Test 2 Outline

I. Short Run Costs
   A. Total Cost
      1. $TC = VC + FC$
      2. $ATC = AVC + AFC$
      3. $ATC = TC/Q, AVC = VC/Q, AFC = FC/Q$
      4. $MC = \text{change in total cost}/\text{change in } Q$
      5. Be able to graph each one of these
      6. Intersection of $MC$ and $AVC$, $ATC$
   B. Long Run Costs
      1. Economies of scale
         a. Graph, explain
         b. Relationship with returns to scale

II. Output Choice
   A. Marginal Principle
      1. Graph total revenue versus total cost and the marginal analysis

III. Perfectly Competitive Market
   A. Characteristics
   B. Firm
      1. Output choice, price is fixed
      2. Shut-down rule
         a. Can depend on whether fixed costs can be recovered
      3. Graph
   C. Market
      1. How markets adjust when profits are not equal to zero
      2. Short run versus long run equilibrium

IV. Welfare
   A. Efficient Outcome
      1. Marginal cost of production equals marginal utility of consumption
      2. Surplus maximizing
         a. Consumer plus producer surplus
V. Monopoly
A. Characteristics
B. Barriers to Entry
   1. Three main categories of monopolies
C. Output Choice
D. Welfare
   1. Total surplus
   2. Efficiency
   3. Price regulation
E. Natural Monopoly
   1. Barrier to entry
   2. Costs
   3. Regulation
      a. Problems/strange incentives with regulation
F. Price Discrimination
   1. Categories
      a. Definition and examples
      b. Total, consumer, and producer surplus effects

VI. Monopolistic Competition
A. Characteristics
B. Output Choice
   1. Graph
C. Short Run Versus Long Run
D. Advertising
   1. Choice
   2. How welfare is affected