PC & Mon.

1. Market structures differ from one another in many respects. Consider two profit-maximizing firms that earn short-run economic profits. One is a perfectly competitive firm and the other is a monopoly.

   (a) For each firm, draw a correctly labeled graph showing the following.

2004(B) Exam

      (i) Price

      (ii) Quantity of output

      (iii) Area of economic profits

   (b) For each firm, explain the relationship between price and marginal revenue.

   (c) For each firm, explain how the economic profits would most likely change in the long run.

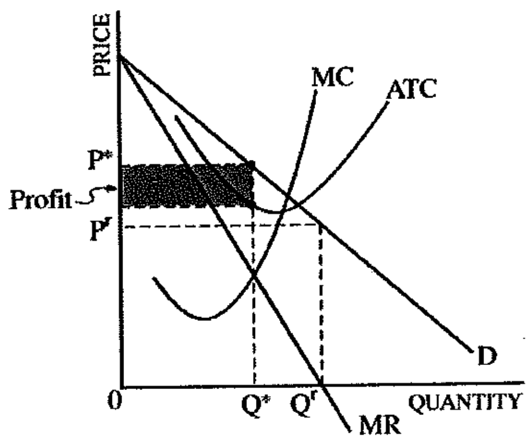
   (d) Label the area that represents the deadweight loss on the graph for the monopoly firm drawn in (a). Explain what this deadweight loss represents.

From AP Central (Released Exam Question)

Question 1

9 points (1+4+2+1+1)

(a) 1 point: Brunelle must lower its price on all units to sell additional units. Thus, the additional revenue from the last unit sold is the price *minus* the loss on units that would otherwise sell at a higher price.



(b) 4 points:

1 – Correctly labeled graph with downward-sloping demand and marginal revenue below demand

1 - For Q* at MC=MR

1 - For P* at the height of the demand curve above MC=MR

1 - For shading the correct area of profit (P*-ATC)Q*

(c) 2 points:

1 - For Identifying Q^r at MR =0

1 - For identifying P^r at the height of the demand curve above Q^r

(d) 1 point: Brunelle is not producing the allocatively efficient level of output because P>MC (MSB > MSC)

(e) 1 point: Brunell's demand curve will shift inward to the left