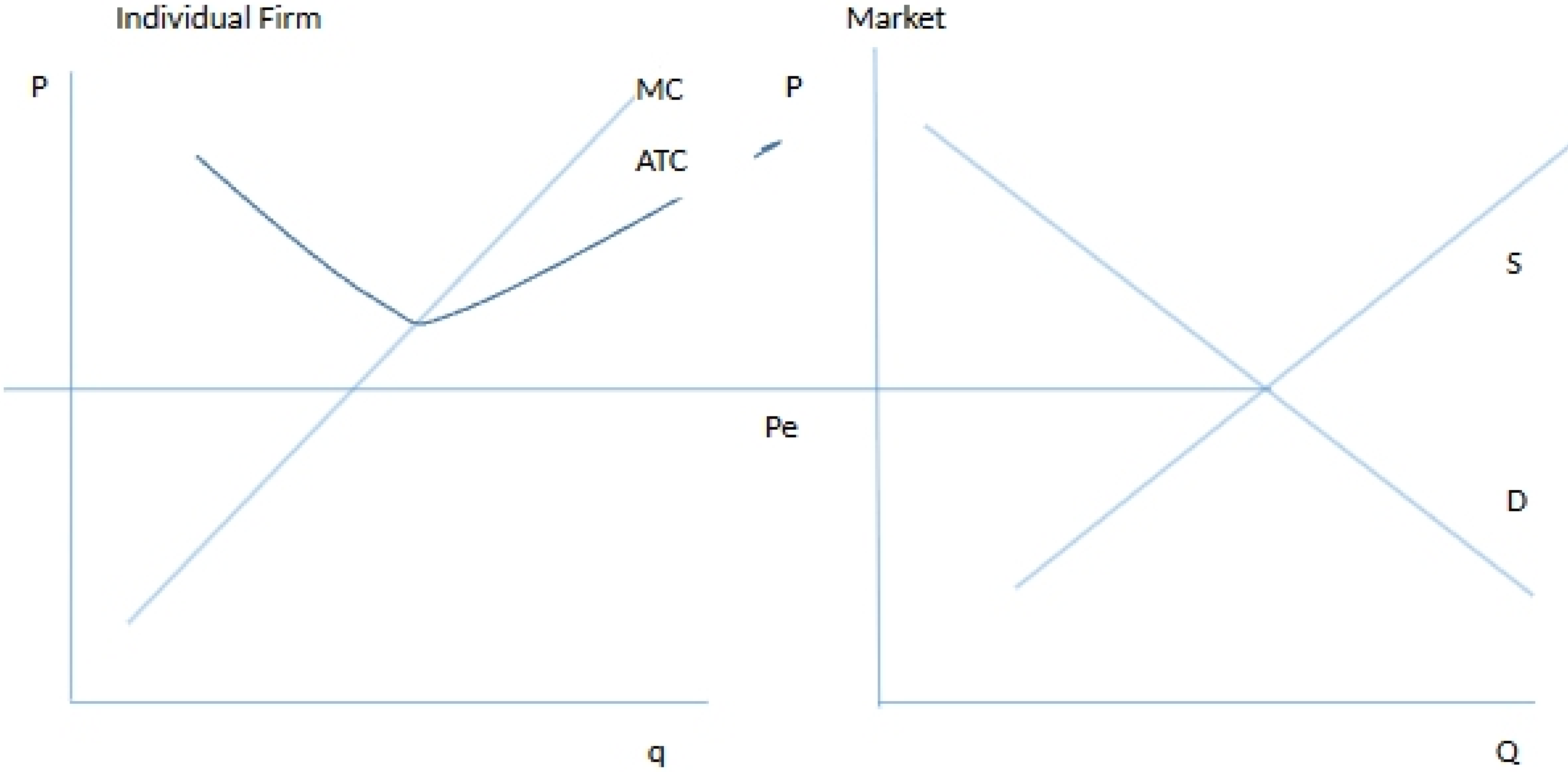
Homework – Week 9

Name: ____

Market Supply in Competitive Markets

1) The following graphs represent the cost curves of a single producer of wheat and the short-term supply and demand in the market for wheat.



A) Plot on the graph the equilibrium quantity and the quantity produced by an individual firm.

B) Plot on the graph the profit of a single firm. Does it have profit or losses?

C) Is this market in its long-term equilibrium? Why?

C) Show in the graph the long-run equilibrium and explain the process by which it is achieved.

D) Suppose the wheat market is in the long-run equilibrium. Suddenly wheat becomes more popular and its demand increases. Draw a new graph below showing the initial long-run equilibrium, the new short-run equilibrium after the demand increase, and the final long-run equilibrium after the demand increase.

2) For the following questions, circle the correct answers.

A) A competitive firm's short-run supply curve is its ____ cost curve above its ____ cost curve.

a) average total, marginal
b) average variable, marginal
c) marginal, average total
d) marginal, average variable

B) In the long-run equilibrium of a competitive market with identical firms, what is the relationship between P, MC, and ATC?

a) P > MC and P > ATC
b) P > MC and P = ATC
c) P = MC and P > ATC
d) P = MC = ATC

Monopoly

1) Google is a monopolist in the search advertisement market and faces the following demand curve and cost structure:

Price (Dollars)	Quantity Demanded (Clicks)	Total Cost (Dollars)
5	0	1,000,000
4	500,000	1,200,000
3	1,000,000	1,800,000
2	1,500,000	2,600,000
1	2,000,000	3,600,000
0	2,500,000	5,000,000

A) Complete the following table:

Quantity (Clicks)	Total Revenue (Dollars)	Marginal Revenue (Dollars)	Marginal Cost (Dollars)	Profit (Dollars)
0				
500,000				
1,000,000				
1,500,000				
2,000,000				
2,500,000				

B) What is the price and quantity that Google will choose to maximize is profits?