Economics 110, Section 2 Due: Noon, October 11, 2006
November 10, 2006

Problems – Chapter 5: Theory of the Firm

For Thursday, October 5: Finish reading Chapter 5
For Tuesday, October 10: Chapter 6.1 and 6.2 on Competition
Outside Read for Thursday:

A defined benefit pension plan provides that a retiree will receive a pension based on the salary they received while working for the firm. In recent years it has become apparent that corporate pension obligations are "under-funded;" i.e., not enough funds have been put aside to meet corporate pension promises when their employees retire. Most state employee pension funds and public teacher retirement funds (including Connecticut's), and the Social Security System are also under-funded.

But at the time of the great Clinton stock market boom, pensions were thought to be over-funded. See "Pension overfunding in 1998" (CareerJournal.com Wall Street Journal: (at least the first page)
http://www.careerjournal.com/myc/retirement/19990615-schultz.html

Here is a brief summary of the pension funding problems
http://www.cato.org/new/08-04/08-24-04r.html
(The Cato Institute is a leading conservative Washington think tank)
The Financial Accounting Standards Board (FASB) announced a new rule last Friday, September 29 concerning the accounting of corporate pension obligations to their employees. The ruling, it is estimated, will increase the pension liabilities of the largest U.S. companies by $466 billion, reducing their net worth by 7 percent! See the following (First page only)
http://www.cfo.com/article.cfm/6763711/c_7146188?&x=1

Some Definitions:

Let C(q) denote the total cost of producing q units of output.
C(0) is fixed cost and C(q)/q is average cost
C(q) – C(0) is variable costs and [C(q) – C(0)]/q is average variable cost

Exercises

From Chapter 5, page 230+:

#2 You may use the Excel spreadsheet in developing your answer to this question by clicking on the link in
http://mlovell.web.wesleyan.edu/E110/E110Handouts.html
#3 Short-run cost functions
Skip this problem: #4 Long-run cost functions
#5 a and b, Monopoly
#6 But use the cost function $C(q) = 16 + 4q + q^2$

From Chapter 6, page 291:

Leave for later: # 1 But use the same cost function as in the last question.