**2. Economic Models homework questions**

Name and date submitted (3pts):

Instructions: Create space and enter your answers in the Word document below, and then submit as an email attachment.

(10 questions, 100 possible points).

1. Perfect Competition
2. Define what is meant by ‘perfect competition’.
3. Name 3 major industries which operate more-or-less in ‘perfect competition’. (I’m looking for 3 ‘industries’, not 3 ‘companies’)
4. Now take one of the above-named industries: How do they strive to ‘differentiate’ their product from their competitors? What methods do they use, or could they use?
5. Oligopoly
6. Define the term
7. Name 3 major industries which operate as oligopolies
8. Now consider 1 of the above-named industries: How do they maintain their oligopoly? In other words, how do they discourage or prevent other competitors from entering their market?
9. Monopoly
10. Define the term
11. Name 5 firms (actual, specific companies) which are more-or-less monopolies.
12. Pick one above: how does this firm maintain their monopoly position?
13. Same firm: does their monopoly position benefit or harm consumers? Give your opinion and back it up with reasoning.
14. Monopolistic competition
15. Define the term
16. Pick any 2 competing car brands: (let’s say Ford & Chevy, or Mercedes & BMW, or Toyota & Nissan, for example). How do they strive to differentiate their products from each other? This will take some Internet research and you will need to watch a few ads for each model…. then write down your conclusions)
17. Factors of Production
18. The 3 ‘classic’ Factors of Production are “Land, Labor, and Capital”. What does ‘Factors of Production’ mean? In other words, why do we study these 3 concepts, and why are they called Factors of Production, and how are they related to Economics? Elaborate/Explain.
19. What is meant by “Land”?
20. What is meant by “Labor”?
21. What is meant by “Capital”?
22. Manufacturing scenario: You have developed a new & improved personal communication device which you will market as the “MePhone”. You estimate that you can sell 1 million units the first year, and you have begun the process of setting up a factory in Nevada, USA (mainly due to a cheaper labor pool than California, and there being no state income taxes in Nevada).

With respect to your Nevada factory project, list specific examples of each of the 3 Factors of Production you will need to consider (there are easily 2 or 3 or 4 examples from each category). In other words, list 2 or 3 specific examples of Land, Labor, and Capital which you will need to acquire in order to build and operate your new MePhone factory. Ask your parents for ideas, and/or use a search term like “what do I need to build and operate a factory”?

1. Land
2. Labor
3. Capital
4. How to calculate profit:

During the first year of operation, your ‘MePhone’ business has *sales revenue* of $100,000,000 (100 million dollars), *costs of goods sold* of $90,000,000, and *indirect costs* (overhead) of $30,000,000. According to the simplified model we discussed in class:

1. What was your Gross Profit for the year?
2. What was your Net Profit before taxes?
3. What was your Net Profit after taxes (assume 30% tax)?
4. What will you do with your Net Profit after taxes? Reinvest it in the business?.... or pay it to your shareholders (the people who gave you the money to build your factory in the first place)?

Example Income Statement:

Sales Revenue $300,000

Less: Cost of Goods Sold -250,000

Gross Profit 50,000

Less: Indirect costs -20,000

Net Profit before taxes 30,000

Less: Income tax (30%) -9,000

Net Profit after taxes 21,000

1. Profit is oftentimes portrayed as “evil”. Consider this statement: *“A business should be run for people and not for profit.”*
2. If a business is profitable, are people helped or harmed? Explain.
3. Are people helped more if a business is unprofitable? Why or why not?
4. Rationing goods: In each case below (a-h), give answers to the following 2 questions. Each of a-g requires an answer to the following 2 questions:

1) How would this motivate (or not motivate) students?

2) How would students “adapt” their behavior to maximize their grade? Think carefully and justify your answers.

1. Fairness: Everyone in class will receive an ‘A’ grade.
2. Chance: There will be a lottery to determine who gets what grade.
3. Revenge: Your grade will be determined by the person who sits 2 chairs to your left.
4. Guilt: Those who are poorest will receive the best grades.
5. Politics: Those who are loyal members of the dominant political party will have first dibs on the grades. Everyone else will get what’s left over.
6. Dictator: Students will elect a “Commissar”. He/she will then distribute the grades in any manner which suites him/her.
7. Marxism or Communism: No one will get “grades”. Grades and education lead to personal ambition and are a form of “private property”, and thus do not advance the cause of the revolution. Anyone caught studying books not approved by the Commissar will face stiff consequences.
8. Merit: Your grade will be determined by how well you perform in class, as measured by homework and test scores.
9. Use the idea of “payback period” to evaluate the following investments. Which would be the better investment, and why?
10. Investing $30,000 in a solar power system which saves you exactly $3,000 each year in electricity costs, or…
11. Investing $40,000 in a hybrid car which saves you $3,500 per year in fuel costs.

Payback period example:

Initial investment in the “item” $10,000

Benefits to be gained from the item $1,000 per year

Payback period 10,000 / 1,000 = 10 years

Therefore, payback period is estimated to be 10 years for this investment (it ‘pays for itself’ in 10 years, in other words).