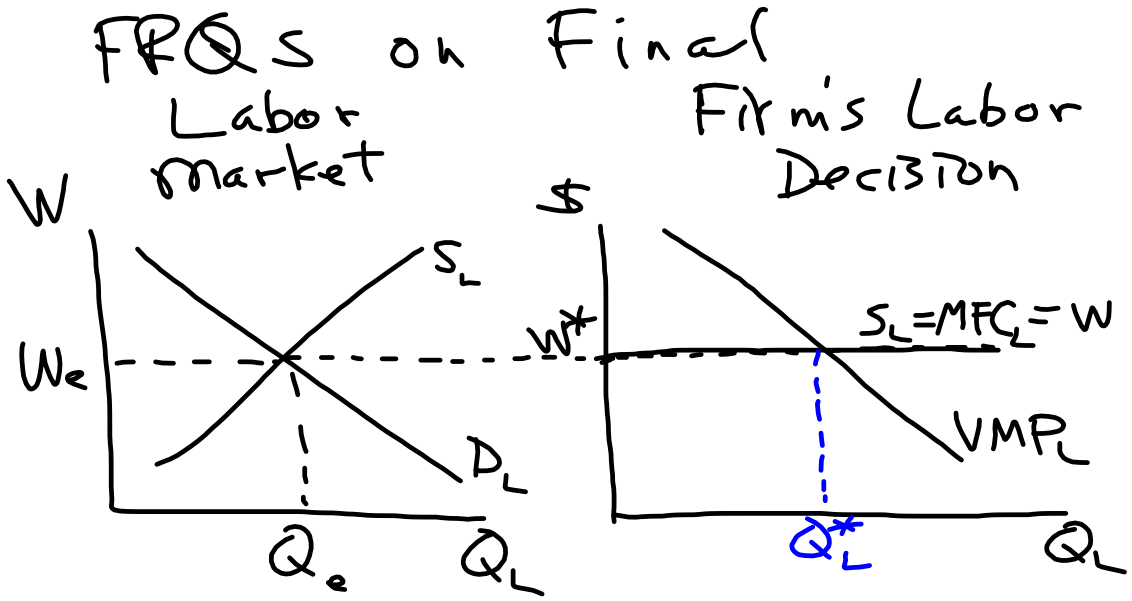
FRQs on Final

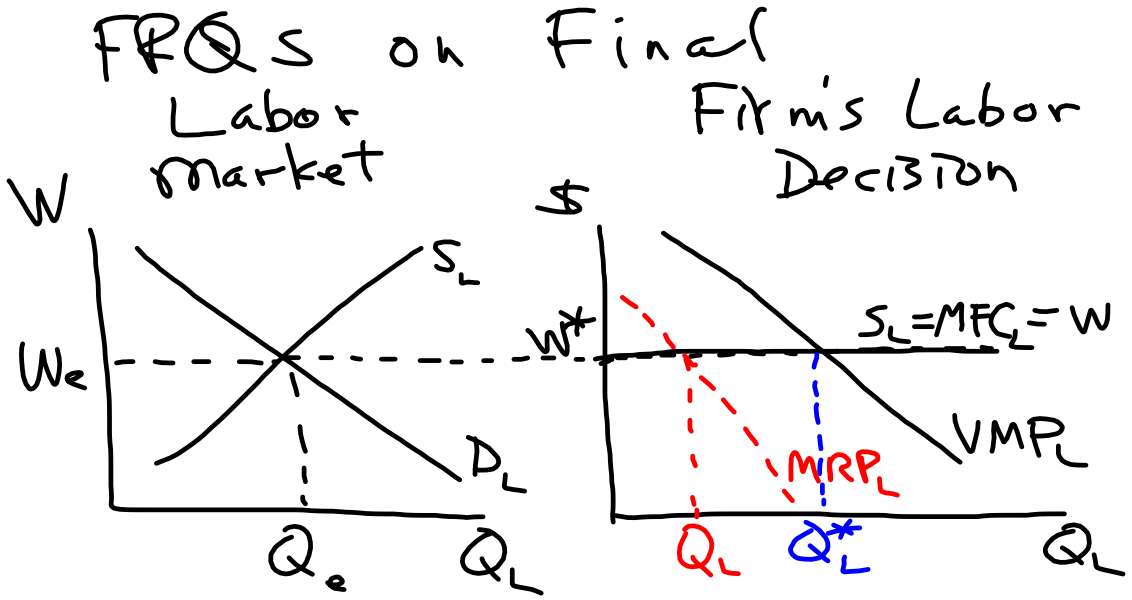


VMP_L Value of Marginal Product (Labor)

MFC_L Marginal Factor Cost (Labor)

$= MP_L \times P$

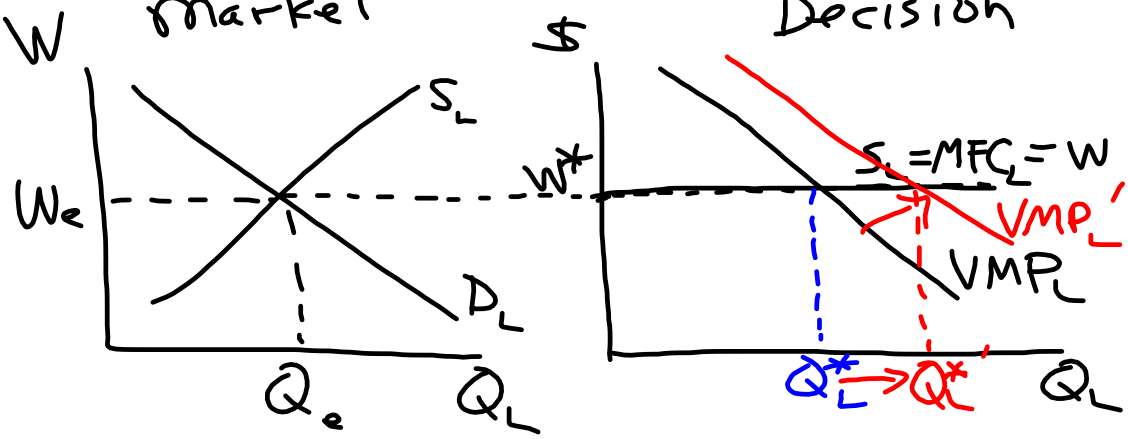
↑ product



What if: product market is not perfectly competitive?

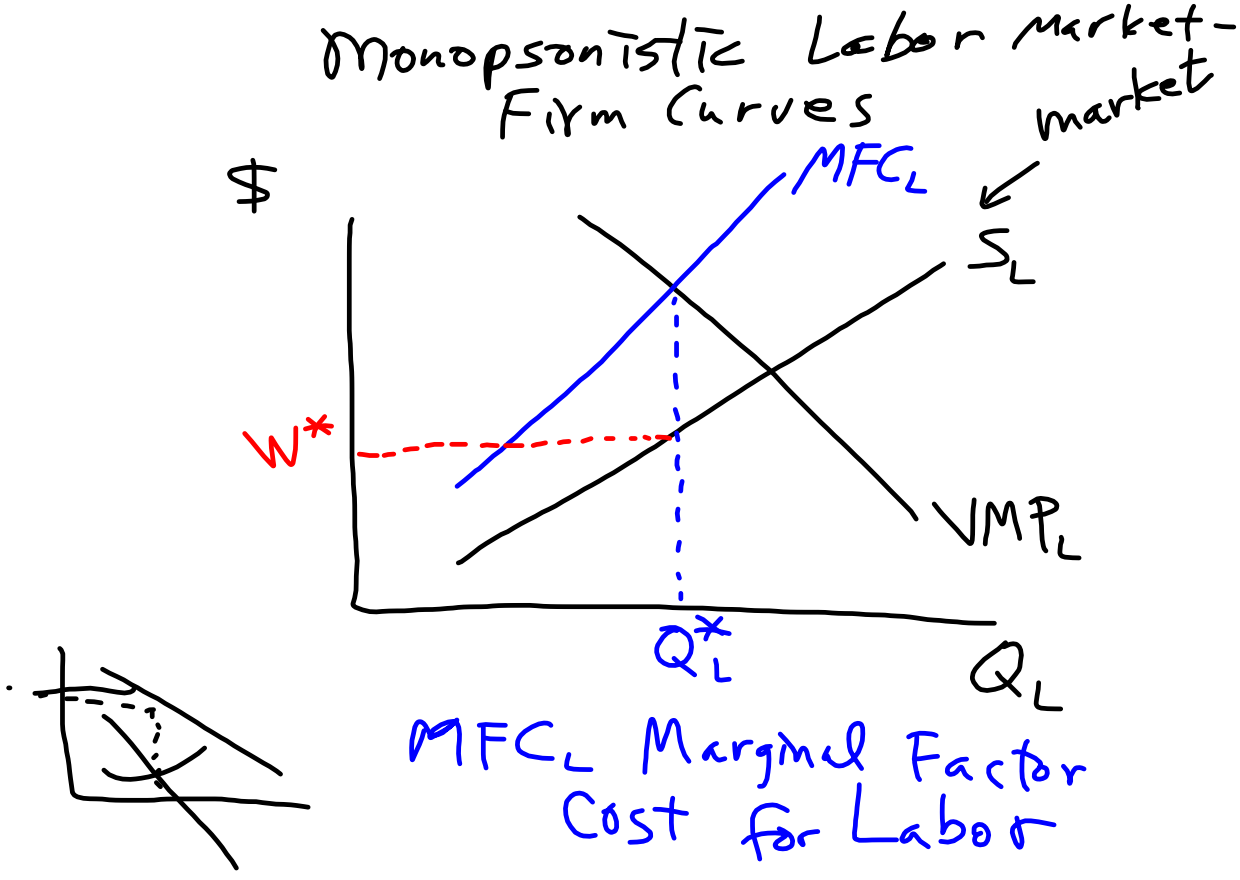
$MRP_L < VMP_L$

FRQs on Final

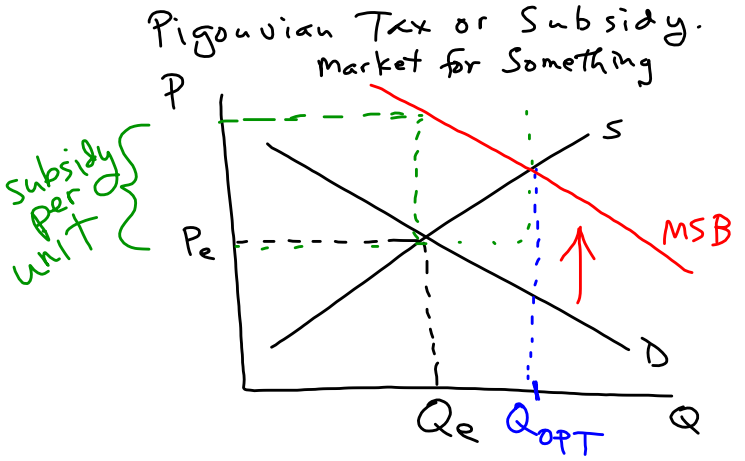


What if: Demand increases for the product?

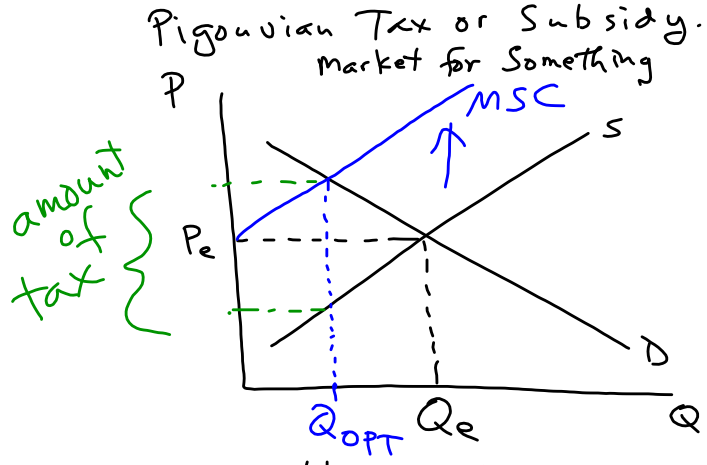
$VMP_L \uparrow$ $Q_L^* \uparrow$



MFC_L Marginal Factor Cost for Labor



Socially optimal quantity is greater than Qe. Positive externality. Subsidy.



Socially optimal quantity is less than Qe. Negative externality. Tax

Coase Theorem (mod 74)

thought about "fixing" externality problems through contracts.

called. "internalizing the externality"

if transaction costs low enough, there should be a private solution to any externality.

Workers get $100

Widgets yield $10 (price)

# Workers	Total Product (widgets)	Labor Cost	Total Revenue	Profit
0	0			
1	25			
2	45			
3	60	300	600	300
4	70	400	700	300

Q: What is the marginal effect on profit of the 4th worker?

GINI coefficient -
measure of inequality.
goes from 0 to 1

0 totally equal shares

1 one person has everything.

Cost-minimizing input combination.

Recall: utility-maximizing consumption bundle:

$$\frac{MU_{good1}}{P_{good1}} = \frac{MU_{good2}}{P_{good2}} = \frac{MU_{good3}}{P_{good3}} \cdots$$

$\frac{15}{5}$ $\frac{15}{4}$

$\frac{15.5}{5}$ $\frac{14.5}{4}$

Costs of factor inputs:

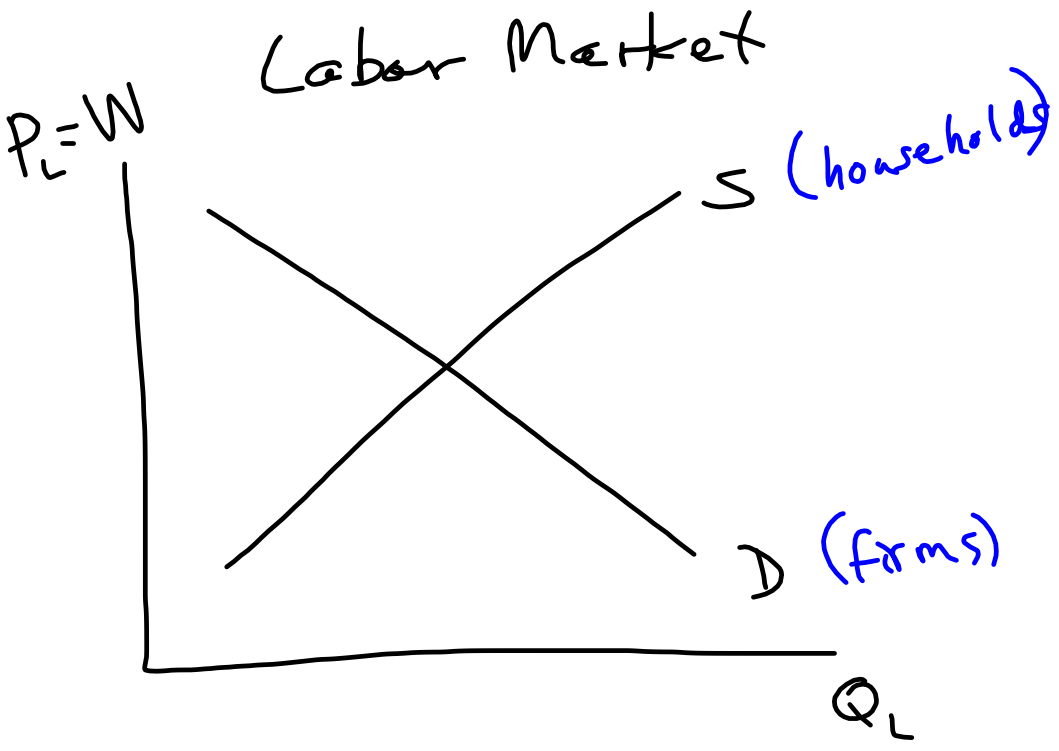
cost-min. combination

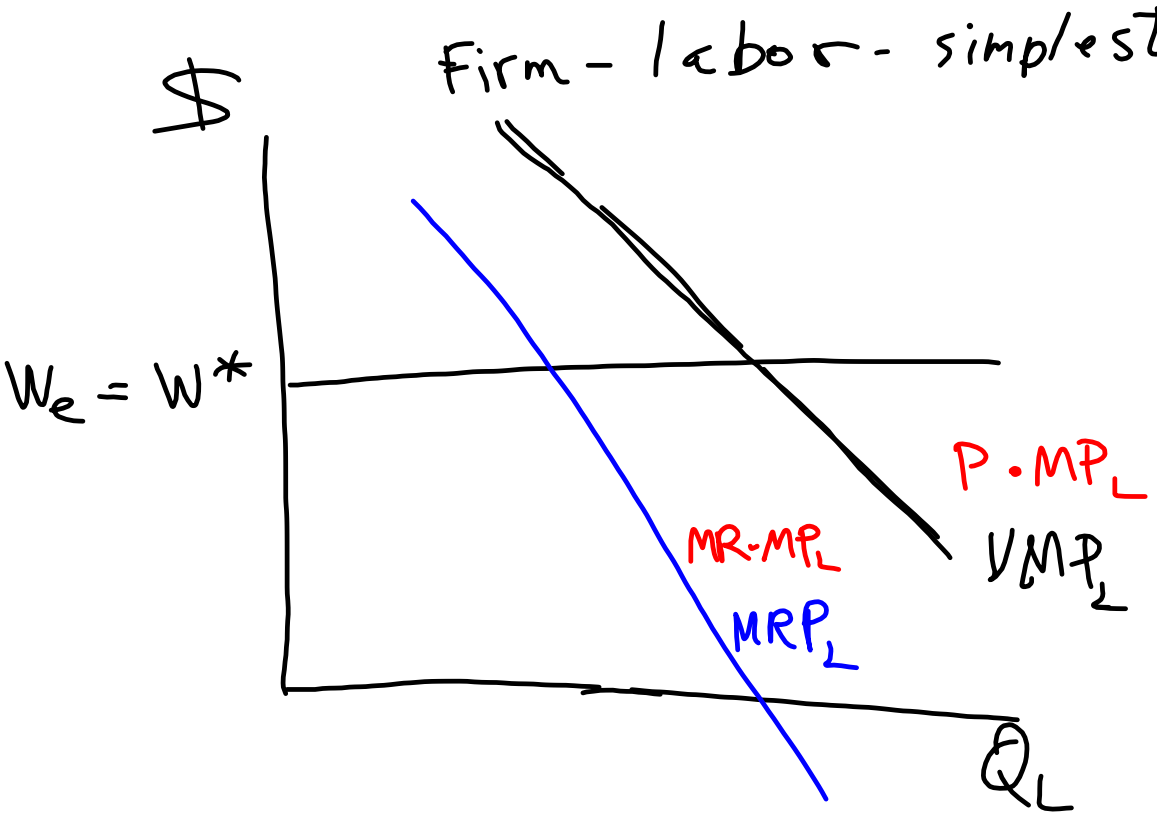
$$\frac{MP_L}{W} = \frac{MP_K}{C_K} = \frac{MP_{land}}{Rental}$$

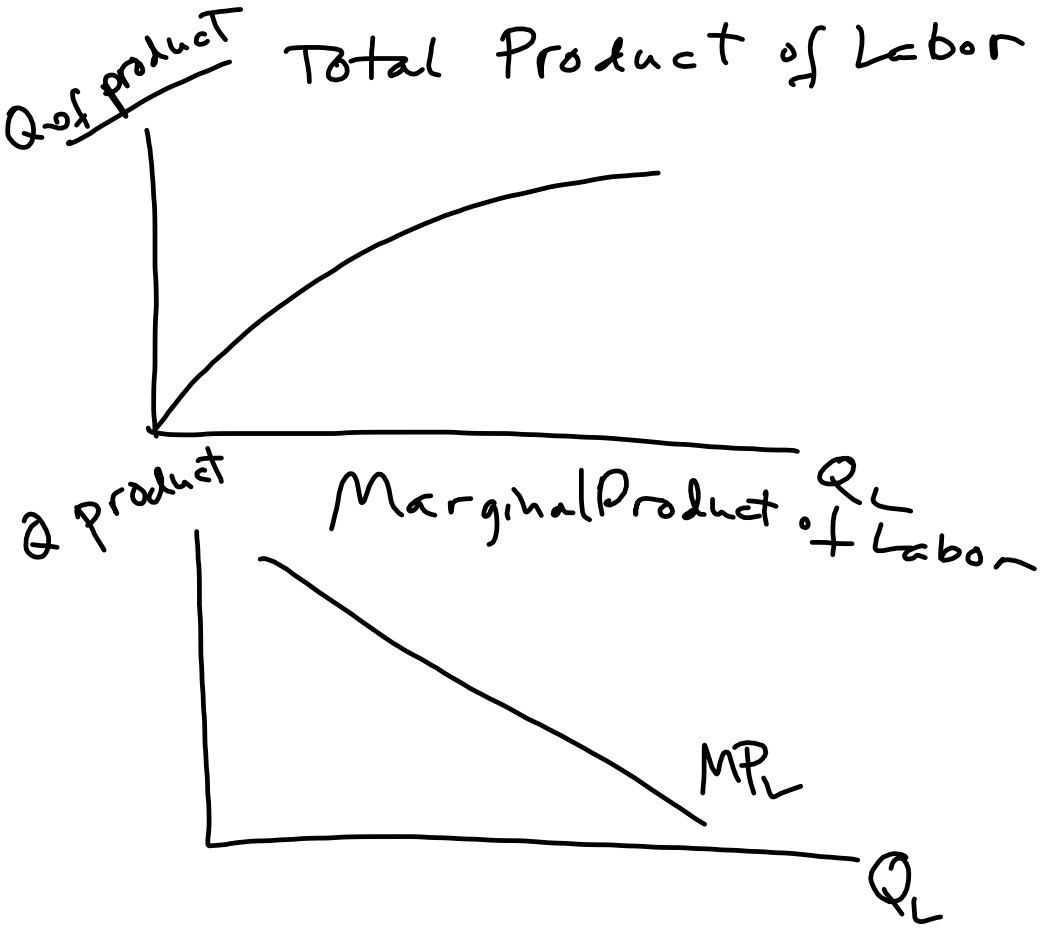
$$\frac{500}{50} \quad \frac{1000}{200}$$

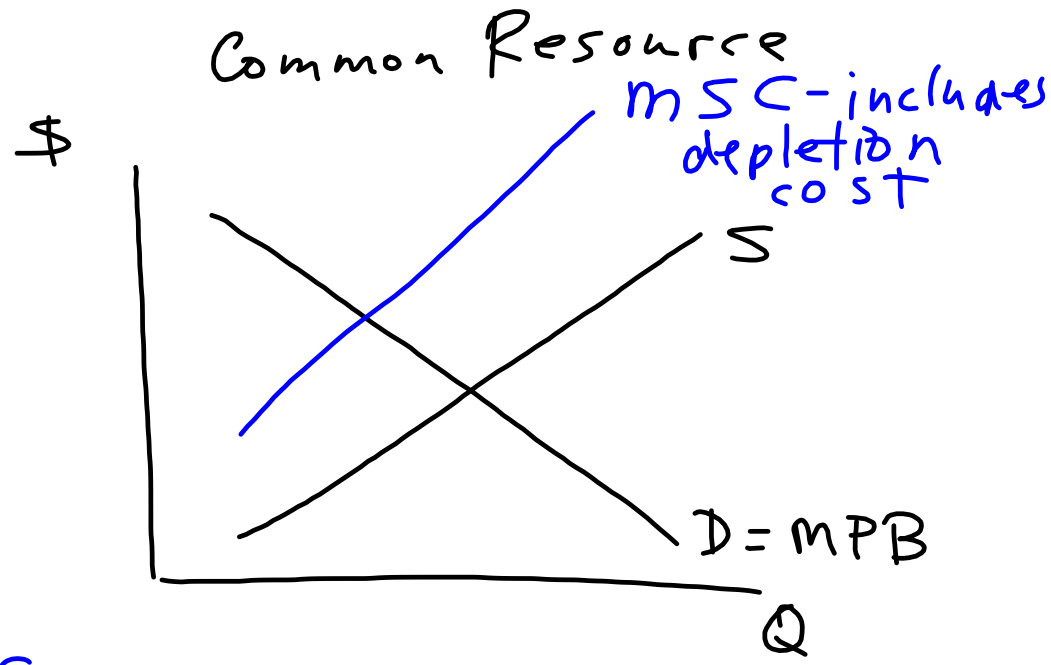
$$10 \quad 5$$

← move $ from K to L




Firm - labor - simplest
$
$W_e = W^*$
$P \cdot MP_L$
VMP_L
$MR \cdot MP_L$
MRP_L
Q_L


Q of product
Total Product of Labor
Q product
Q_L
Marginal Product of Labor
MP_L
Q_L



Cost: depletion of the resource