## Critical Thinking Questions

30.

Small “Mom and Pop firms,” like inner city grocery stores, sometimes exist even though they do not earn economic profits. How can you explain this?

31.

A common name for fixed cost is “overhead.” If you divide fixed cost by the quantity of output produced, you get average fixed cost. Suppose fixed cost is $1,000. What does the average fixed cost curve look like? Use your response to explain what “spreading the overhead” means.

32.

How does fixed cost affect marginal cost? Why is this relationship important?

33.

Average cost curves (except for average fixed cost) tend to be U-shaped, decreasing and then increasing. Marginal cost curves have the same shape, though this may be harder to see since most of the marginal cost curve is increasing. Why do you think that average and marginal cost curves have the same general shape?

34.

What is the relationship between marginal product and marginal cost? (Hint: Look at the curves.) Why do you suppose that is? Is this relationship the same in the long run as in the short run?

35.

It is clear that businesses operate in the short run, but do they ever operate in the long run? Discuss.

36.

Return to [Table 7.12](http://openstax.org/books/principles-microeconomics-3e/pages/7-4-production-in-the-long-run#eip-741). In the top half of the table, at what point does diminishing marginal productivity kick in? What about in the bottom half of the table? How do you explain this?

37.

How would an improvement in technology, like the high-efficiency gas turbines or Pirelli tire plant, affect the long-run average cost curve of a firm? Can you draw the old curve and the new one on the same axes? How might such an improvement affect other firms in the industry?

38.

Do you think that the taxicab industry in large cities would be subject to significant economies of scale? Why or why not?