Unit Four: Review Question with answer

Part one: Discussion questions

1. Compare and contrast the following concepts.
2. Explicit cost and implicit cost

* Explicit Cost is the cost which is actually incurred by the organization, during production. On the other hand, Implicit Cost, are just opposite to the explicit cost, as the organization does not directly incur them, but they are implied in nature which does not involve a cash payment. The former is an out of pocket cost, while the latter is an opportunity cost.
* Explicit Cost refers to the one paid to the factors outside the firm. Conversely, Implicit Cost are the one that arise from using the asset rather than renting it out. There are a number of differences between explicit cost and implicit cost, which has been explained in the article presented below, have a look.
* Explicit Cost is also known as out-of-packet cost while Implicit costs are known as imputed cost.
* Explicit Cost can be easily ascertained, but it is just opposite in the case of Implicit Cost as it does not have any paper trial.
* The measurement of Explicit cost is objective in nature because it is actually incurred whereas Implicit cost occurs indirectly and that is why its measurement is subjective.

1. Economic cost and accounting cost

* Economic costs include the same explicit costs that accounting costs use in calculations, but economic costs also include implicit costs. Implicit costs are those values that are not listed on the ledger, and they are assumed by the business to utilize resources. The idea with implicit costs is that the business could make more by using an asset in a different, more traditional fashion. A paper company with a tree grove could yield more money from the resource, if it sold lumber rather than if it harvested the trees for paper production.
* Accounting costs are the explicit costs, also known hard costs that are seen as money out of your bank account that you need to run your business. These are production costs, lease payments, marketing budgets and payroll. In other words, these are the real costs in manufacturing, marketing and delivering your products.
* Explicit costs have a monetary value and are easily identified on a bookkeeper's ledger. Accounting costs are generally real-time costs that are deducted from revenues in any given accounting period.

1. What is the main difference between fixed inputs and variable inputs?

* Fixed Inputs: - They are the inputs whose quantity is constant for some period of time or constant for short run production function. Typically, fixed input will include plant and machinery, it may also include certain type of labor (contract base labor).
* Variable Inputs: - These are inputting whose quantity can vary, even in the short run or for short period of time. Example of these input are labor energy fuel etc.

1. Explain the law of variable proportions.

* The law of variable proportions states that as the quantity of one factor is increased, keeping the other factors fixed, the marginal product of that factor will eventually decline. This means that up to the use of a certain amount of variable factor, marginal product of the factor may increase and after a certain stage it starts diminishing. When the variable factor becomes relatively abundant, the marginal product may become negative.
* Assumptions: The law of variable proportions holds good under the following conditions
* Constant State of Technology: First, the state of technology is assumed to be given and unchanged. If there is improvement in the technology, then the marginal product may rise instead of diminishing.
* Fixed Amount of Other Factors: Secondly, there must be some inputs whose quantity is kept fixed. It is only in this way that we can alter the factor proportions and know its effects on output. The law does not apply if all factors are proportionately varied.
* Possibility of Varying the Factor proportions: Thirdly, the law is based upon the possibility of varying the proportions in which the various factors can be combined to produce a product. The law does not apply if the factors must be used in fixed proportions to yield a product.

1. Which stage of short run production is efficient? Why?

* Stage II because additional inputs are contributing positively to the total product but marginal product diminishing and positive.

1. Show the relationship between short-run MC and MPL both mathematically and graphically.
2. Discuss the main assumptions of perfectly competitive market.

* very large number of buyers and sellers.
* Homogenous product.
* Free entry and exit of firms
* Perfect knowledge
* Absence of transport cost
* No government intervention

2. Describe the feature of monopolistic competition that resembles perfect competitive and the monopolistic market structure.

* Feature Monopolistic competitive that resembles perfect computations are
* Many callers and buyers
* Easy entry and exit
* Non price competition
* Feature Monopolistic competitive that resembles monopolistic market structures.
* Product differentiation .

1. What is the difference between real and fancied differentiation . Explain using practical examples.

* It is real when there are slight differences in the product of the firm as in taste if it is a foodstuff, or in quality etc.
* It is fancied if the difference is just to attract the customer and not real differentiation, for example, differences in packaging, design etc. Firms in such markets engage in active advertising to attract customers and to market their products.

1. What are the similarities and differences between oligopoly and monopolistically competitive market structure?

* The similarities between oligopoly and monopoly competition are:
* They both exhibit imperfect competition in that oligopoly has few sellers while monopoly has many sellers.
* Firms have some level of control over prices in both competitive structures.
* The major differences between the two include:
* In monopolistic competitive structures the products and services are highly differentiated as compared to oligopoly competitive structures.
* In oligopoly competition, the market is dominated by a few large entities while in a monopoly competition the market comprises many small entities. For example, the wireless communication industry in the U.S. has a number of entities but only a few dominate the market exhibiting an oligopoly competitive structure.
* In oligopoly competition, there are higher barriers to entry while in monopolistic competition the market offers some freedom to entry or exit. For example, in an oligopoly, the barrier to entry may be presented through the government where policies are enacted to limit the number of entities in that particular industry.

5. A firm operates in a perfectly competitive market. The market price of its product

a) What level of output should the firm produce to maximize its profit?