Harmon/Econ: Unit 2 Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Period:\_\_\_\_

**Chapter 5 Study Guide**

**5.1: Understanding Supply**

Supply:

Law of supply:

Quantity supplied (QS):

Supply schedule:

Variable:

Market supply schedule:

Supply curve:

Market supply curve:

Elasticity of supply:

1. What are the two movements that make up the law of demand?

2. How is the law of supply different from the law of demand?

3. How is elasticity of supply represented in the following (similar to elasticity of demand)? (Pg. 104)

a. Elastic:

b. Inelastic:

c. Unitary:

4. What determines whether the supply of a good will be elastic or inelastic?

a. Short run-

Inelastic Example:

Elastic Example:

b. Long run-

Example:

**5.2: Cost of Production**

Marginal product of labor:

Increasing marginal returns:

Diminishing marginal returns:

Total cost:

Marginal cost:

Marginal revenue:

Operating cost:

5. What do business owners have to consider in order to answer the question of how many workers to hire?

Figure 1: For the following question 6-9 refer to the following chart and page 109-110 in the textbook.

|  |  |  |
| --- | --- | --- |
| Marginal Product of Labor | | |
| Labor  (# of workers) | Output  (beanbags per hour) | Marginal  product of labor |
| 0 | 0 | ----- |
| 1 | 4 | 4 |
| 2 | 10 | 6 |
| 3 | 17 | 7 |
| 4 | 23 | 6 |
| 5 | 28 | 5 |
| 6 | 31 | 3 |
| 7 | 32 | 1 |
| 8 | 31 | -1 |

6. How does specialization impact the output per hour in the bean bag example?

7. Why does the marginal product of labor decrease with more than three workers in this example?

8. What’s the negative effect of a firm’s limited capital?

9. With the 8th worker being hired, why does the beanbag factory have decreased output with the additional worker?

10. What are the two types of production costs?

a. \_\_\_\_\_\_\_\_\_\_\_\_\_\_-

Example:

b. \_\_\_\_\_\_\_\_\_\_\_\_\_\_-

Example:

11. Why is labor considered a variable cost?

12. What’s a firm’s basic goal? (pg 112)

13. What is the ideal level of output?

**5.3: Change in Supply**

Subsidy:

Excise tax:

Regulation:

14. What will a profitable producer who is faced with rising labor and/or material costs that is unable to control price do?

15. How does new technology affect supply?

16. How can the government increase or decrease supply?

17. What was the European governments’ reasons for subsidizing food producers?

18. What are some examples of industries that the U.S. government subsidize?

19. How does an excise tax increase production costs?

20. Why are consumers generally unaware of excise taxes?

21. Why does government regulation often reduce supply?

22. Why would suppliers temporarily withhold goods that can be stored for long periods during periods of inflation?