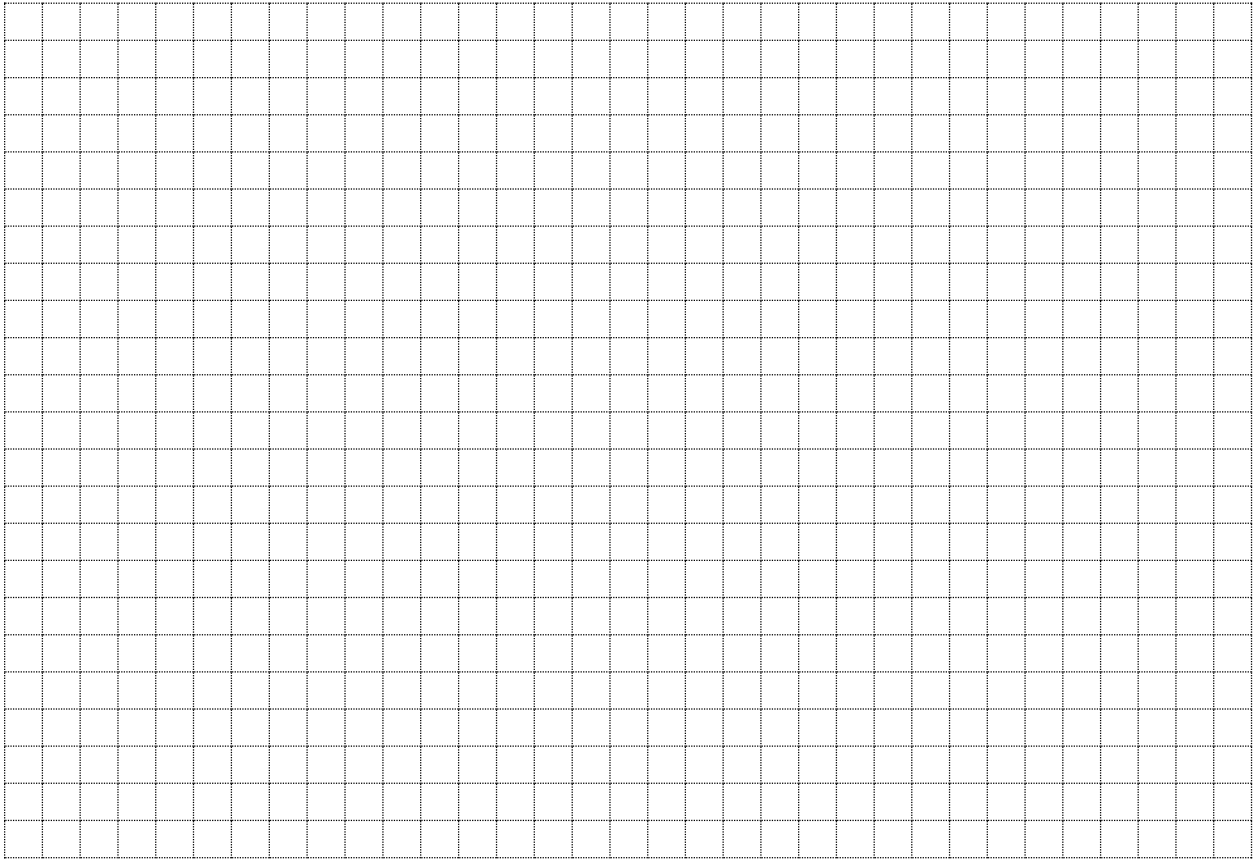
- a) If both X and Y are normal goods and price of Y rises. Analyze change in consumer's equilibrium by using substitution and income effects. Show S.E. and I.E. on both goods.



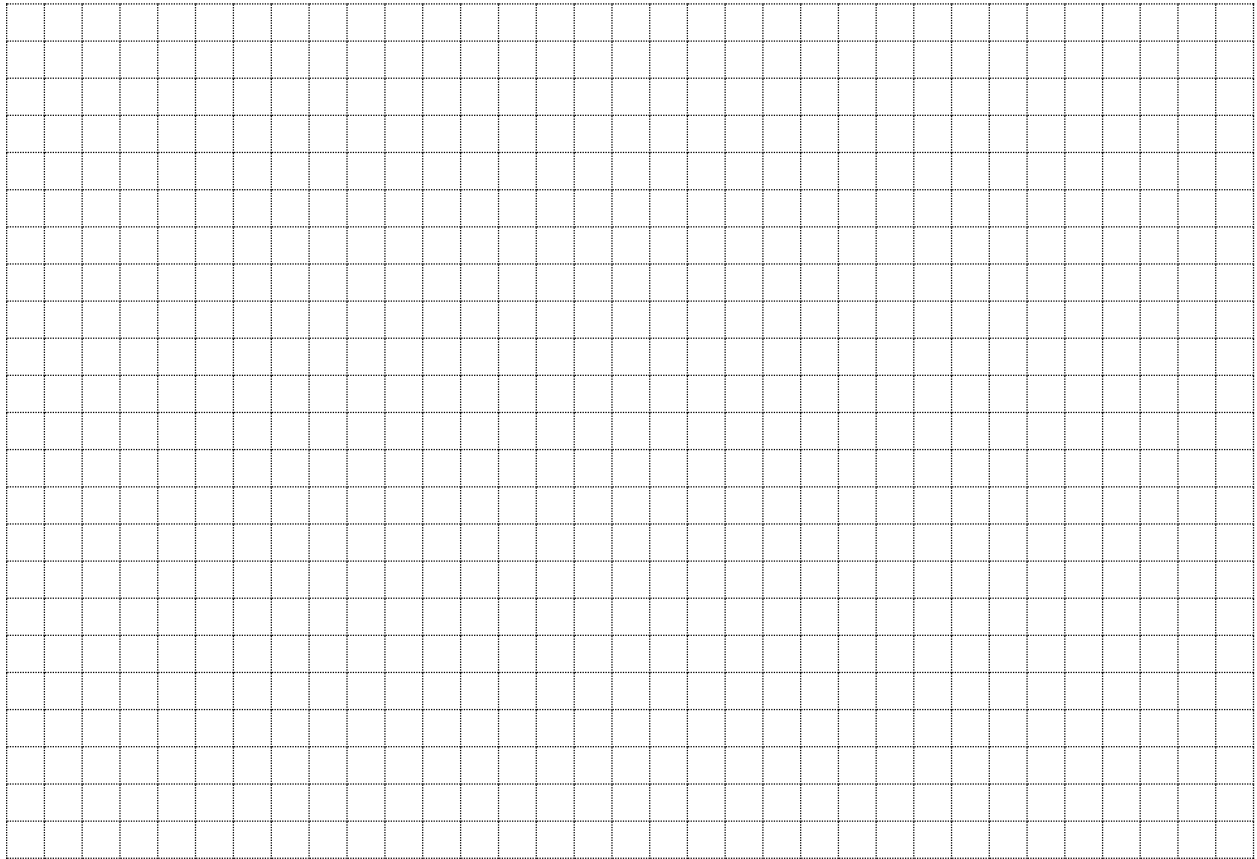
- b) If both X and Y are normal goods and price of Y falls. Analyze change in consumer's equilibrium by using substitution and income effects. Show S.E. and I.E. on both goods.



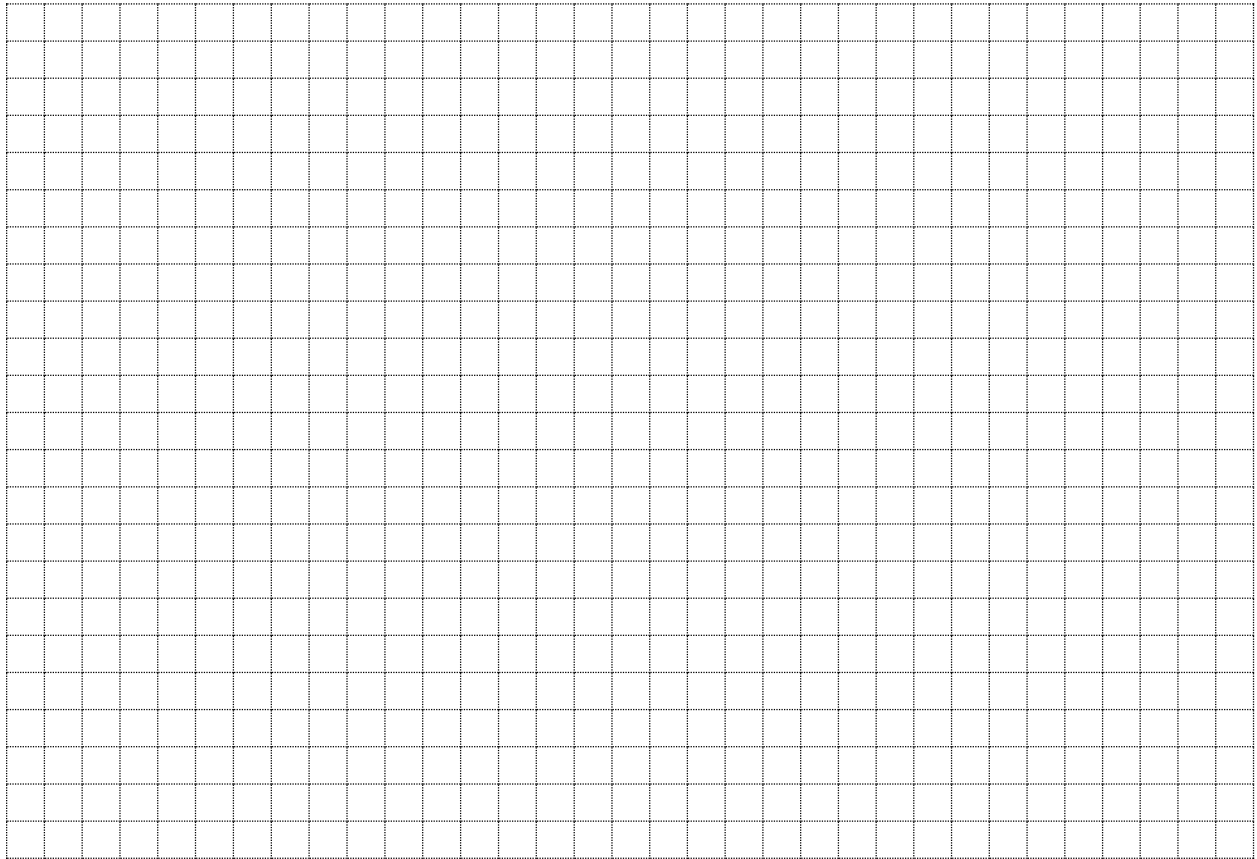
- c) If both X and Y are normal goods and price of X falls. Analyze change in consumer's equilibrium by using substitution and income effects. Show S.E. and I.E. on both goods.



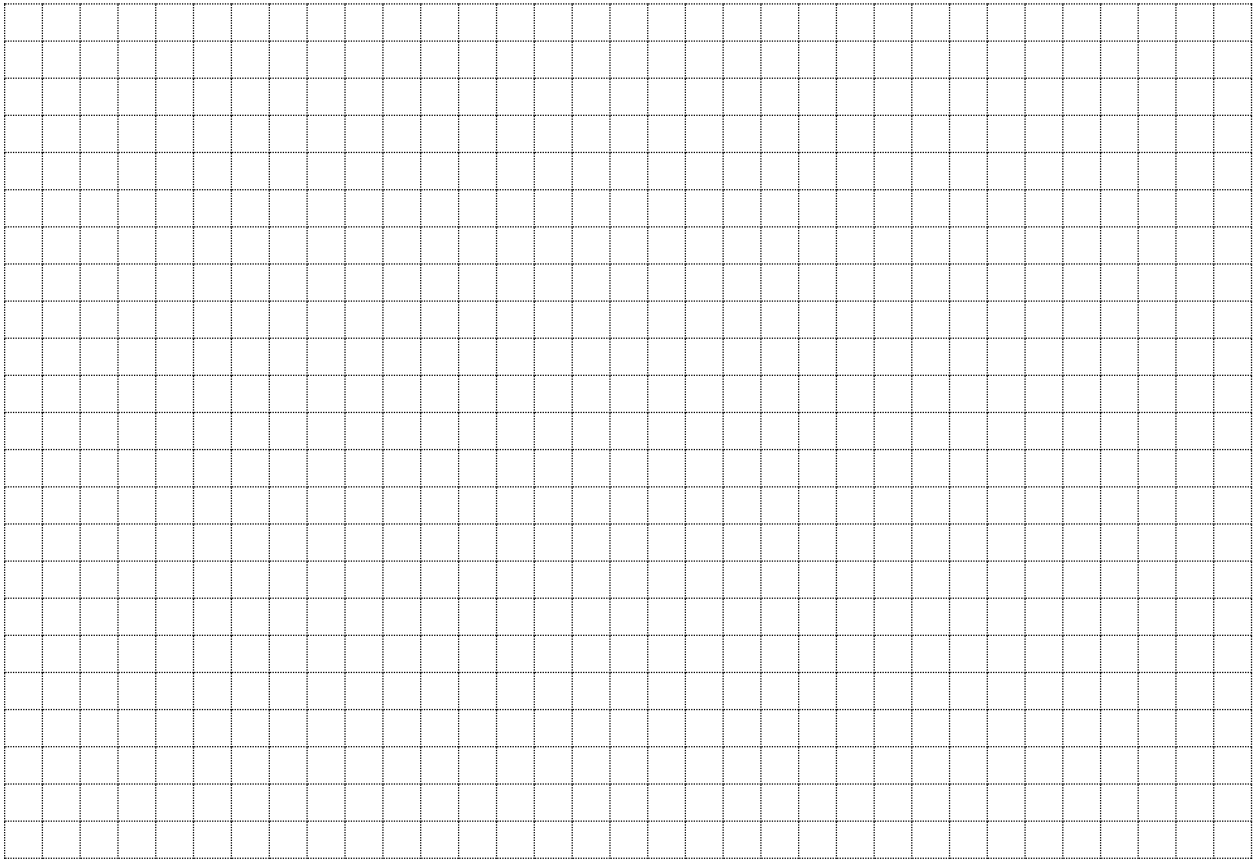
- d) Case where X is normal good and Y is inferior good. Suppose that price of Y rises. Analyze change in consumer's equilibrium by using substitution and income effects. Show S.E. and I.E. on both goods.



- e) Case where X is normal good and Y is inferior good. Suppose that price of Y falls. Analyze change in consumer's equilibrium by using substitution and income effects. Show S.E. and I.E. on both goods.



- f) Case where X is normal good and Y is inferior good. Suppose that price of X falls. Analyze change in consumer's equilibrium by using substitution and income effects. Show S.E. and I.E. on both goods.



On production and cost in the short run and in the long run

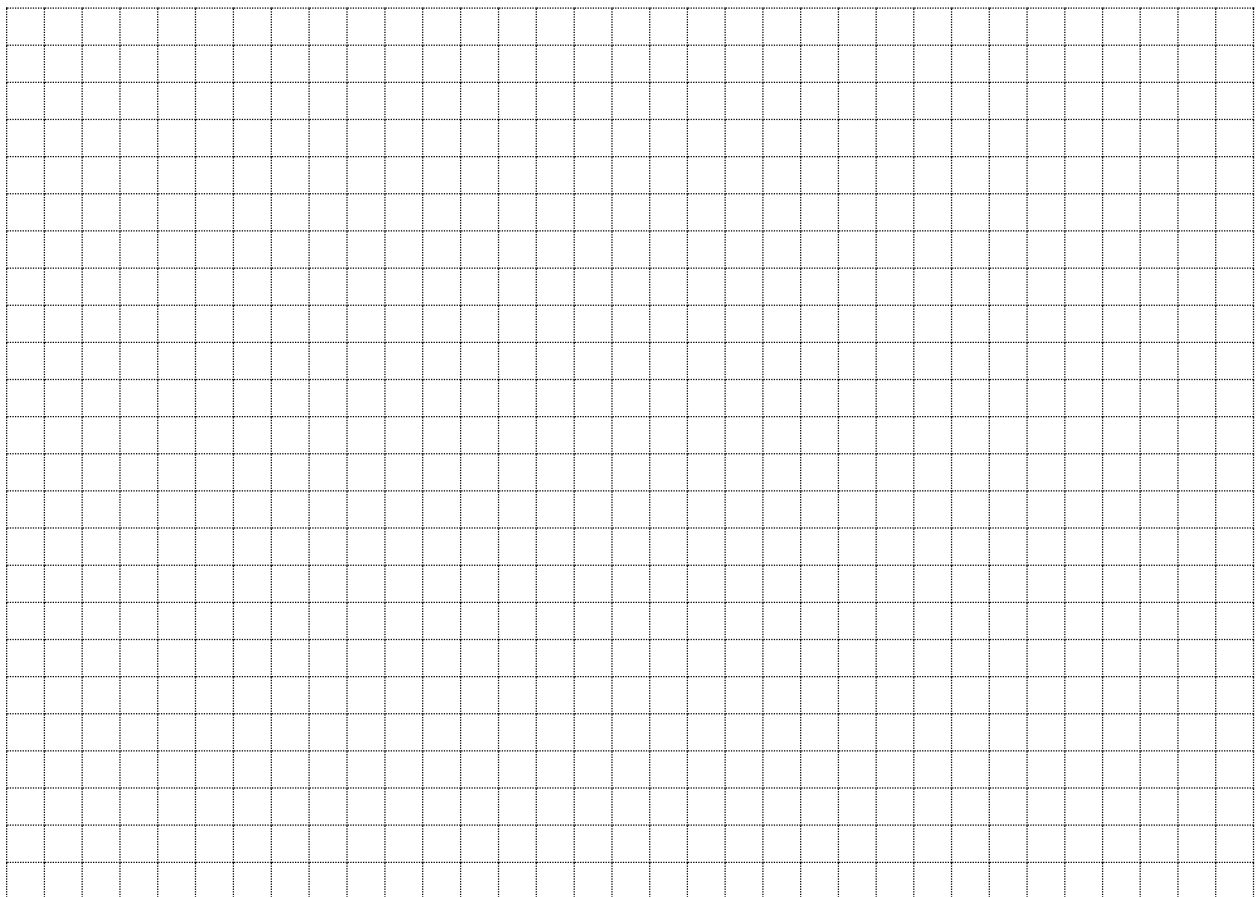
Total product (TP) =

Average product (AP) =

Marginal product (MP) =

Graph TP, AP MP and check with the handout if you make it *conceptually right*.

Hint: TP on one diagram, AP and MP together on the other diagram. Do not mix the three in one diagram!



Explain Law of diminishing marginal product. Give an example.

Explain how AP and MP are linked.

On costs of production

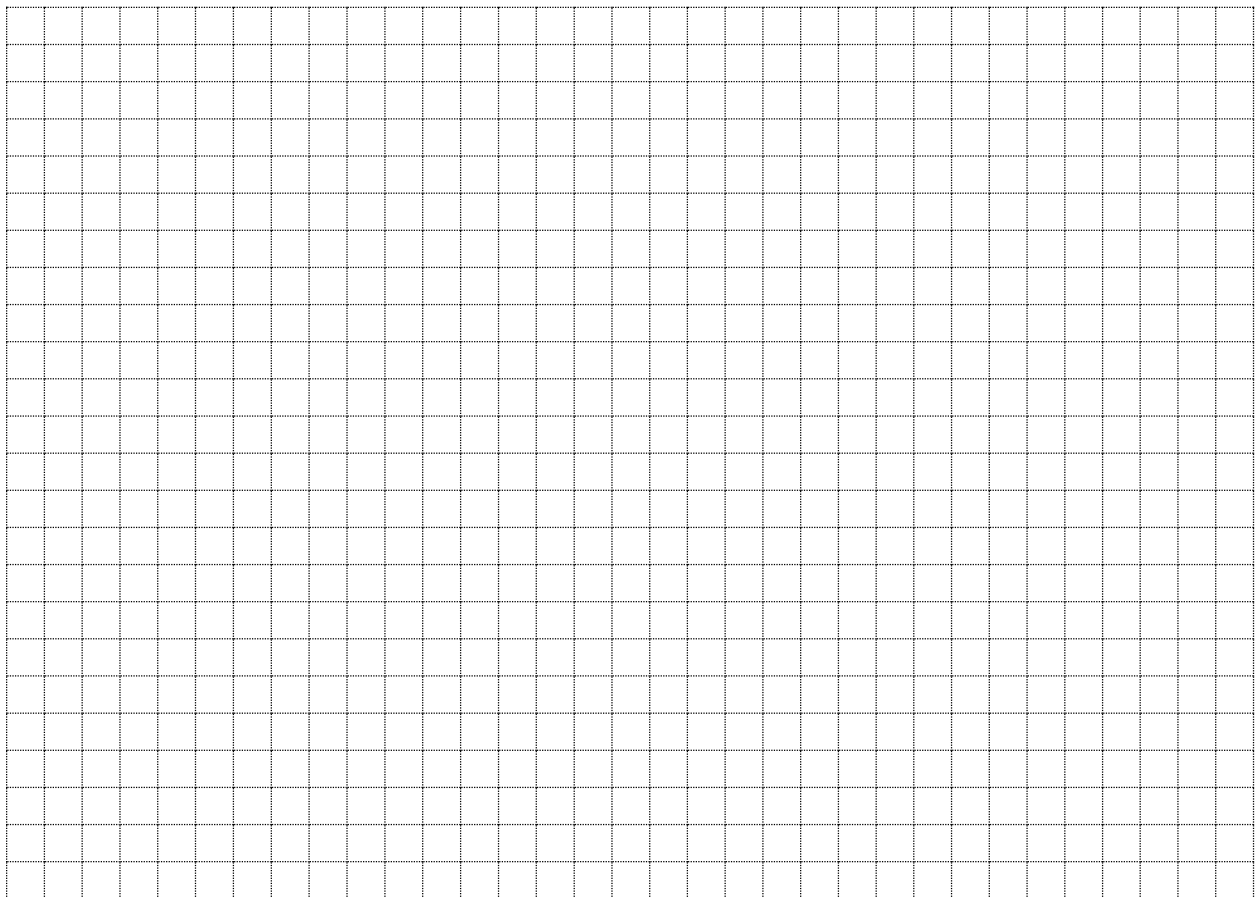
Total cost (TC) =

Total fixed cost (TFC or FC) =

Total variable cost (TVC or VC) =

Graph TC, FC, and VC

Note: VC is increasing with q , first increasing at decreasing rate and then increasing at increasing rate.



Give definition and formula on the following terms

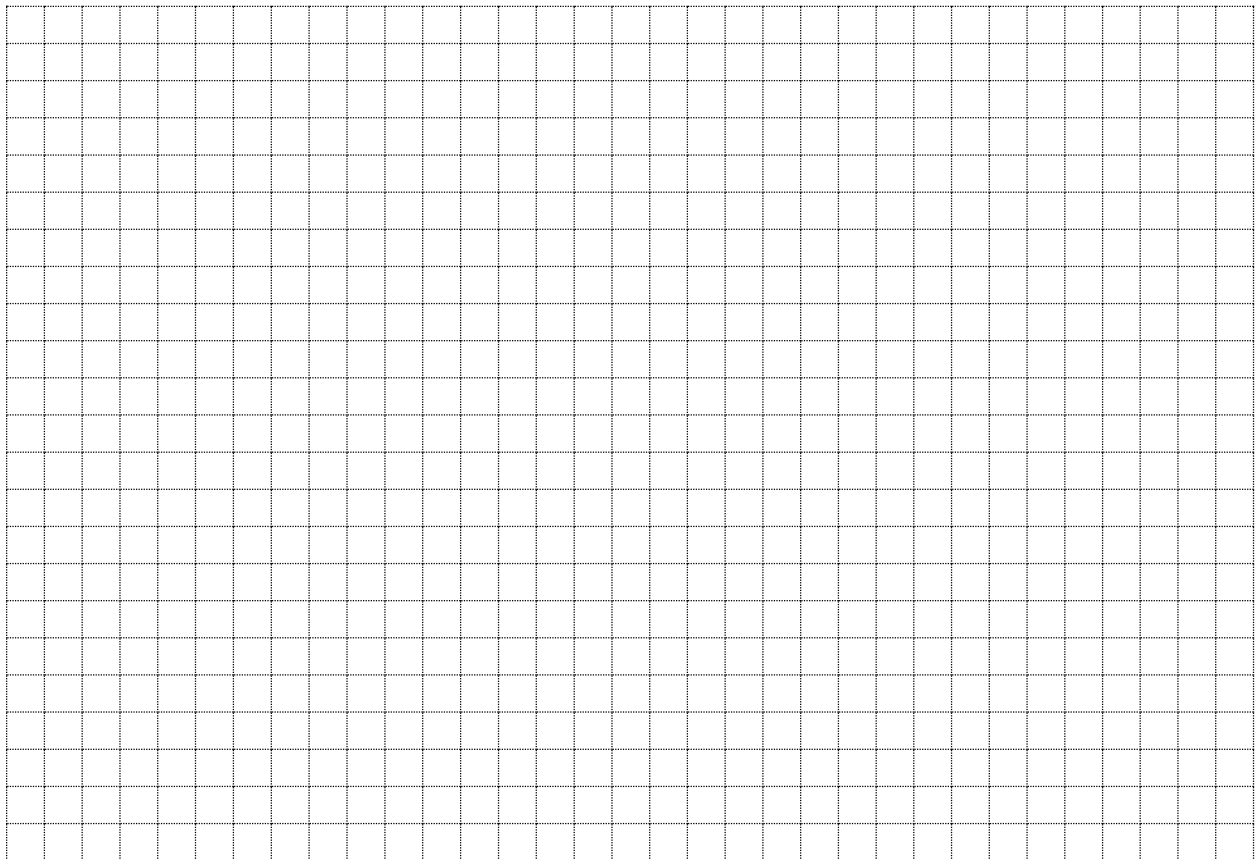
Average fixed cost (AFC) =

Average variable cost (AVC) =

Average cost (AC) =

Marginal cost (MC) =

Graph AFC, AVC, AC, and MC, all together in a diagram.



Explain why the vertical distance between AC and AVC is not constant throughout level of output (q) produced? What is spreading effect?

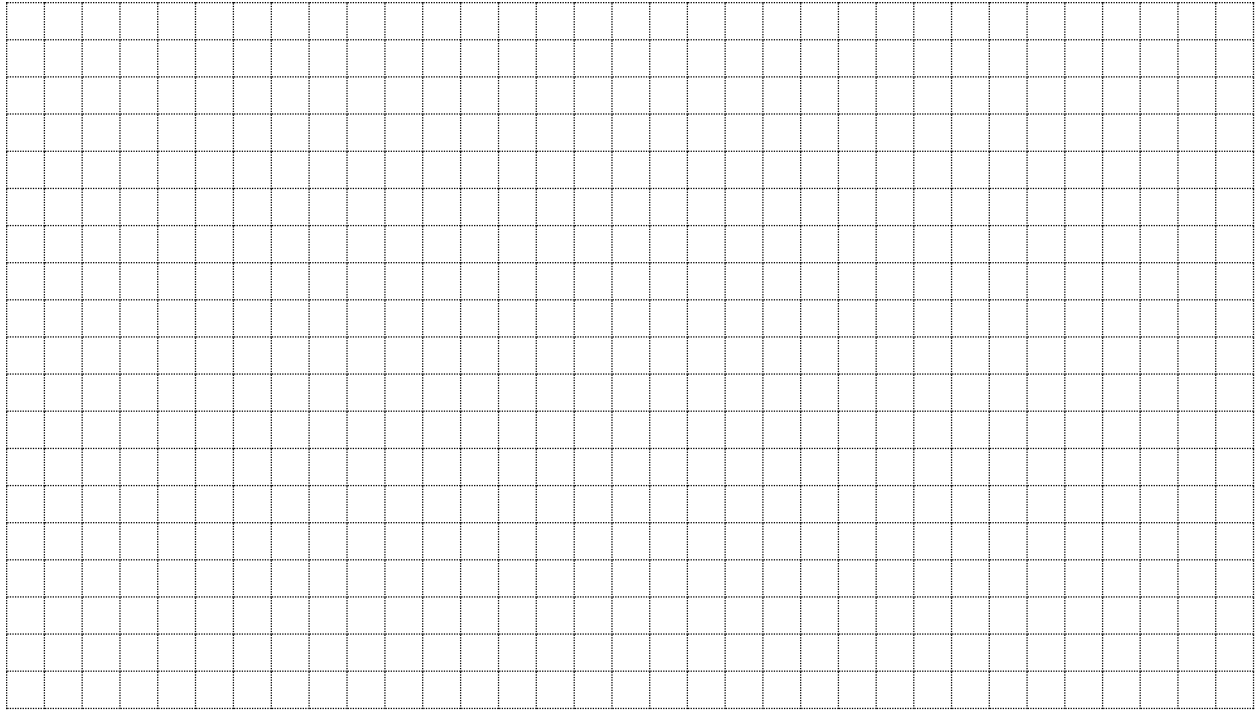


Can MC curve cut AVC curve *before or after* the bottom of AVC curve? If cannot, why?

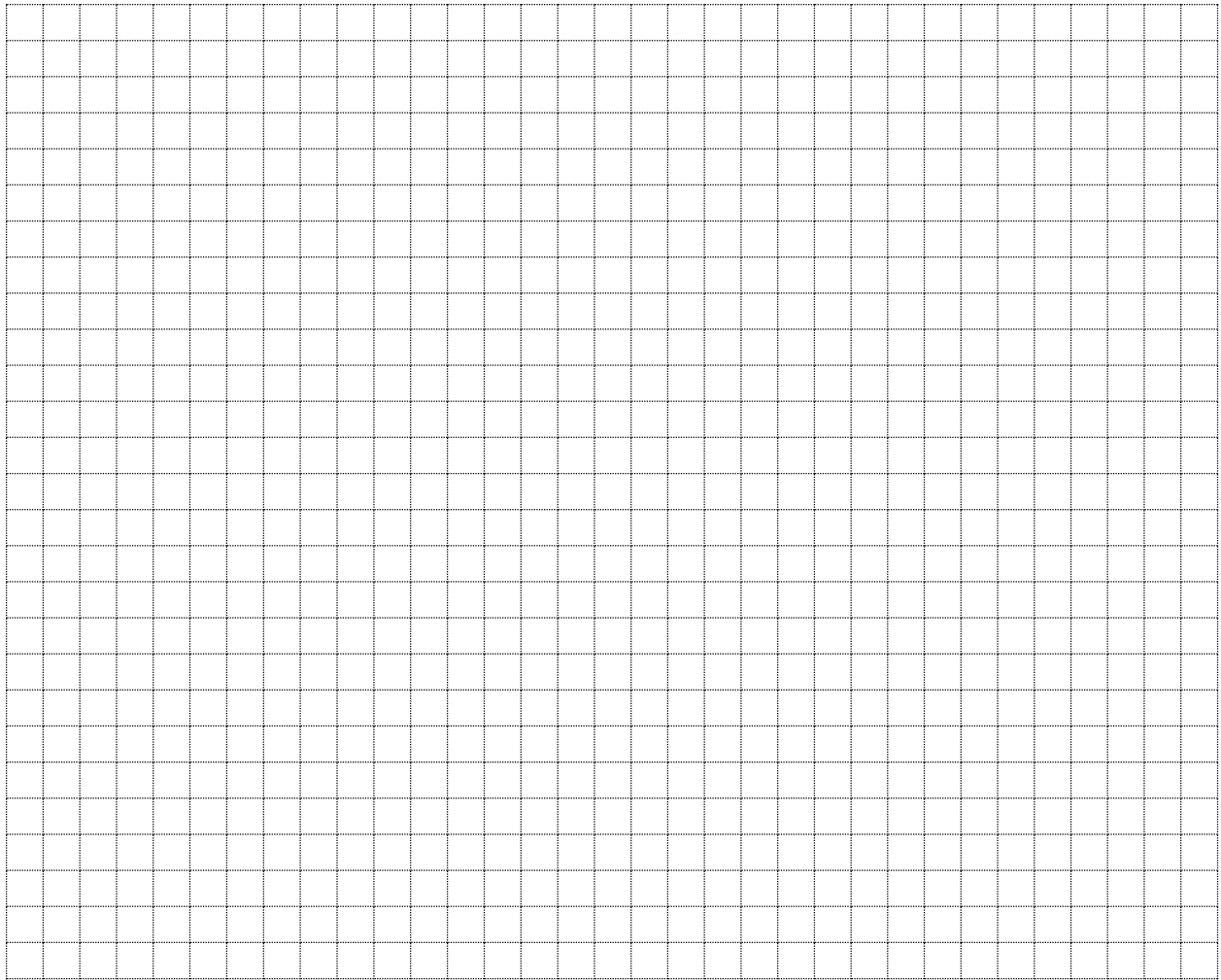


Can MC curve cut AC curve *before or after* the bottom of AC curve? If cannot, why?

[illegible]



Explain 1) How AVc and AP are linked and 2) how MC and MP are linked.



In the long run, explain how we obtain long run average cost curve (LAC) and why it is u-shaped?

Provide definition for the following terms

Expansion path:

Economies of scale

Diseconomies of scale

Returns to scale

Increasing returns to scale

Constant returns to scale

Decreasing returns to scale

On perfectly competitive market

What is a perfectly competitive market?

What does price taker mean?

Total Revenue (TR) =

Average revenue (AR) =

Marginal revenue (MR) =

Why does $MR=P$ in a perfectly competitive market?

Why is demand curve facing a competitive firm horizontal?

What is the difference between economic profit and accounting profit?

Derive shut down rule.

Sometimes it makes an economic sense for a firm running loss to keep producing. Why?

In the long run, Free Entry of new firms eliminates excess profit all existing firms have obtained. Do you Agree or disagree? Explain with diagrams.

On monopoly market

What are the characteristics of monopoly?

As we know, if a monopolist would like to boost his sale, he must lower the price to attract more sales. When he sells an additional unit of his product, why his marginal revenue (MR) is less than price he currently charges.



Why does the profit-maximizing monopolist select the quantity to produce (Q) where Marginal revenue = marginal cost? In other words, why should not he produce at Q where $MR > MC$ or at Q where $MR < MC$?

Consider an inverse demand function: $P = 100 - Q$.

- (a) Find MR equation
- (b) If $MC = 10$ for any q , find Q that maximizes the monopoly profit, price (P) the monopolist charges to the buyers, his monopoly profit.
- (c) Does monopolist maximize total happiness for the society as a whole (or total surplus)? Who gains and who loses under the monopoly.