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Principles of Economics

Study Questions – Firms, II

1. Illustrate each of the following types of firms on separate graphs. On each graph, label the firm's profit or loss (if any). Numbers aren't needed.
 - a) A profit-maximizing monopolistically competitive firm in the short run making a positive economic profit.
 - b) A loss-minimizing monopolistically competitive firm in the short run which has shut down.
 - c) A loss-minimizing monopolistically competitive firm in the short run which is operating but losing money.
 - d) A monopolistically competitive firm in the long run attempting to maximize profits.

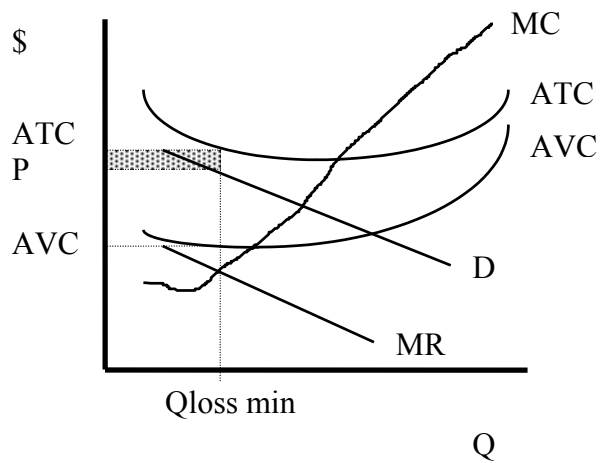
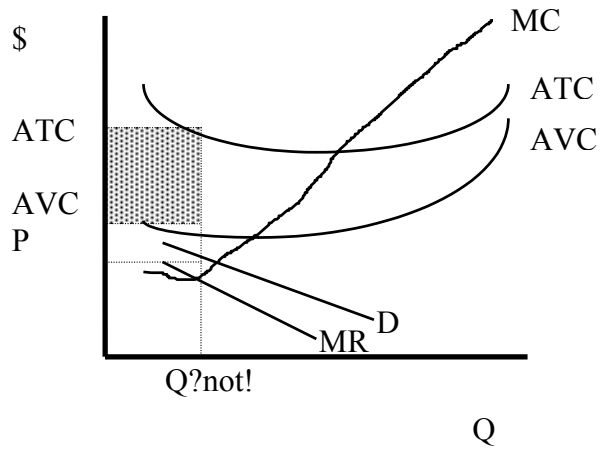
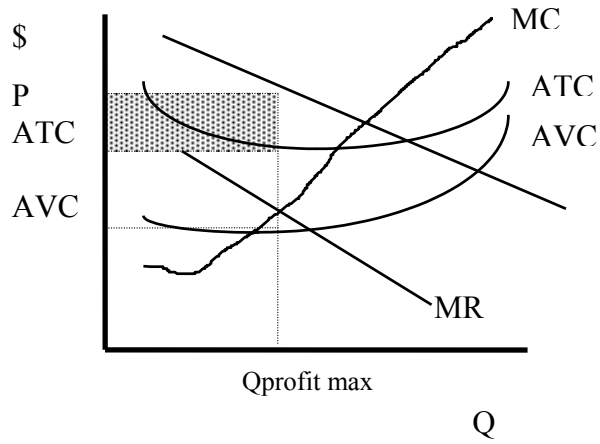
2. Illustrate each of the following types of firms on separate graphs. On each graph, label the firm's profit or loss (if any). Numbers aren't needed.
 - a) A profit-maximizing oligopoly with a kinked demand curve in the short run making a positive economic profit.
 - b) A cartel in the short run maximizing profits.

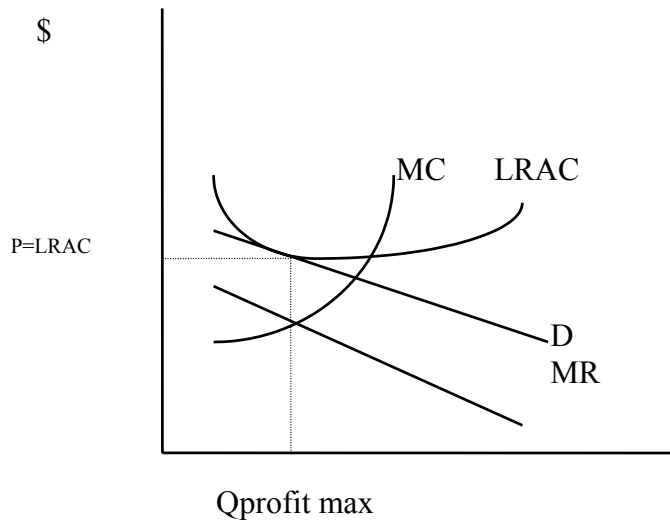
3. In the long run a monopolistically competitive firm is selling 100 brushes for \$2 each. Calculate this firm's total revenue, total costs, and total profit.

4. In the long run a monopoly regulated to break even is producing 2000 megawatts of electricity at a total cost of \$10,000. At what price per megawatt is the government's price ceiling set?

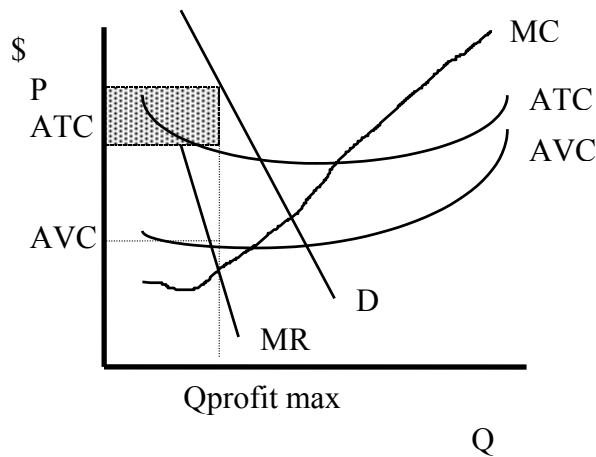
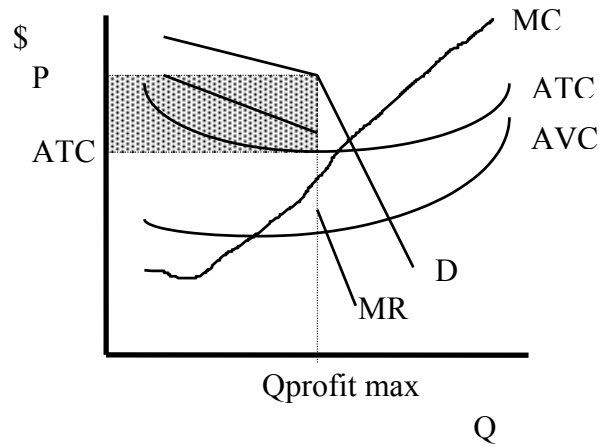
Answers to Study Questions – Firms II

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3. In the long run a monopolistically competitive firm is selling 100 brushes for \$2 each. Calculate this firm's total revenue, total costs, and total profit.

$$\text{Total revenue} = p \times q = 100 \times 2 = 200$$

Total profit = 0 since a monopolistically competitive firm has 0 profit in the long run

$$\text{Total cost} = \text{total revenue} - \text{total profit} = 200 - 0 = 200$$

4. In the long run a monopoly regulated to break even is producing 2000 megawatts of electricity at a total cost of \$10,000. At what price per megawatt is the government's price ceiling set?

$$\$10,000/2000 = \$5 \text{ per megawatt}$$