Active reading assignments

Please provide short answers to the questions below making sure that your answers reflect information from the text. Answers that represent restatement of the chapter summary will not be credited. You are expected to come to class with completed answers. The answers will be collected after we had a chance to discuss the relevant questions. I will call several students to present their answers. The questions are predominantly based on the “Review questions” at the end of the corresponding chapter.

Chapter 2.
1. Define complements and substitutes.
2. How does income affect the demand?
3. Why is the demand curve downward-sloping?
4. What is the inverse demand curve?
5. What is the difference between a change in quantity demanded and a change in demand?
6. Why is the supply curve upward-sloping?
7. Define market equilibrium. What is true of the quantity supplied and demanded at the market equilibrium?
8. What is total expenditure? Total revenue?
9. Why must you know the price elasticity of demand to be able to predict the effect of a change in price on total expenditure?
10. In addition to own-price elasticity what are other types of elasticity discussed in the text?

Chapter 3
1. How do you understand what is measured by the consumer and producer surplus?
2. What is the difference between the price floor and the price ceiling?
3. How does a tax affect the market equilibrium?
4. How does quota affect the market?
5. How does a subsidy affect the market?
6. How do you understand the idea of deadweight loss?

Chapter 4
1. We make four assumptions about preferences: completeness and rankability, “more is better,” transitivity, and consumers want variety. Briefly describe each assumption.
2. How is indifference curve related to utility?
3. What does an indifference curve tell us about the consumer?
4. Draw an indifference curve for the case of perfect substitutes.
5. Draw an indifference curve for the case of perfect complements.
6. What is a budget constraint?
7. Show the location of infeasible points on the figure depicting the budget line.

Chapter 5
1. What is the substitution effect?
2. What is the income effect?
3. How can goods be classified on the basis of income elasticity?
4. What is the relationship between the individual and market demand?

Chapter 6
1. What are the differences between a firm’s production in the short run and the long run?
2. What does a production function tell us?
3. Why is a firm’s marginal product of labor more relevant than the marginal product of capital in the short run?
4. How does the amount of output change as the isoquants are farther from the graph’s origin?
5. What is the marginal rate of technical substitution? What does it imply about an isoquant’s shape?
6. How will a firm react to an increase in the price of one input relative to another?

Chapter 7
1. What is the difference between a firm’s accounting and economic costs?
2. Define opportunity cost. How does a firm’s opportunity cost relate to its economic cost?
3. What is the sunk cost fallacy?
4. Describe the relationship between fixed, variable, and total costs.
5. Why does a firm’s fixed cost not affect its marginal cost of producing an additional unit of a product?
6. Describe the conditions under which a firm has economies of scale, diseconomies of scale, and constant economies of scale.

Chapter 8
1. Economists categorize an industry by three criteria: the number of firms in the industry, the type of product sold, and barriers to entry. Using these three criteria, describe a perfectly competitive industry.
2. Why does a perfectly competitive firm face a horizontal demand curve?
3. Perfectly competitive industries have free entry and exit in the long run. When will firms decide to enter an industry? When will a firm exit an industry?
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Chapter 9
1. When does a firm have market power?
2. Name and describe three barriers to entry to a market.
3. What are the characteristics of a natural monopoly?
4. Name some regulations the government imposes on firms with market power.

Chapter 10
1. What are the two requirements of price discrimination?
2. What are some ways that a firm can segment its customers?
3. What are the differences between the following three pricing strategies: block pricing, segmenting, and quantity discounts?
4. What is the difference between mixed bundling and pure bundling?
5. What are the two component prices of a two-part tariff?

Chapter 11
1. Name some different forms of imperfect competition.
2. Define Nash equilibrium.
3. Why do firms in oligopoly situations reach Nash equilibria?
4. Contrast Bertrand and Cournot competition.
5. Contrast Cournot and Stackelberg competition.
6. What are the characteristics of a monopolistically competitive firm?

Chapter 12 (Game theory)
1. What is a game?
2. What is the difference between “best outcomes” and “best choices”?
3. What does it mean that a game does not have a pure-strategy equilibrium?
4. What is the difference between simultaneous move and sequential move games?
5. What is a mixed strategy equilibrium?