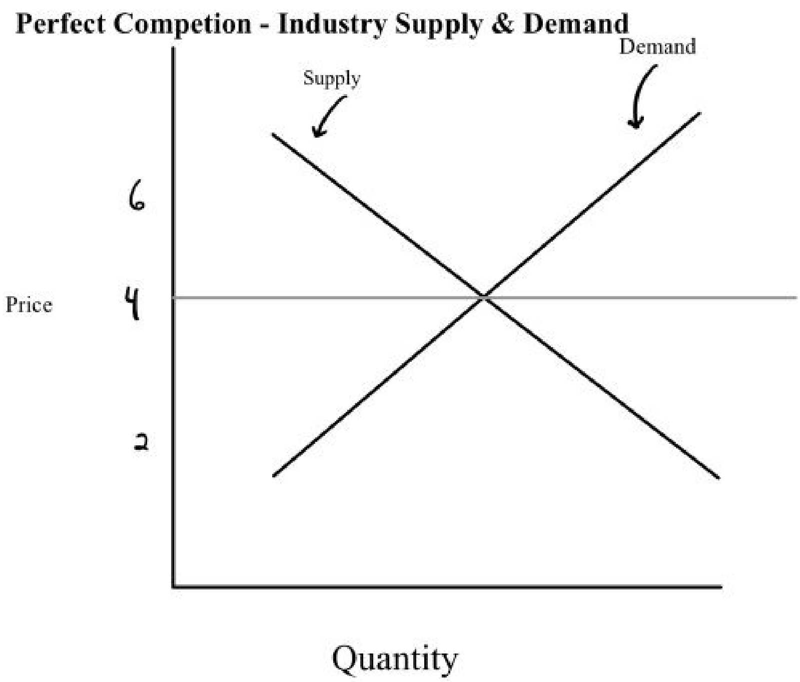
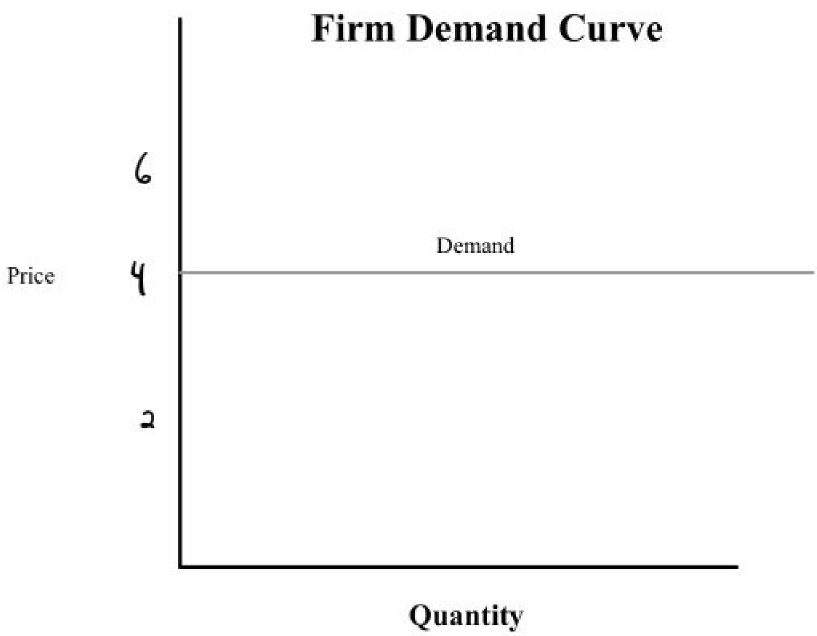
Chapter 5.8 Review Questions: 2, 10, 11

Problem 2

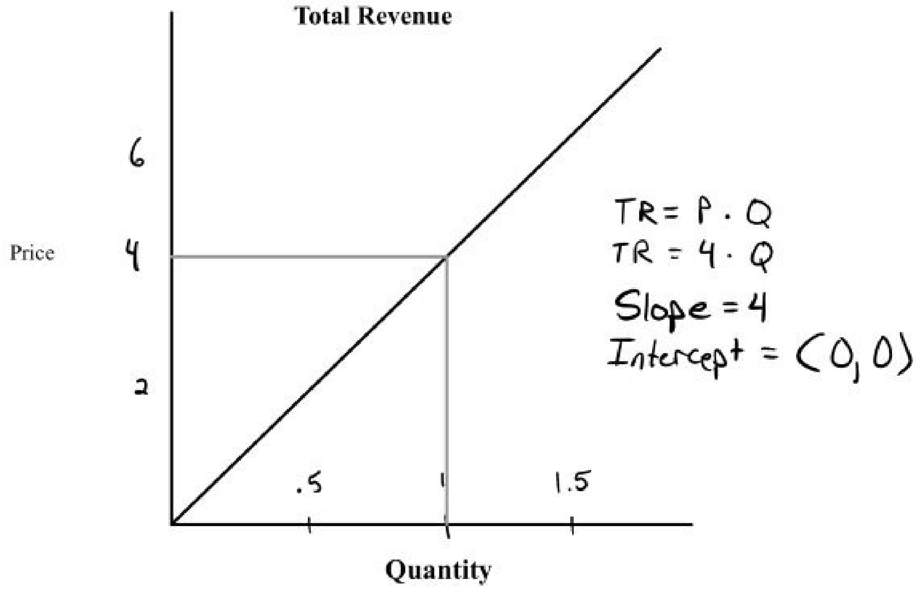
Consider a good produced in a perfectly competitive market
(1) Graph the **industry** supply and demand curve. Price = 4.



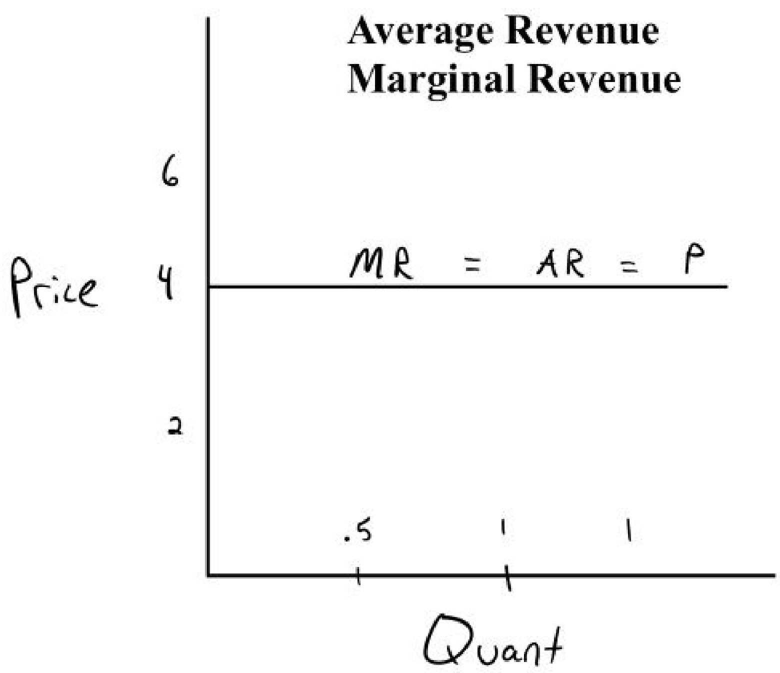
(2) Graph the **firm** demand function.



(3) Graph the **firm** total revenue function. Determine slope and intercept.



(4) Graph the **firm** average revenue function and the marginal revenue function.



Problem 10

What is the difference between **economic efficiency** and **productive efficiency**?

Answer:
Economic efficiency is at the firm level, productive efficiency is at the industry level. Both refer to producing a given quantity of the lowest cost combo.

Definitions from slide notes:
Economic Efficiency: a situation in which nothing can be improved without something else being hurt.
Productive efficiency: maximum number of goods and services are produced with a given amount of inputs

Desirable market performance has 4 criteria:
(1) Macro stability
(2) Equitable
(3) Dynamically efficient
(4) Statically efficient
  Firm level:
    (1) *Technical efficiency:* using minimum quantity to inputs to produce output
    (2) *Economic efficiency:* produces output at minimum cost - lowest cost combo
  Industry level:
    (3) *Productive efficiency:* produces output at minimum cost - lowest cost combo
    (4) *Allocative efficiency:* produces socially desirable level of output (ie society marginal benefit = marginal cost of production)

Problem 11

Give an example of:
(1) Public good -- city park, able to use for free
(2) External benefit -- UNC basketball gets lots of media attention, non-student athletes want to attend too. Able to price higher, increase profits
(3) External cost -- BP oil spill
(4) Network externality -- everyone else has an iPhone and they work well together, I should just get one too