REVIEW SHEET FOR PERFECT AND IMPERFECT COMPETITION
Exam III – Intermediate Microeconomics
Prof. Jepsen

A.  **Perfect Competition** (Chapter 9, sections 9.1 through 9.5; skip 1-b-d exercise 9.2, skip “some nonsunk costs” pp. 316-318, skip “comparative statics” pp. 325-328, and skip 1-b-d exercise 9.4)

Define:  
- characteristics of perfect competition
- accounting profit
- economic profit
- price-elasticity of supply

Graph:  
- profit-maximization using TR/TC and the corresponding MC/MR graph
- profit-maximizing price, quantity, and profit for a firm
- supply curve for a firm
  - identify the shut-down price
  - identify the zero-profit price
- supply curve for an industry
- supply curve that is perfectly inelastic
- supply curve that is perfectly elastic
- consumer surplus, producer surplus, and total benefit for the industry

Solve:  
- for the profit-maximizing price, quantity, and profit for a firm and for the industry
- for the short-run supply curve for the firm
- for the industry supply curve using the marginal cost curves of the firms in the industry
- for the shut-down price
- for the zero-profit price
- for the number of firms in an industry
- for the price-elasticity of supply for a firm
- for the price-elasticity of supply for an industry

Explain:  
- why P=AR=MR
- why P=MC
- why the firm’s demand curve is horizontal but the industry’s demand curve is downward sloping
- why the firm will shut down if P<AVC but may continue to operate if AVC<P<ATC
- the shape of the long-run supply curve for a constant-cost industry, an increasing-cost industry, a decreasing-cost industry (pages 335-340; multiple-choice questions only)
B. **Monopoly** (Chapter 11, sections 11.1, 11.5, and 11.6, plus “marginal revenue” pp. 424-425 and “elastic region of demand curve” pp. 427-428)

Define: characteristics of monopoly
marginal revenue
average revenue
consumer surplus
producer surplus
total benefit
deadweight loss
why monopolies exist

Graph: profit-maximizing price, quantity, and profit
CS, PS, total benefit, DWL
MR, given D

Solve: for the profit-maximizing price, quantity, profit, CS, PS, total benefit, and DWL

Explain: why P>MC
why the monopolist maximizes profit where MC=MR
the relationship between demand, marginal revenue, and price-elasticity of demand
why monopolies exist

C. **Capturing Surplus** (Chapter 12, sections 12.1, 12.4 (through page 472); section 10.2 is also helpful)

Define: first-degree price discrimination
second-degree price discrimination
third-degree price discrimination

Graph: profit-maximizing price, quantity, and profit for third-degree price discrimination
profit-maximizing price, quantity, and profit if the firm must charge one price (uniform pricing)

Solve: for the profit-maximizing price, quantity, and profit under third-degree price discrimination and under uniform pricing

Explain: why a monopolist wants to practice third-degree price discrimination if it can
D. Competitive Markets: Applications (Chapter 10, sections 10.1-10.3, 10.6, 10.7; section 10.8 multiple-choice only)

Define: excise tax
price floor
production quota

Graph: equilibrium price, equilibrium quantity, CS, PS, government revenues, NB, DWL before and after an excise tax
equilibrium price, equilibrium quantity, CS, PS, NB, DWL before and after a price floor
equilibrium price, equilibrium quantity, CS, PS, NB, DWL before and after a production quota

Solve: for equilibrium price, equilibrium quantity, CS, PS, government revenues, NB, DWL before and after an excise tax
for equilibrium price, equilibrium quantity, CS, PS, NB, DWL before and after a price floor
for equilibrium price, equilibrium quantity, CS, PS, NB, DWL before and after a production quota

Explain: how an excise tax affects prices, output, CS, PS, government revenues, NB, and DWL
how a price floor affects prices, output, CS, PS, NB, and DWL
how a production quota affects prices, output, CS, PS, NB, and DWL
be able to compare the three policies
how an agricultural price support policy of acreage limitations compares to government purchases of surplus agricultural products

E. General Equilibrium (Chapter 16, sections 16.1, 16.4)

Define: economically (Pareto) efficient
economically (Pareto) inefficient
exchange efficiency
Edgeworth box
contract curve

Graph: Edgeworth box

Explain: how trading will occur in an exchange economy