

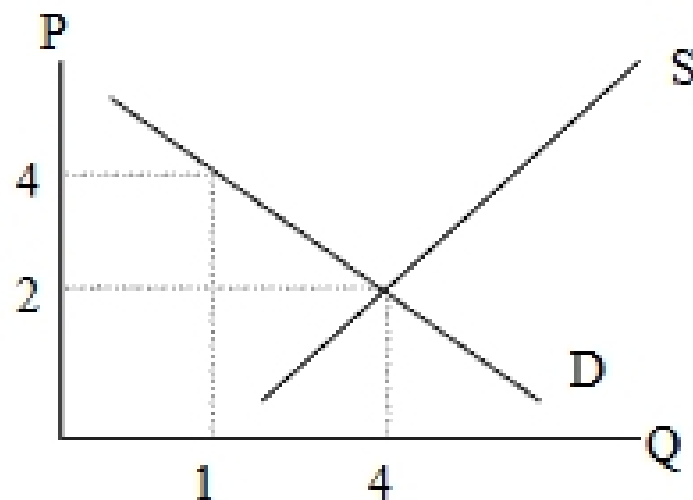
Name & SID:

Date:

You have 30 minutes to answer the following questions. Please show all your work **and** circle your final answers. **NO CALCULATORS.**

Your goal is **NOT** to finish this quiz. Your goal is to **maximize** your total number of points.

1. What is market equilibrium price and quantity of sodas? [1 point]

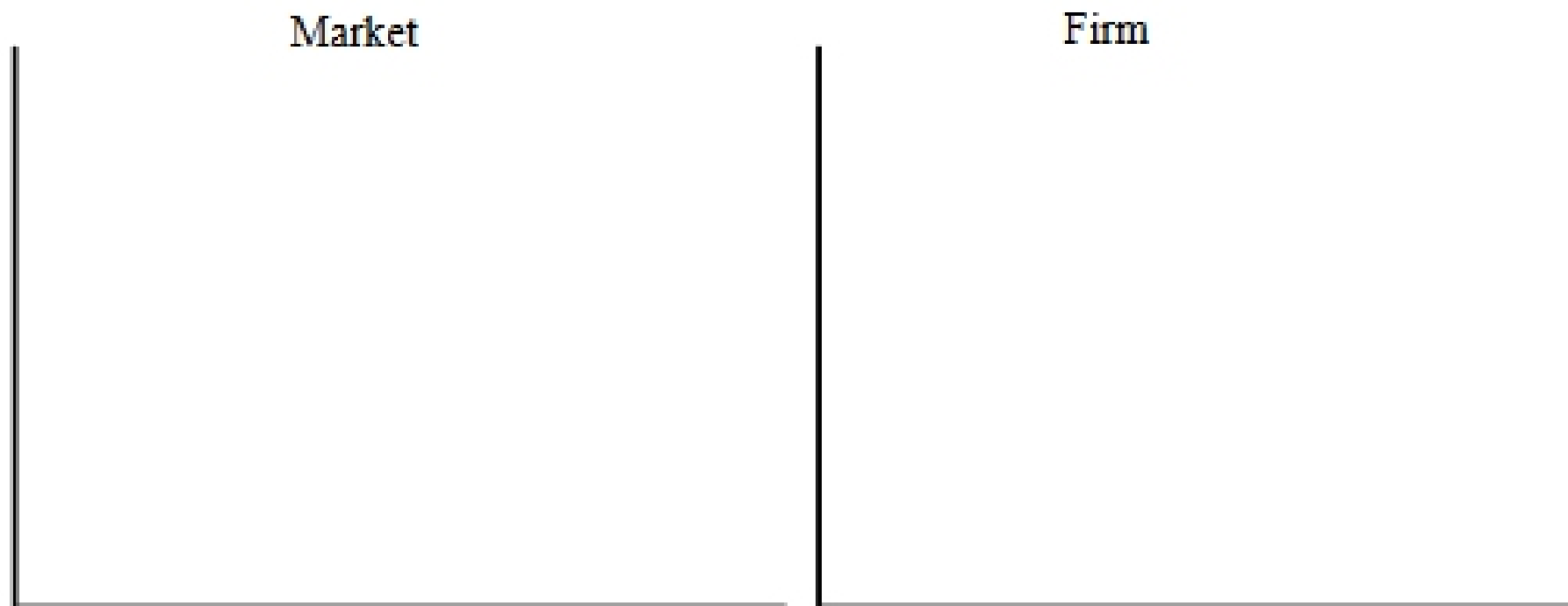


2. The price of water decreases. Assume water and sodas are substitutes. Show what happens in the market for sodas (graph above). How does this affect the equilibrium price and quantity for sodas? [5 points]
3. Name all the main assumptions for perfect competition. [4 points]
4. Define "price-taker". [1 point]
5. How do perfectly competitive firms make output decisions? In other words, how do perfectly competitive firms know how much to produce? An equation would be acceptable. [4 points]

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6. Assume that the market for corn is perfectly competitive. Also assume the market price (P_1) for corn is \$1/ton. The individual firm is making positive profits in Stage 1 at this price. What is the firm's marginal revenue curve? What is the firm's demand curve? Sketch and label **both** the firm's marginal revenue curve (MR) and firm's demand curve (d). Shade in the area for firm's profit. [10 points]



7. Will the price of corn stay at \$1/ton? Will the Stage 2 equilibrium price of corn increase or decrease? Will the equilibrium **market quantity** of corn increase or decrease? How much more or less **firm quantity** will the individual firm produce compared to Stage 1? Sketch the Stage 2 effects in the market and in the individual firm. [5 points]

