Objectives for Chapter 8

Long-Run Costs and Output Decisions

Short-run Equilibrium
1. Graph a firm in short-run equilibrium that is making profits (losses) and identify those profits (losses).
2. Explain the rationale behind the decision to shut down or not shut down when short-run losses occur.
3. Explain why the firm’s short-run supply curve is the section of the MC curve above AVC.

Long-run Costs
4. Derive the industry supply curve and explain the factors that shift the industry supply curve in the long run.
5. Explain why the long-run average cost curve is U-shaped.
6. Provide examples of factors that would cause economies or diseconomies of scale.

Long-run Equilibrium
7. Indicate the long-run profit-maximizing level of production.
8. State the conditions that hold for the firm in long-run competitive equilibrium.