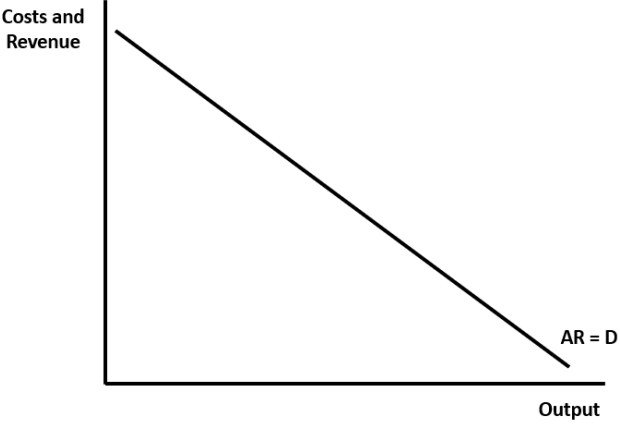
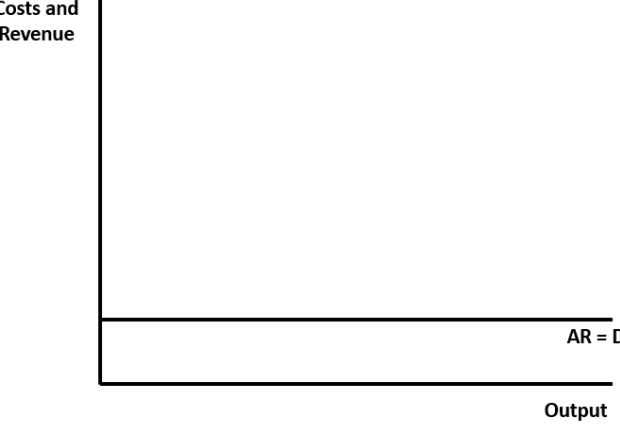
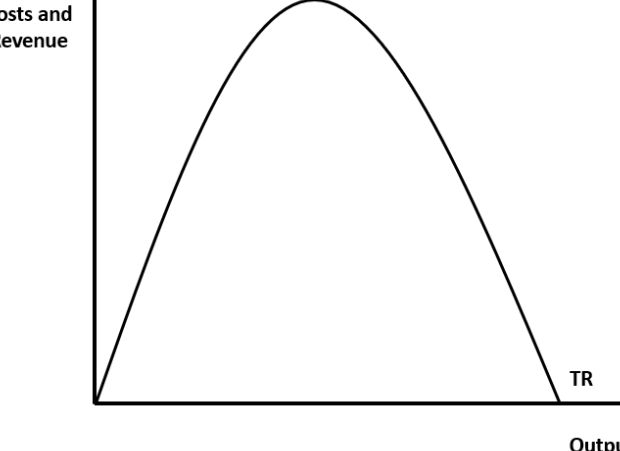
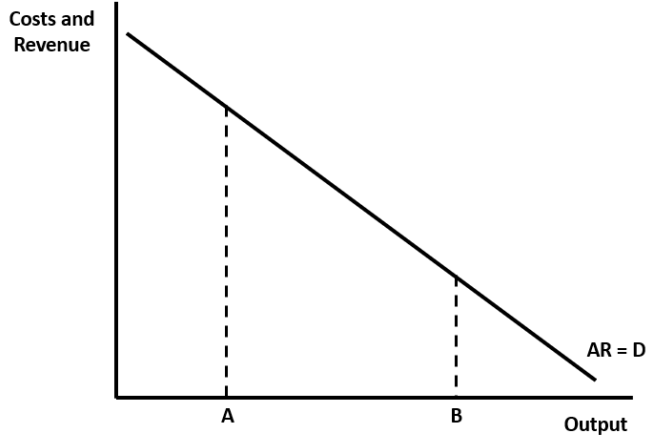
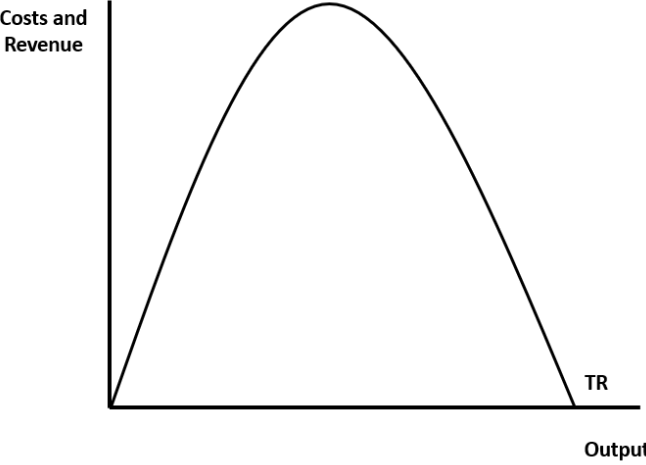
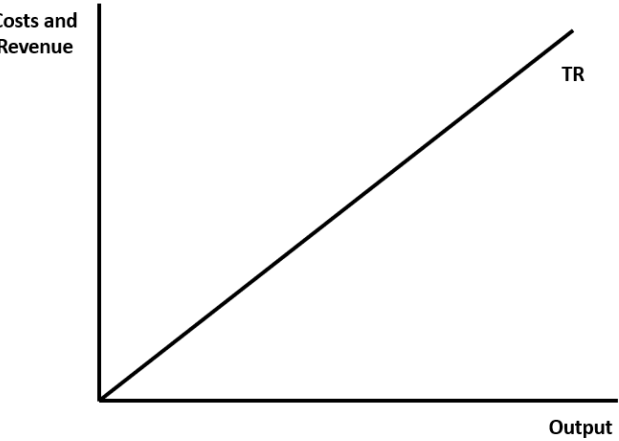
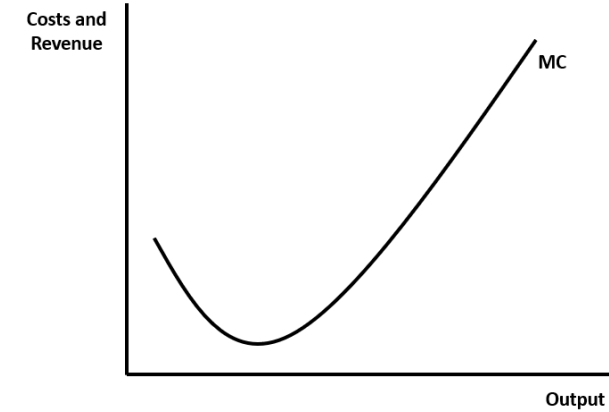


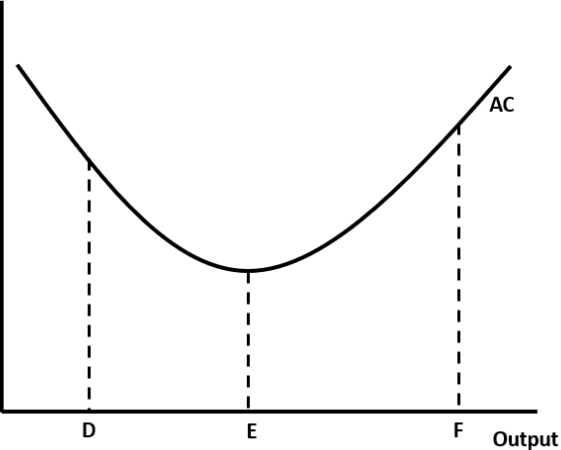
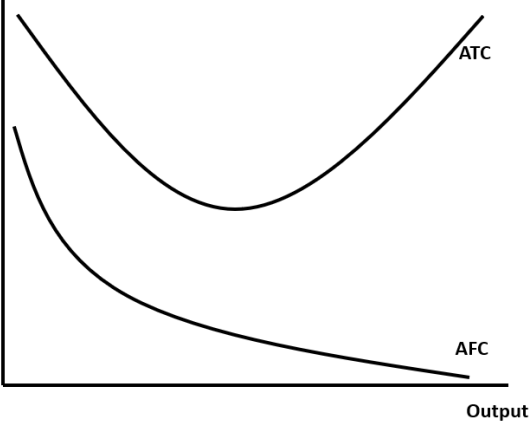
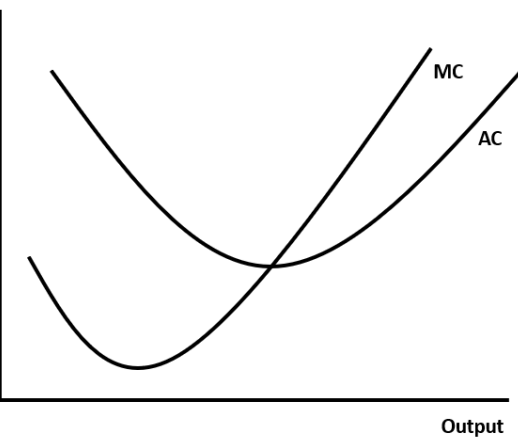
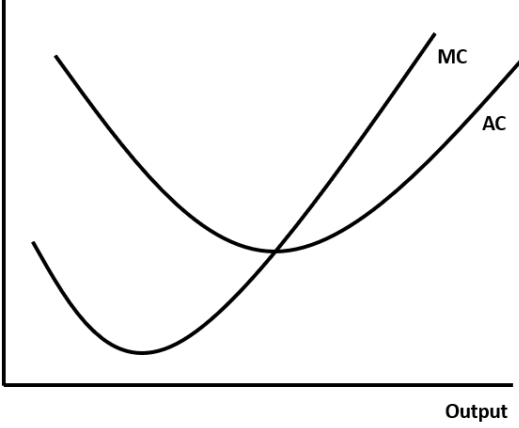


Diagrammatic Understanding
Economics CPD 2018

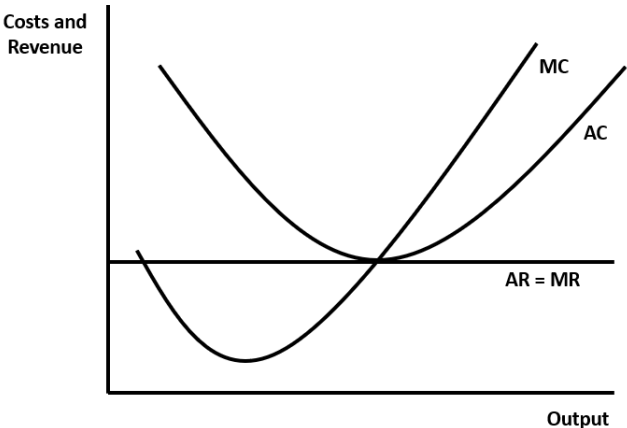
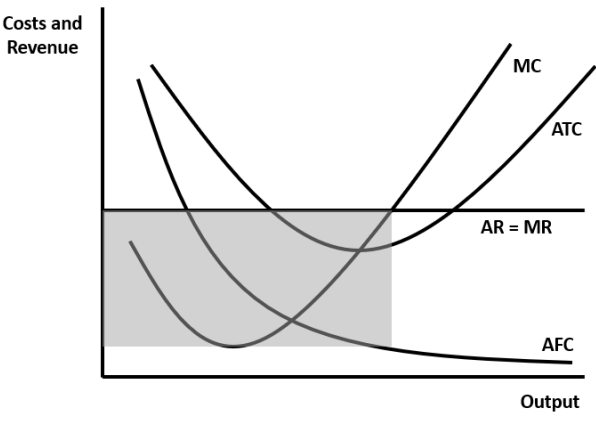
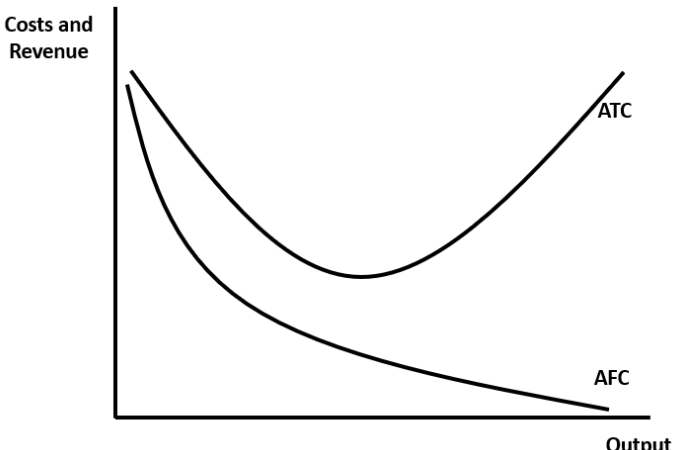
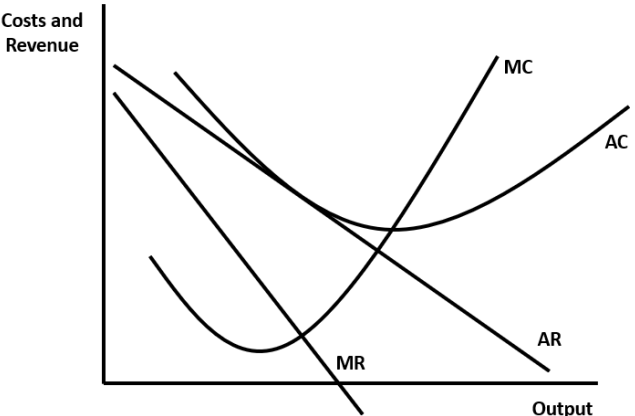
Diagrammatic Understanding

<p>1</p>		<p>a. Explain why the AR curve is the same as the demand curve.</p> <p>b. On the diagram to the left, sketch the accompanying Marginal Revenue curve.</p> <p>c. Using your diagram, explain the relationship between MR and AR.</p>
<p>2</p>		<p>a. On the diagram to the left, sketch the Total Revenue curve that corresponds to the Average Revenue curve shown.</p> <p>b. Explain whether the firm whose demand curve is represented on the left is a price-taker or a price-maker.</p> <p>c. Show the MR curve associated with the AR curve.</p>
<p>3</p>		<p>a. On the diagram to the left, sketch the Average Revenue curve associated with the Total Revenue curve shown</p> <p>b. Identify the revenue maximising level of output for the firm.</p> <p>c. Explain whether the firm whose total revenue curve is represented on the left is a price-taker or a price-maker.</p>

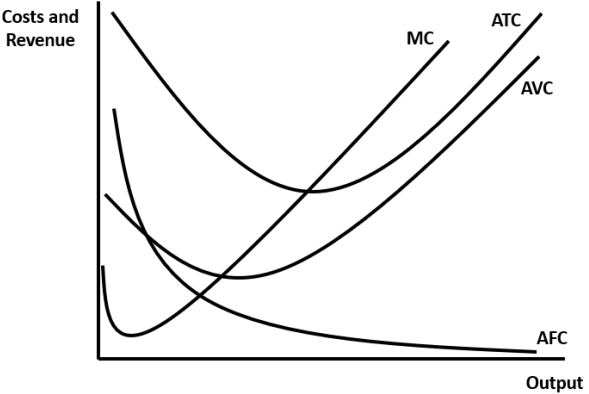
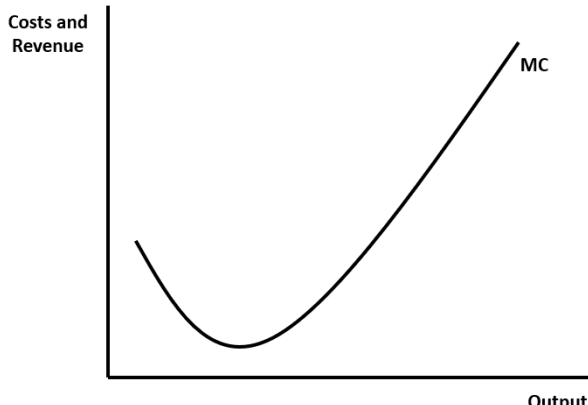
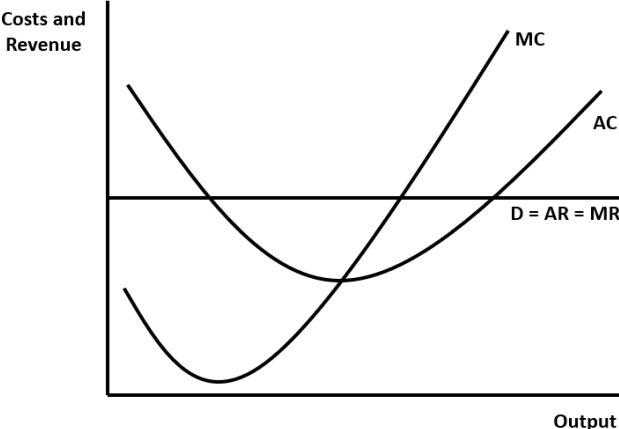
<p>4</p>		<p>For each level of output, A and B, shown on the diagram, shade the corresponding area representing total revenue earned.</p>
<p>5</p>		<p>Adapt the diagram to the left to show the impact on total revenue of a decrease in demand (i.e. a left shift in the demand curve).</p>
<p>6</p>		<p>Adapt the diagram to the left to show the impact on total revenue for this firm if new firms enter the market.</p>
<p>7</p>		<p>Explain what is meant by the law of diminishing marginal returns, and indicate the point on the diagram at which it sets in.</p>
<p>8</p>		<p>For each output level (D, E and F) shade</p>

	<p>Costs and Revenue</p> 	<p>the area that corresponds to the total costs.</p>
<p>9</p>	<p>Costs and Revenue</p> 	<p>a. Sketch the Average Variable Cost curve on the diagram to the left.</p> <p>b. Explain carefully the shape of the Average Fixed Cost curve.</p>
<p>10</p>	<p>Costs and Revenue</p> 	<p>a. Indicate the productively efficient level of output on the diagram.</p> <p>b. Now adapt the diagram to show the impact on AC and MC of a decrease in the variable costs for this firm.</p>
<p>11</p>	<p>Costs and Revenue</p> 	<p>Adapt the diagram to show the impact on AC and MC of an increase in the fixed costs for this firm. Explain your answer.</p>

<p>12</p>		<p>a. Shade the amount of supernormal profit earned when this firm chooses to profit maximise</p> <p>b. Shade the amount of abnormal profit earned when this firm chooses to maximise its revenue</p> <p>c. Shade the amount of abnormal profit earned when this firm choose to operate at the allocatively efficient level of output</p>
<p>13</p>		<p>Adapt the diagram to the left to show the impact on</p> <ol style="list-style-type: none"> Price The level of output The amount of abnormal profit earned <p>if there is a fall in demand for the firm's product.</p> <p>You can assume that the firm aims to maximise its profit.</p>
<p>14</p>		<p>The firm represented by the diagram on the left aims to maximise its revenue. Explain what is represented by the shaded area.</p>
<p>15</p>		<p>The firm represented by the diagram has profit maximisation as its objective. Explain what is represented by the shaded area.</p>

16		<p>Identify the profit maximising level of output for this firm.</p> <hr/> <p>The fixed costs for this firm fall. Adapt the diagram to show this change.</p> <hr/> <p>Identify the new profit maximising level of output in both i) the short run and ii) the long run</p>
17		<p>The firm represented by the diagram on the left is a profit maximiser. Explain what is represented by the shaded area.</p>
18		<p>A firm has the cost curves shown on the left. Adapt the diagram to show what happens to these curves when the firm's total fixed costs increase for all levels of output.</p>
19		<p>Adapt the diagram to show what will happen to this firm's price and level of output (assuming it profit maximises) if some firms decide to leave the industry.</p>
20		<p>The firm represented on the left is initially</p>

		<p>a profit maximiser. However, deregulation of the industry means that the market becomes highly contestable and the firm decides that it must aim to earn normal profit only. Show the change in the price and the level of output as a result of this scenario.</p>
21		<ol style="list-style-type: none"> Sketch the corresponding AR curve for the MR curve shown Identify the range of output over which demand is price elastic Identify the range of output over which demand is price inelastic Identify the level of output at which price elasticity of demand is equal to -1
22		<p>The diagram shows an MR curve for a firm. Explain what must be the case for the price elasticity of demand for this firm's products.</p>
23		<ol style="list-style-type: none"> Identify the level of output at which this firm would decide to shut-down in the short-run. Suppose that the firm's total fixed costs now increase. What is the new level of output at which this firm would decide to shut down in the short-run?

<p>24</p>		<p>a. Identify the level of output at which the firm represented by the diagram on the left would decide to shut down in the long run,</p> <p>b. Suppose that the firm's total fixed costs now decrease. Identify the new level of output at which this firm would decide to shut down in the long run.</p>
<p>25</p>		<p>Explain why the marginal cost curve for a firm is also its supply curve.</p>
<p>26</p>		<p>The firm represented on the left is operating in perfect competition</p> <p>Show on the diagram the firm's price, output and profitability level in a) the short run and b) the long run</p>