

# 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