

## EXAM #2: Chapter 13

### PRODUCER THEORY

How do firms make decisions about how much to produce?

Are production decisions related to costs? YES!

What is the goal of a firm? To maximize profit.

Profit equals total revenue minus total cost. Total revenue equals price times quantity.

Know the difference between economic cost and accounting cost.

Know the difference between economic profit and accounting profit.

Know the role of opportunity cost in the definitions of economic profit and accounting profit.

#### A. Production

Production function

Know the definition. Be able to draw and interpret the graph.

Marginal product

Know the definition. Be able to calculate when given production information.

Diminishing marginal productivity

Know the definition. Be able to recognize when diminishing marginal productivity begins when given production information. What does diminishing marginal productivity imply about the shape of the production function?

#### B. Costs

Opportunity costs, explicit costs, implicit costs

Know the definitions. Be able to calculate.

FC, VC, TC, MC, AFC, AVC, ATC

Know the definitions. Be able to calculate.

General shapes of the cost curves

Know the graphs.

Know the relationships between MC, AVC, and ATC.

Know the relationships between AFC, AVC, and ATC.

Long-run ATC

Know the distinction between the short run and the long run.

Economies of scale, Constant returns to scale, Diseconomies of scale

Be able to define, graph, and recognize when given cost information.

What is the main explanation for economies of scale?

What is the main explanation for diseconomies of scale?

#### C. Relationship of Production and Costs

Know the relationship between TP and TC.

Know the relationship between TP and VC.

Know the relationship between MP and MC.