

ECON STUDY GUIDE TEST 2

*******PUBLIC GOODS**

-RIVAL= ONE PERSON AT THE SAME TIME (EX: CANDY BAR OR SUIT)

*******-NON-RIVAL**= MULTIPLE PEOPLE AT SAME TIME FOR NO ADDITIONAL COST (EX: NATIONAL DEFENSE, HBO, SCIENTIFIC KNOWLEDGE)

-PUBLIC GOODS -> NON-RIVAL AND NON-EXCLUDABLE
NON-RIVAL AND A NON-EXCLUDABLE- NOT ALWAYS A PUBLIC GOOD.

-EXCLUDABILITY- CAN WE PREVENT YOU FROM CONSUMING?

*******-NON-EXCLUDABILITY**- INABILITY TO PREVENT CONSUMPTION TO THOSE WHO DIDN'T PAY (EX: PUBLIC RESTROOM)

-FREE RIDER- CONSUMES, BUT DOES NOT PAY. SOMEONE PAYS FOR SOMETHING, BUT YOU USE IT.

AFFECTS SOCIETY NEGATIVELY WHEN SOCIETY USES IT FOR PUBLIC GOODS, NOT PRIVATE. PRESENCE GENERATES UNDER PROVISIONS OF PUBLIC GOODS.

-POSSIBLE SOLUTIONS:

- 1) CREATE EXCLUDABILITY. IF YOU WANT TO USE IT, SEE IT, ETC., PAY FOR IT. MAKE SOMETHING THAT ALLOWS CONSUMER TO ONLY USE WITH PAY. DON'T PAY= CAN'T USE.
- 2) FORCE YOU TO PAY (EX: GOVERNMENT CAN DO IT), WITH TAX <- PROPER ROLE FOR GOVERNMENT
- 3) SHAME

EXTERNALITIES (EFFECTS ON 3RD PARTY- NOT SELLER, NOT BUYER)

-POSITIVE EXTERNALITY- (EXTERNAL BENEFIT)- WE WANT MORE OF THE BEHAVIOR, BECAUSE CONSUMER LIKES IT AND 3RD PARTY LIKES IT. WHEN THE DECISION OF SOMEONE ELSE BENEFITS YOU. (EX: GETTING AN EDUCATION, FLU SHOT (YOU WON'T GET SICK CAUSE SOMEONE ELSE GOT IT AND THEY'RE NOW SAFE), ALL SHOTS. TO ENCOURAGE MORE OF THIS BEHAVIOR:

- 1) MANDATE IT (AKA HAVE EVERYONE GET IT)
- 2) SUBSIDY (GOVERNMENT, CAN CHIP IN SO PRICE IS LOWER FOR CONSUMERS (1ST LAW OF PRICE, WHEN PRICE IS LOWER, DEMAND GOES UP)

-NEGATIVE EXTERNALITIES- BEHAVIOR OF OTHERS IMPOSES BURDENS ON OTHERS OUTSIDE OF THE TRANSACTION. (EX: POLLUTION). IS A PRIVATE DEAL. SOLUTIONS:

- 1) REGULATE
- 2) TAX

MARKET STRUCTURE

-COMPETITIVE IF THE MARKET CONTAINS LARGE NUMBER OF SMALL PRODUCERS.

- PRICE TAKERS (0 MARKET POWER)
- PRICE SEARCHERS (SOME MARKET POWER)
- GOOD/SERVICE IS HOMOGENOUS, IDENTICAL TO WHAT OTHERS SELL. (EX: COMMODITIES, AGRICULTURE, UNSKILLED LABOR)
- CURVED PRICE TAKERS-** TAKE PRICE AS DETERMINED BY THE OVERALL MARKET. WON'T PRODUCE UNITS FOR MORE THAN THEY CAN SELL FOR. (PRODUCE UNITS UP TO WHERE LINE OF THE COST UNIT IS= TO MARKET PRICE)

-SPECIFIC STRUCTURES:

- 1) **PERFECT COMPOSITION-** (NO BARRIERS, EX: UNSKILLED LABOR MARKET, STOCKS, COMMODITIES). LARGE # OF SMALL FIRMS. IDENTICAL PRODUCT TO OTHERS.
- 2) **MONOPOLISTIC COMPOSITION-** (LOW OR NO BARRIERS). LOTS OF SMALL PRODUCERS (EX: LOCAL RESTAURANT). GOOD OR SERVICE IS DIFFERENTIATED, AKA A LITTLE DIFFERENT (EX: LOTS OF ADVERTISING). MR=MC, IF MR GOES DOWN, MC GOES UP.
- 3) **OLIGOPOLY-** (FEW LARGE FIRMS). EX: AIRPLANES, INTERNET/CELL PROVIDERS/PHONE COMPANIES, BEVERAGES. COMPETITION REACTS AND RESPONDS TO OTHERS. BARRIERS TO ENTRY. MR=MC
- 4) **CARTEL-** GROUP OF FIRMS ATTEMPTING TO EXCLUDE COMPETITOR OR CONTROL PRICES. NEEDS TO MONITOR EACH OTHERS BEHAVIORS, ENFORCE OR PROVISION IF CHEAT ON AN AGREEMENT. ONLY MARKET STRUCTURE WHERE MARGINAL REVENUE 1 UNIT UP IS HIGHER THAN COST TO PRODUCE,. CHEAT POSSIBLE FOR EVERY FIRM. PRISONER DILEMMA.
- 5) **MONOPOLY-** ONE SELLER, MARGINAL COST CURVE. EACH AND EVERY FIRM WANTS TO BE MONOPOLISTIC. MR=MC

-MARGINAL REVENUE- INCREASE IN REVENUE WITH ONE SALE UNIT OF OUTPUT. TR/OUTPUT. TR OF X UNITS SOLD- TR OF X-1 UNITS SOLD= DIFFERENCE IN REVENUE

-PRICE SEARCHES- ALL FIRMS MAX PROFIT= TR-TC. PRODUCE WHERE MR=MC

EX: UNIT 1= MC=1, UNIT 2= MC=2.

10-PX=QDX.

P*QD= TR, AND TR-TC= PI. TO GET THE TC, ADD EVERY QD SO FAR.

PI (TR-TC)	TC (ALL QD'S SO FAR ADDED UP)	TR (P*QD=TR)	QD IS (QD STARTS AT 0)	WHEN P IS (P STARTS WITH HIGHEST NUMBER)
0	0	0	0	10
8	1	9	1	9
13	3	16	2	8

13	6	21	3	7
14	10	24	4	6
10	15	25	5	5

-BETTER TO HAVE LESS CLIENTS DO SAME HOURS OF WORK FOR MORE PER HOUR.
 (EX: 400 CLIENTS, 4 HRS FOR \$50/HR= \$80K, BUT 300 CLIENTS, 4 HRS FOR \$100/HR= \$120K)

PRICE DISCRIMINATION

-1ST DEGREE- WALKING DOWN A DEMAND CURVE. HIGHEST PRICE TO PAY PER UNIT?
 GOAL IS TO GET YOU TO REVEAL THIS.

-2ND DEGREE- QUANTITY DISCOUNT (EX: BOGO SALE).

-3RD DEGREE- MARKET SEGMENTATION, BREAK CONSUMERS INTO MORE THAN ONE
 GROUP. CHARGE THEM DIFFERENT PRICES. THROW EVERYONE INTO HIGH PRICE
 GROUP.