

**Study Guide for Exam 2**  
**Principles of Microeconomics**  
**EC 110-001, Summer 2007**

**Economic Notions and Definitions (Key Concepts)**

**Chapter 7: Consumers, Producers, and the Efficiency of Markets: :**

- Willingness to pay
- Consumer Surplus
- Producer Surplus
- Total Surplus
- Marginal Buyer
- *Know* how to draw a demand curve given one's willingness to pay
- *Know* how to draw a supply curve given one's production costs

**Chapter 8: The Costs of Taxation**

- Deadweight loss
- Laffer Curve
- Supply-side economics
- *Know* how to draw the deadweight loss as a function of the tax
- *Know* how to draw a supply-and-demand diagram with a tax on the sale of the good
- *Know* how elasticities of supply and demand affect the deadweight loss of taxation

**Chapter 13: The Costs of Production**

- Total revenue
- Total cost
- Profit
- Explicit costs
- Implicit costs
- Economic Profit

- Accounting Profit
- Production function
- Marginal product
- Diminishing marginal product
- Fixed and variable costs
- Average fixed, variable, and total cost
- Marginal cost and marginal revenue
- Efficient scale
- Economies, diseconomies and constant returns to scale

#### **Chapter 14: Firms in Competitive Markets**

- Competitive market
- Average revenue
- Marginal revenue
- Sunk cost
- *Know* to discuss a firm's short-run supply curve
- *Know* to discuss a firm's long-run supply curve
- Profit maximization rules; the relationships among  $P$ ,  $MR$ ,  $AR$ ,  $MC$
- *Know* to discuss a firm's decision to shut-down and/or exit a market
- *Know* to discuss economic profits in the long run
- *Know* to discuss the shape of the *market's* supply curve; evaluate demand shocks

#### **Chapter 15: Monopoly**

- Monopoly
- Barriers to entry
- Natural Monopoly
- Price discrimination
- Monopoly vs. Competition
- Inefficiency of monopoly

- A government's four ways to respond to a monopoly
- *Know* how to draw the demand, marginal revenue, and marginal cost curves for a monopolist
- A monopolist profit maximization rules; the relationships among  $P$ ,  $MR$ ,  $AR$ ,  $MC$

### **Chapter 16: Oligopoly**

- Oligopoly
- Monopolistic competition
- Collusion
- Cartel
- Nash equilibrium
- Prisoner's dilemma
- Dominant strategy
- Antitrust policies
- Resale Price Maintenance, Predatory Pricing, Tying

### **Chapter 17: Monopolistic Competition**

- Monopolistic competition
- Product differentiation
- Monopolistically competitive firm in the short-run
- Monopolistically competitive firm in the long-run
- Monopolistic versus Perfect Competition

### **Problems**

- Problems similar to the ones in Assignment 3
- Type of problems we worked in class (from Chapters 7, 8, 13, 14, 15, 16, and 17)