

Mon.

2. (a) Draw a correctly labeled graph showing a typical monopoly that is maximizing profit and indicate each of the following.

2004
exam

- (i) Price
- (ii) Quantity of output
- (iii) Profit

(b) Describe and explain the relationship between the monopolist's demand curve and marginal revenue curve.

(c) Label each of the following on your graph in part (a).

- (i) Consumer surplus
- (ii) Deadweight loss

From AP Central
(Released Exam Question)

Q.2

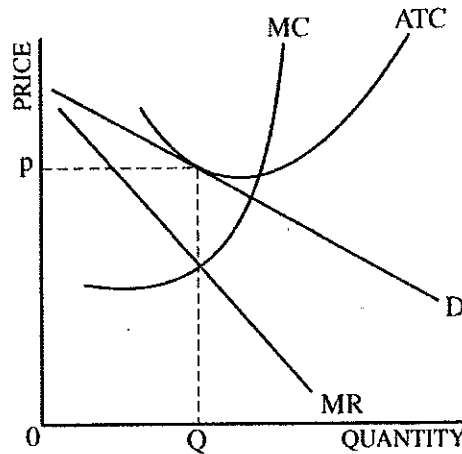
AP[®] MICROECONOMICS
2004 SCORING GUIDELINES

~~Question 3~~

Correct Answer:

- (a) The correct graph for a monopolistically competitive firm will show a downward-sloping D curve with a downward-sloping MR curve below it. The firm's price and output would be found at the equality of MR and MC. In the long run, the ATC curve is tangent to the demand curve and equal to price directly above the output level at which MR=MC.
- (b) When the fixed cost decreases, MC is not affected so that the output and price remain constant. Economic profit increases since the ATC falls.

Scoring Guidelines: 8 points (4+4)



(a) 4 points:

- 4
- 1 - Graph with a downward-sloping demand curve with correctly labeled axes
 - 1 - Downward-sloping marginal revenue curve below the demand curve
 - 1 - Q from MR = MC and P from Demand directly above Q
 - 1 - Long-run equilibrium, AC (or ATC) tangent to Demand at Q

(b) 4 points:

- i. ~~1~~ 1 - Individual firm's output level does not change *Answer*
- 1 - License fee is a fixed cost, thus it does not affect the firm's marginal cost *explain*
- ii. ~~1~~ 1 - Economic profits increase *Answer*
- 1 - Explanation *explain*

**Contingent on b(i)

If Q does not change in b(i), TC or ATC decrease is sufficient.

If Q changes in b(i), then "correct" explanation of how TR/TC or AR/ATC is affected is necessary.

8