

Practice problem set 2

Technology & concentration

This problem set constitutes recommended material for the relevant lab. The choice of tasks to be presented instructionally in every lab is in the discretion of the individual teacher. Students are expected to work on practice problems, however, are not required to submit written solutions. It is non-negotiable policy in this course to not provide hand-outs with the solutions of practice problem sets.

1. Consider a buyer and a seller that may trade one unit of an indivisible good. There are two periods. In the first period the seller invests an amount F to buy a plant essential to the production. In the second period production and exchange take place. Let c denote the production cost in period 2 and let $v = c + 100$ be the value of the good to the buyer.
 - (a) Derive the efficient allocation.
 - (b) Suppose that the amount F can be specified in a contract. Can the efficient allocation be attained by the two parties?
 - (c) How does your answer to (b) change if F cannot be specified in a contract? (Assume the ex post surplus is divided equally between the parties).
 - (d) Comment and relate your answer to the theory of the firm.

UoL: 2010 za/zb #1

2. What are the two possible market structures in an industry, where there are natural barriers to entry but continuous integration will eventually lead firms to diseconomies of scale? What is the key difference between them?

End-module 2 Exam – December 2016

3. An industry of a homogeneous good has currently 16 identical firms. Equilibrium price is 5 dollars and equilibrium quantity is 7 thousand units. The representative cost structure for a firm in this industry is as following: for production up to 10 thousand units, cost is 6 dollars per unit; for every extra one thousand units, cost per unit decreases by 10%. What are the possible outcomes for the future competition structure of this industry?

End-module 1 test – October 2016

4. Use a single cost graph to show if it is possible for a firm to operate under economies of scale and decreasing returns to scale at the same time. Explain your answer.

1st Module – Fall 2012

5. In one sentence and without defining the two terms, explain the difference between 'economies of scale' and 'increasing returns to scale'.

1st Module Examination – 2013

6. In class we referred extensively to the term 'sunk cost'.
 - (a) Define the term 'sunk cost'.
 - (b) Explain the difference between 'sunk cost' and 'fixed cost'.
 - (c) Explain when sunk costs should affect economic decisions.

1st Module – Fall 2012

7. Monopolistically competitive markets generate deadweight loss. Explain if they should be regulated.

Module 1 Test – 2014