

Department of Economics
University of Wisconsin-La Crosse
ECON110 Principles of Economics
Lisa Giddings

Homework 5 Due December 13th 2011

TOPIC: Costs

1. Consider the following cost information for a pizzeria:

Quantity	Total Cost	Variable Cost
0 dozen pizzas	\$300	\$0
1	350	50
2	390	90
3	420	120
4	450	150
5	490	190
6	540	240

- a. What is the pizzeria's fixed cost?
- b. Construct a table in which you calculate the marginal cost per dozen pizzas using information on total cost. Also, calculate the marginal cost per dozen pizzas using the information on variable cost. What is the relationship between these sets of numbers?
- c. Calculate the average variable cost and the average total cost for each quantity.
- d. Graph all three curves (note that it would be easiest to use Excel for this entire question). What is the relationship between the marginal-cost curve and the average-total-cost curve and the average-variable-cost curve? Explain.

TOPIC: the Perfectly Competitive Firm

2. Draw the cost curves for a typical firm. For a given price, explain how the firm chooses the level of output to maximize profit. At that level of output, show on your graph the total revenue of the firm. Show its total costs.
3. Describe the conditions in a perfectly competitive market.

Topic: Monopoly

1. Give an example of a government-created monopoly. Is creating this monopoly necessarily bad public policy? Explain.
2. Why is a monopolist's marginal revenue less than the price of its good?
3. Give two examples of price discrimination. In each case, explain why the monopolist chooses to follow this business strategy.

Topic: Oligopoly and Monopolistic Competition

4. Describe three attributes of monopolistic competition. How is monopolistic competition like monopoly? How is it like perfect competition?
5. Does a monopolistic competitor produce too much or too little output compared to the most efficient level?
6. How might advertising reduce economic well-being? How might advertising increase economic well-being?
7. If a group of sellers could form a cartel, what quantity and price would they try to set?
8. What is the prisoners' dilemma, and what does it have to do with oligopoly?

Topic: Consumer Behavior and Behavioral Economics

9. What is utility? What is marginal utility? Why does utility exhibit diminishing marginal returns?
10. Describe the ultimatum game. What outcome from this game would conventional economic theory predict? Do experiments confirm this prediction? Explain.
11. Discuss four ways in which people behave in ways that the economic model would deem irrational?