

Quick Review Questions

- Explain. Why is the Stage 1 market supply curve upward sloping? Why is the Stage 2 market supply curve flat at the minimum average cost?

- True, false, or uncertain. Assume Stage 1 perfect competition. Each firm prices at the same market price, but each firm can produce different quantities.

- True, false, or uncertain. When average cost (AC) shifts up, then marginal cost (MC) also shifts up.

- Graph and explain. Assume perfect competition. The market price for CD players is \$70 in Stage 1. The firm produces q_1 . The average cost of producing q_1 is \$100. What is the price of CD players in Stage 2?

Quick Review Questions

- Graph and explain. Draw a typical market supply and demand graph for oranges. Assume a downward demand curve and an upward supply curve. Label the market equilibrium: P^* , Q^* . Producers are willing to sell 50 oranges at \$100, but consumers are willing to buy 50 oranges at \$70. Label 50 oranges as Q_1 . Is Q_1 below or above Q^* ? What is the final price of oranges?