1. Exam 3 Review
   1. Economic Profit v Account Profit
      1. Accounting Profit
         1. Accounting Profit = TR – Explicit Cost
      2. Economic Profit
         1. Economic Profit = TR – [Explicit Cost + Implicit Cost]
   2. Costs
      1. Explicit Costs
         1. Costs that require monetary output like writing a check
      2. Implicit Costs
         1. Costs that include opportunity cost
   3. Short Run v Long Run
      1. Short Run
         1. At least one fixed cost of production
         2. Firms can neither enter nor exit the industry
         3. How long is the short run?
            1. It is unknown, however long it takes to get rid of the fixed cost
            2. For a kid running a lemonade stand it’s however long it takes him to get a new lemonade pitcher
            3. For General Motors it’s many years
      2. Long Run
         1. All factors of production are variable
         2. Firms are free to enter or exit an industry
         3. Difference between shutting down / exiting
            1. Shutting down

You just stopped, you didn’t actually exit the industry

* + - * 1. Exiting

Means you’re on a boat :P

* 1. Costs (Again)
     1. TC – Total Cost
        1. TC = TFC + TVC
     2. TVC – Total Variable Cost
        1. TVC/Q
     3. TFC – Total Fixed Cost
     4. MC – Marginal Cost
  2. Average Cost
  3. Diminishing Returns
     1. Definition
        1. Decrease in the marginal (per-unit) output of a production process as the amount of a single factor of production is increased, ceteris paribus
     2. When do diminishing returns set in?
        1. The cost begin to rise, graphically is when the average cost curve slips upward. You’re adding some variable input to the fixed factor of production, e.g. labor. The fourth worker doesn’t make as much as the previous three workers.
     3. Know how to calculate diminishing returns
        1. Look for MC graph to slope up dramatically
  4. Perfect Competition
     1. Characteristics
     2. Examples
        1. Agriculture
     3. Profit Maximization
     4. Graph
     5. SR & LR time range
     6. Know how it relates to the perfectly competitive firm, if indeed there is one
     7. Stay in v. Shut Down
        1. You should stay in if your fixed costs are covered, even if you continue to lose on everything else
  5. Monopoly
     1. Characteristics
     2. Examples
     3. Profit Maximization (or loss minimizing)
     4. Graph
     5. SR, LR
     6. Stay in v. Shut Down
     7. Price Discrimination
        1. Definition
           1. Charging different prices to different customers. For this to work there is no cost difference to produce, much like how we sell servers at work.
        2. Examples:
           1. IHOP giving seniors discounts
        3. Necessary conditions for a firm to practice it
           1. Not every firm can engage in this
           2. Prevent customers from arbitrage(reselling)
           3. Monopoly Power
           4. Be able to segment customers into different groups (your grandfather and you)
           5. The group with the more inelastic demand (us) are charged more
           6. The group with the more elastic demand (old people) will pay the lower price
        4. Advantages?

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| --- | --- | --- |
| L | TPL | MPL |
| 1 | 10 | 10 |
| 2 | 25 | 15 |
| 3 | 45 | 20 |
| **4** | 60 | 15 |