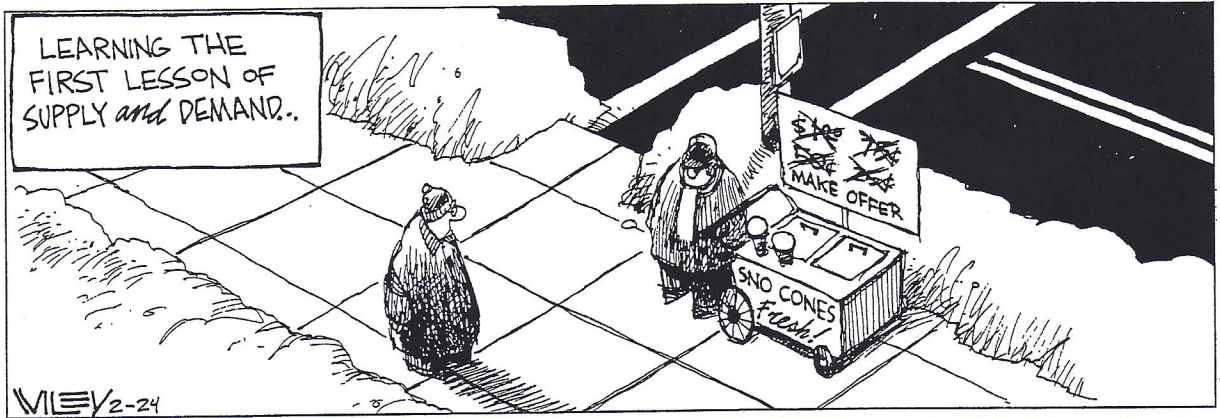


Economic Cartoons



Study this cartoon and review the section entitled "Understanding Supply" beginning on page 101 before answering the questions below.



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1. (a) What is the street vendor selling? Sno Cones

- (b) What is the asking price for his product? Whatever the customer wants to offer

- (c) What season of the year is it? Winter

2. Suppose you were trying to create a supply schedule for sno cones. Which variable has the vendor been changing? Price

3. **Synthesizing Information** According to the law of supply, will the seller increase or decrease the supply of his product in the near future? Explain your answer. _____
Seller will decrease the supply of sno cones because of the drop in price.
Price of the sno cone is probably not going to rise until warmer weather
4. **Drawing Conclusions** If changing the price of sno cones does not work, what might the vendor do? Stop his business

5. **Evaluating Information** Is the supply of sno cones elastic or inelastic? Explain your answer.

Somewhat elastic- businesses can change their output easily and it's easy for
new businesses to enter the market

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Section 2: Guided Reading and Review

Costs of Production



CHAPTER 5

A. As You Read

As you read Section 2, supply the requested information in the spaces provided.

1. A basic question a producer must answer: How many workers to hire

2. Marginal product of labor benefits gained from worker specialization: Increased output per worker and rising marginal product of labor

3. Negative effect of a firm's limited capital: Total output increases at a decreasing rate, creates diminishing marginal returns of labor

4. Curve pattern for marginal product of labor when capital is limited: increasing marginal returns followed by diminishing returns

5. Examples of typical fixed costs: rent, machine repairs, property taxes, salaries of workers needed to keep the business running

6. Why labor is a variable cost: cost of labor changes with the number of workers. The number of workers changes with the number of product produced

7. How the marginal costs of production for the beanbag producer changed after the rate of three bags per hour was surpassed: _____

Do Not Do Question 7

8. How total revenue and total cost can help set the most profitable output level: _____

Do Not Do Question 8

9. How marginal revenue and marginal cost can help set the most profitable output level: _____

Do Not Do Question 9

10. Why a producer would continue to increase output even though the marginal cost of production may be rising: profit can still be made if marginal cost is not more than marginal revenue

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B. Reviewing Key Terms

Define the following terms.

11. marginal product of labor change in output resulting from hiring one more worker
12. diminishing marginal returns marginal production decreases with new investments
13. total cost the sum of fixed and variable costs
14. marginal cost additional cost of producing one more unit