

ECO 2023 – PRINCIPLES OF MICROECONOMICS  
CHAPTER LEARNING OBJECTIVES

CHAPTER 7  
THE COMPETITIVE FIRM

*The Micro Economy Today*, 11<sup>th</sup> edition by Bradley R. Schiller

As you read through Chapter 7 of the assigned textbook, use these objectives as a guide for note taking. Yes, I really expect you to read this chapter! Yes, I really expect you to take notes on what you are reading about within this chapter! That's how you LEARN new subject material! Provide an "answer" to each of the learning objectives listed below, and then cross-reference this list with the in-class lecture notes that you've taken on this chapter. Of course there will be some overlap in the coverage of topics! If it's important for you to know after reading this chapter, then it's on the list below. Remember, I use the lecture period to highlight super-important concepts and to relate them to current events. You HAVE TO read along in the textbook if you want to acquire all of the information you will need for testing purposes!

**After a careful reading of Chapter 7, the student is expected to be able to:**

- (1) Understand what motivates business owners to engage in the production of goods and services.
- (2) Define the term explicit cost.
- (3) Define the term implicit cost.
- (4) Indicate the difference between Accounting Costs and Economic Costs.
- (5) Indicate the difference between Accounting Profit and Economic Profit.
- (6) Compute accounting cost and accounting profit, given the necessary data.
- (7) Compute economic cost and economic profit, given the necessary data.
- (8) Define the term normal profit.
- (9) Explain what provides the INCENTIVE for a person to take on the added responsibilities of owning and operating a business.
- (10) Define the term *market structure*.
- (11) Discuss the THREE distinguishing characteristics of a Perfectly Competitive Industry.
- (12) Understand why a perfectly competitive firm is also called a *price – taker*.
- (13) Define the term *market power*.

- (14) Distinguish between Market Demand for a product produced in a Perfectly Competitive industry and the demand for the product produced by an individual perfectly competitive business owner.
- (15) Understand the nature of the production decision.
- (16) Define the term total revenue.
- (17) Explain the shape of the Total Revenue curve for a perfectly competitive firm.
- (18) Explain how much a output a perfectly competitive business owner would choose to produce IF his goal was to maximize total revenue.
- (19) Using a graph of a perfectly competitive firm's Total Revenue and Total Cost curves, explain how the business owner goes about maximizing profit.
- (20) Define the term *Marginal Revenue*.
- (21) Explain WHY Marginal Revenue = the market price of output for a perfectly competitive firm.
- (22) Define the term *Marginal Cost*.
- (23) Explain what decision a perfectly competitive business owner should make if he finds himself in a situation where the marginal cost of the last unit produced is greater than the market price of the product being produced ( $MC > P$ ).
- (24) Explain what decision a perfectly competitive business owner should make if he finds himself in a situation where the marginal cost of the last unit produced is less than the market price of the product being produced ( $MC < P$ ).
- (25) Explain WHY  $P = MC$  is the profit maximization rule for a perfectly competitive business owner.
- (26) Compute profit per unit by gathering numerical data from a graph of a perfectly competitive firm.
- (27) Compute Total Profit by gathering numerical data from a graph of a perfectly competitive firm.
- (28) Compute loss per unit by gathering numerical data from a graph of a perfectly competitive firm.
- (29) Compute Total Loss by gathering numerical data from a graph of a perfectly competitive firm.
- (30) Discuss the shutdown decision for a perfectly competitive firm.
- (31) Understand the nature of the investment decision.
- (32) Define the term *long run*.
- (33) Construct the short-run supply curve for a perfectly competitive firm.
- (34) Explain how a change in property taxes will impact the various cost curves of a perfectly competitive firm.

(35) Explain how a change in payroll taxes will impact the various cost curves of a perfectly competitive firm.

(36) Explain how a change in profit taxes will impact the various cost curves of a perfectly competitive firm.

(37) Discuss how the Internet has changed the nature of competition.