

SA422: HOUSING ECONOMICS AND FINANCE 2008/2009
Prerequisite Class 4: Costs of Production
(Week 5, Thursday 6 November 2007, 9 – 10 in Room E304)

1. Why do we assume a firm maximises profit?
2. What determines marginal revenue (mr)?
3. What determines marginal cost (mc)? Why is mc likely to increase quite steeply at least in the short-run?
4. Clarify why the quantity where $mr = mc$ is the profit maximising output.
5. Define average total cost (atc) and average variable cost (avc). Explain the relationship between average and marginal costs.
6. Define excess profits.
7. When will a firm make excess profits? When will they make losses?
8. If a firm is making losses when will they still produce?
9. If firms are making excess profits what will happen?
10. Why is the demand curve for the firm in perfect competition horizontal?
11. Clarify the long run equilibrium position for a firm.
12. Explain why this means that consumers pay the opportunity cost of provision.