Questions for PubPol/Econ 541
Nov 6

Scale Economies and Imperfect Competition

KOM, Ch 7, selected pages:

- What are economies of scale, and how do external economies of scale differ from internal economies of scale?
- What are some reasons why the costs of a number of firms producing the same thing might be lower if they are located close together than far apart?
- The supply curve with external economies is shown and described in the text as "forward falling." Can this be interpreted the same way as a conventional upward sloping supply curve, saying how much industry will supply at each given price? [Also, though not mentioned in the text, how does this differ from a "backward bending supply curve" that one sees in other contexts, such as labor supply?]
- In what ways does the opening to trade of an industry with external economies of scale differ from what we saw in the partial equilibrium models earlier in the course?
    - Do low-cost suppliers still export?
    - Do high-cost suppliers still reduce production, and their countries import?
    - Does price rise in the low-price country and fall in the high-price country?
    - Does a move to free trade cause winners and losers in both countries?

KOM, Ch 8, selected pages:

- What two things contribute to the gap between price on a demand curve facing a monopolistic firm and its marginal revenue? How then is this related to the markups of price above marginal cost that firms charge?
- Why do "internal economies of scale" lead to imperfect competition?
- The monopolistic competition model in the text is depicted with two curves, the upward sloping CC curve and the downward sloping PP curve, with the number of firms in the industry, n, on the horizontal axis. What, intuitively, do these two curves represent, and why are they shaped as they are?
- What assumption is captured by saying that the equilibrium is the intersection of the CC and PP curves?
- Why can the monopolistic competition model lead to trade without comparative advantage?
- The "New Trade Theory," of which the monopolistic competition model is a part, departs from the assumptions of earlier trade theories (Ricardian, Heckscher-Ohlin) by dropping three assumptions: perfect competition, constant returns to scale, and product homogeneity. What are the replacements of each of these in the textbook's monopolistic competition model, and how do each contribute a new reason for gain from trade?
- In the monopolistic competition model, are there any losers from trade?