

Name & SID:

Date:

True, false, or uncertain. Only your explanations will be graded. Graphs are also encouraged, but your explanation is more important. Therefore please explain quickly and accurately.

1. A typical monopoly creates a shortage in the market because it produces at the profit-maximizing output ($MC=MR$) rather than at the socially optimal output ($P=MC$).
2. The government should place a per unit tax on a typical monopoly in order to reduce the deadweight loss.

Graph and explain.

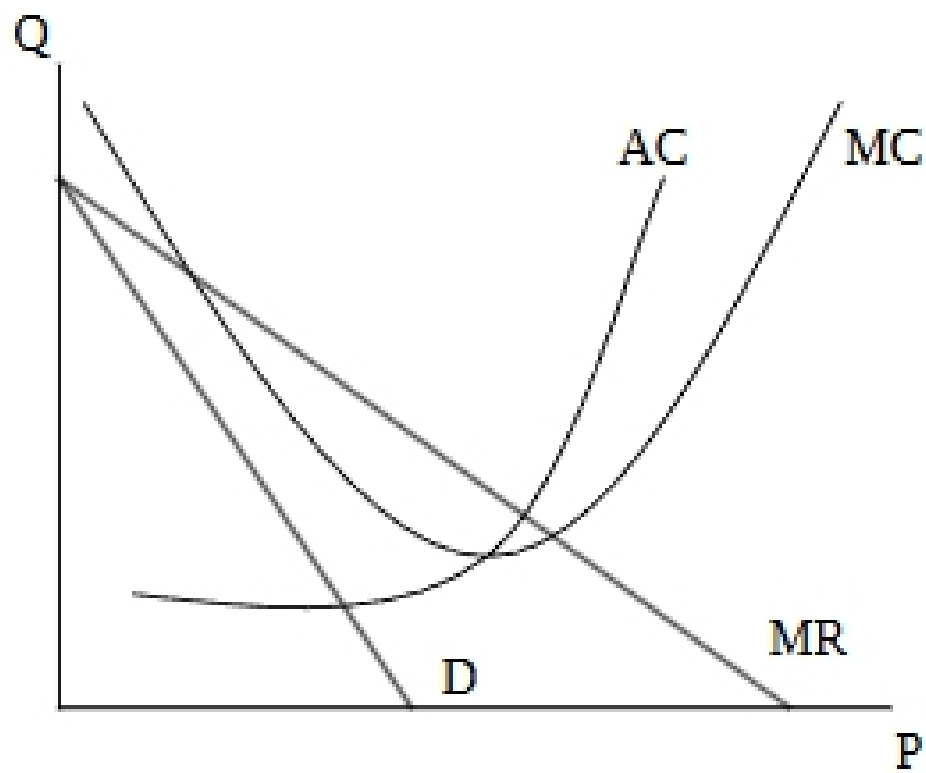
3. Draw a typical monopoly graph. Explain why a monopoly creates a deadweight loss in the market. (Please do not write an essay.)
4. A perfectly competitive wheat firm is making positive profits in the short-run. Explain (graphically and in words) why the firm will not make positive profits in the long-run. (Do not write an essay.)

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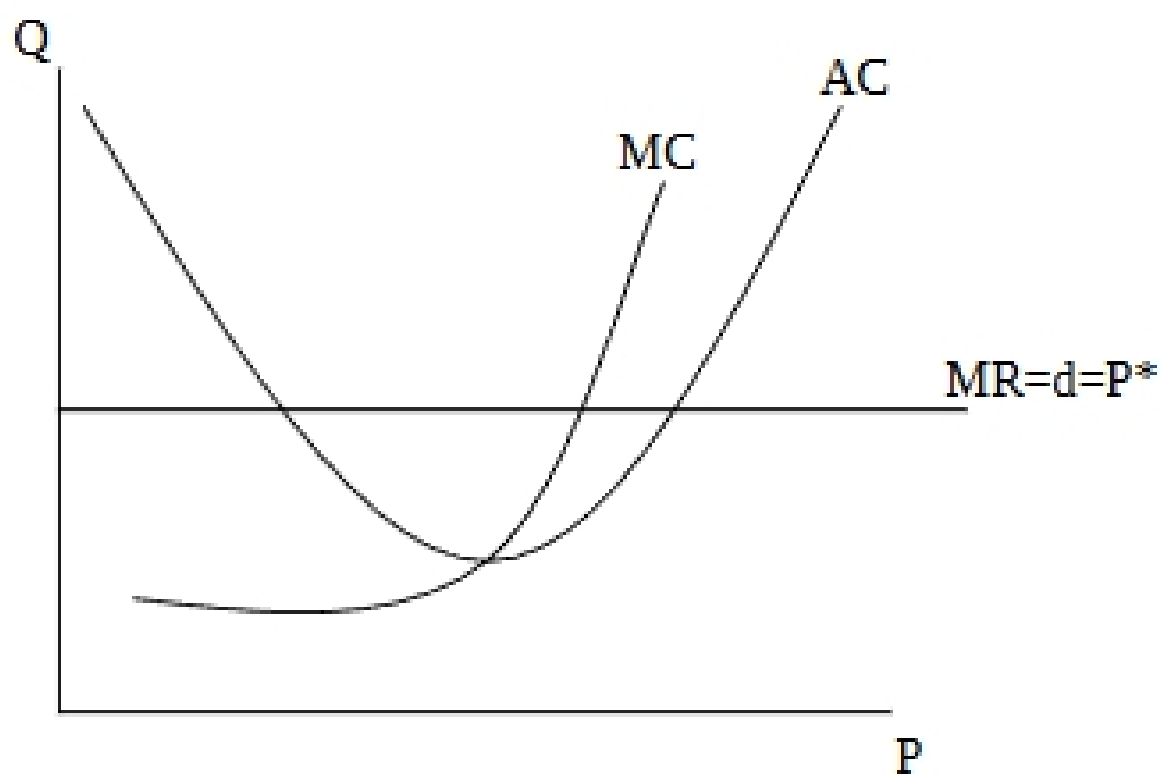
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What is wrong? List the mistakes.

5. Monopoly



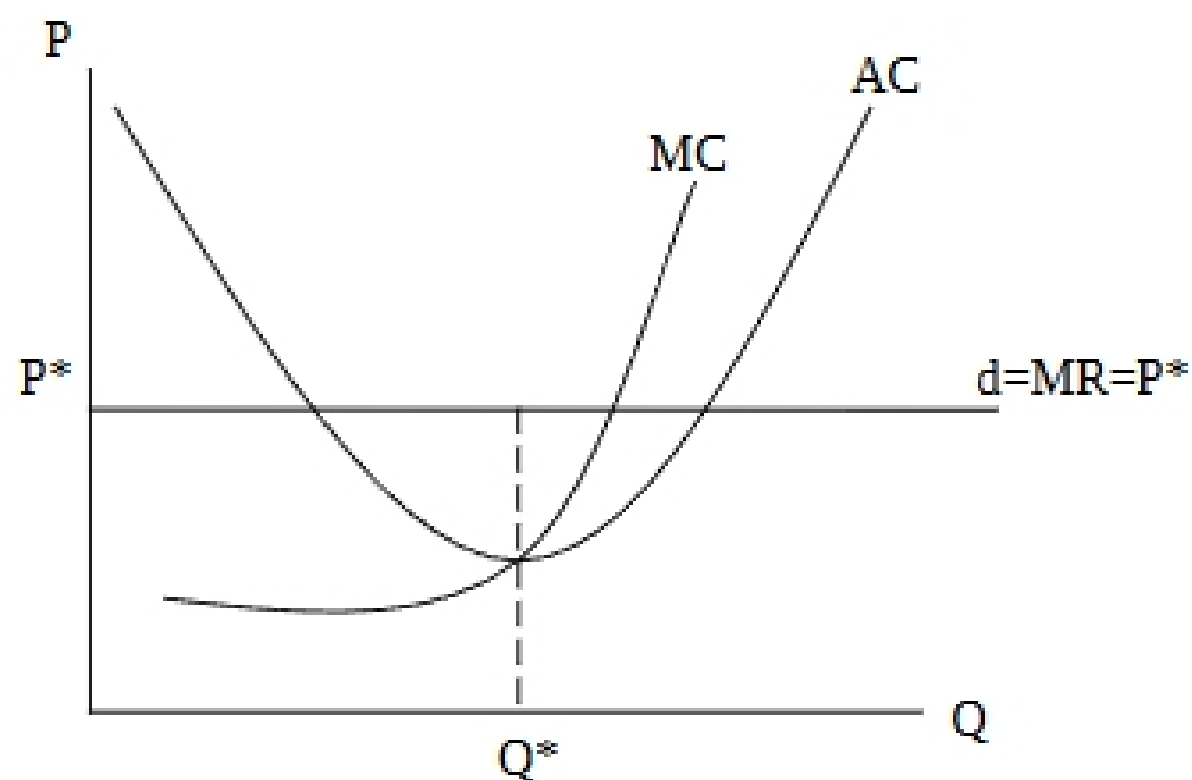
6. Monopoly



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7. Perfect Competitive Firm in Long-run



True, False, or Uncertain. Explain your answers and draw graphs if they help your explanation. You will be graded on your explanation more than your answer.

8. Government taxes in a market with negative externalities always reduce the deadweight loss to society.

9. Government subsidies in a market with positive externalities always reduce the deadweight loss to society.