EC 1011

Problem Set 6 – Due 4/29

1. Suppose that a firm in a competitive market faces the following revenues and costs:

|  |  |  |
| --- | --- | --- |
| **Quantity** | **Total Revenue** | **Total Cost** |
| 0 | $0 | $3 |
| 1 | $7 | $5 |
| 2 | $14 | $8 |
| 3 | $21 | $12 |
| 4 | $28 | $17 |
| 5 | $35 | $23 |
| 6 | $42 | $30 |
| 7 | $49 | $38 |

1. A competitive firm won’t produce beyond what quantity? Why?
2. What is the marginal cost of the 5th unit?
3. How much should the competitive firm produce to maximize profit?
4. What is the profit at the maximizing quantity?

1. Suppose that a firm in a competitive market has the following cost curves:



1. What price should the firm shut down below?
2. What’s the range of prices where the firm would earn negative profit in the short run?
3. Below what price would the firm exit?
4. What range of prices would provide the firm positive profits?
5. At what quantity is ATC minimized?
6. What is the long run equilibrium price? What does each firm earn at that price? If the price is $5 in the short run, what happens in the long run to get the price back to the long-run equilibrium?

3.)

 

1. When the market is in long-run equilibrium at point A in panel (b), the firm represented in panel (a) will have what for profit?
2. Assume that the market starts in equilibrium at point A in panel (b). An increase in demand from D0 to D1 will result in what kind of change to price and quantity in the short run? Also describe what will happen in the long run in this market.