

**Study Guide for Exam 2**  
**November 7, 2007**

**Chapter 6: Production**

- Know how to compute average and marginal products
- Discuss about the law of diminishing marginal returns
- Know about MRTS and how to draw various isoquants (i.e., the 2 extreme cases);  
The average-marginal relationship
- Returns to scale

Know especially well problem 3 on H/W 3.

**Chapter 7: The Cost of Production**

Know about the following:

- Economic Cost versus Accounting Cost
- Opportunity Cost and Sunk Costs
- Fixed and Variable Costs, and Fixed versus Sunk Costs
- Marginal and Average Cost; The shape of the various cost curves and the average-marginal relationship
- Relationship between MRTS, prices, and input ratios at the equilibrium level

Know especially well problems 4 and 5 on H/W 3 (you might see them both on the exam).

**Chapter 8: Profit maximization and Competitive Supply**

Know about the following:

- Characteristics of a competitive firm/market
- Marginal Revenue, Marginal Cost, and Profit Maximization: equilibrium relationships
- Output rule (i.e.  $MC=MR$ ) and shut-down rule
- A competitive firm's short-run supply curve

- The key aspects of the Long-Run Equilibrium: Accounting Profit and Economic Profit, Zero Economic Profit, Entry and Exit
- Economic Rent

Know especially well problems 1, 2 and 3 on H/W 4

### **Chapter 9: The Analysis of Competitive Markets**

Know about the following:

- Show on a graph the Consumer and Producer Surplus
- The impact of elasticity on the tax incidence
- Market failure: externalities and lack of information
- Draw the graphs of price supports, production quotas, and incentive programs
- The Impact of a Tax or Subsidy

Know especially well problem 5 on H/W 4.