

Economics 120
Review Questions
Second Exam

Spring 2008

1. How are the elasticities of demand and supply calculated?
2. How can the price elasticity of demand be determined using the total revenue test?
3. What are the cross price elasticity of demand and the income elasticity of demand?
4. Using the income elasticity of demand, define normal goods, inferior goods, luxuries, and necessities.
5. Using the cross price elasticity of demand, define substitute, complimentary, and independent goods.
6. What are the determinants of the price elasticity of demand and the price elasticity of supply? What relationship do these determinants have to the elasticity of demand or supply?
7. What effect do price ceilings and price floors have on markets.
8. Define explicit and implicit costs? How are economic and accounting profits calculated?
9. Define TFC, TVC, AFC, AVC, ATC, MC?
10. Define the Law of Diminishing Returns? How does it affect the shape of the short run cost curves?
11. How are AP and AVC related? How are MP and MC related?
12. How is the long run average cost curve obtained? Graph it.
13. What causes economies of scale and diseconomies of scale?
14. What are the assumptions of the purely competitive market structure?
15. Know how to determine the short-run price and output of a perfectly competitive firm. Graph the firm making profits and losses.
16. What is the perfectly competitive firm's short run supply curve? Graph it.
17. What happens to long run equilibrium price and output in an increasing cost, competitive industry when demand increases? What will happen in a constant cost industry?

18. What are the principal advantages and disadvantages of the perfectly competitive market structure?
19. What is the long run problem of U.S. agriculture? What are the causes?
20. What is the short run problem of U.S. agriculture? What are the causes?
21. What are the effects of agricultural price supports?
22. What are the major criticisms of agricultural price supports?
23. What are the major provisions of the Freedom to Farm Act of 1996? What are the likely effects of this reform?
24. What are the principal sources of monopoly power?
25. Know how to determine the profit maximizing price and quantity of a pure monopoly. Graph the equilibrium.
26. How does the economic efficiency of a pure monopoly compare to pure competition?
27. How does the price and output of pure monopoly compare to pure competition?
28. What are the necessary conditions for monopoly price discrimination?
29. What are the economic effects of monopoly price discrimination compared to the single price monopoly?
30. What are the marginal cost and average cost price regulation of a natural monopoly?
31. What are the characteristics of the monopolistic competition market structure?
32. Know how to determine the short run price-output of a monopolistic competitive firm. Graph the firm making profits; losses. Know the nature of long run equilibrium for the monopolistic competitive firm. Graph the firm in long run equilibrium.
33. How does the economic efficiency of monopolistic competition compare to pure competition?
34. What are the pros and cons of advertising?
35. What are the characteristics of the oligopoly market structure?
36. What is the concentration ratio? What are its weaknesses? What is the Herfindahl Index?

37. Know how to determine the profit maximizing price and output of non-collusive and collusive oligopolies.
38. Why are prices rigid in the kinked demand model of oligopoly?
39. What are the obstacles to collusion of oligopolists?
40. What are the characteristics of the price leadership model of oligopoly?
41. How does the economic efficiency of the oligopoly market structure compare to pure competition?