

Bonus

Tax Assessment

3. Assume that a profit-maximizing firm in a monopolistically competitive industry is in long-run equilibrium.
- (a) Draw a correctly labeled graph that shows the profit-maximizing firm's price and output.
 - (b) Assume that the city in which this industry operates eliminates the business license fee (a fixed cost) for all firms in this industry. How does the elimination of the license fee affect each of the following for the individual firm in the short run? Explain your answers.
 - (i) Output
 - (ii) Economic profits

From AP Central
(Released Exam Question)

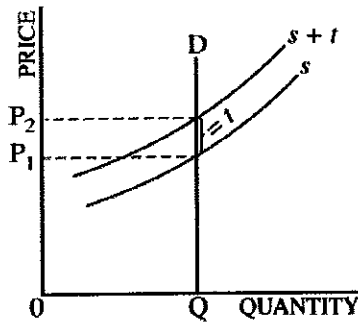
**AP[®] MICROECONOMICS
2004 SCORING GUIDELINES (Form B)**

Bonus

~~Question 2~~

6 points (2+2+2)

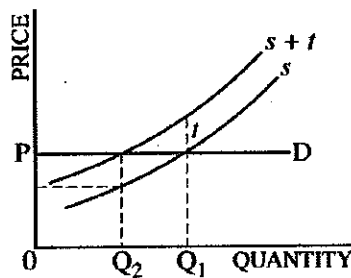
(a) 2 points:



1 - Perfectly inelastic demand curve showing that Q does not change

1 - Since producers can raise the price by the full amount of the tax, the tax falls entirely on buyers

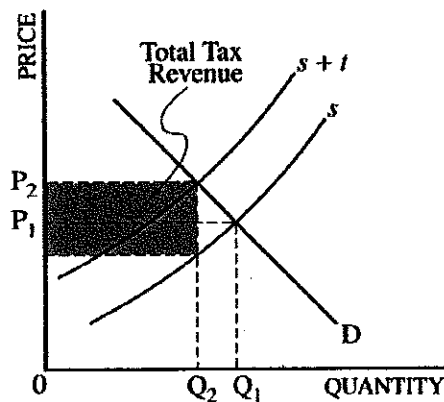
(b) 2 points:



1 - Horizontal demand curve showing that price does not change

1 - The tax falls entirely on sellers, since they can't charge more and thus must absorb the entire amount of the tax

(c) 2 points:



1 - For shifting either the supply curve or the demand curve inward to the left

1 - For shading the correct profits area