

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (12 points) For EITHER economies of scale OR patents, explain how that could cause a monopoly.

2) (14 points) Answer EITHER Part A OR Part B.

A) Most firms do not have the marginal revenue curve equal to the demand curve? Which is higher? Explain why it is higher.

B) What is meant by an “increasing cost industry”? What might cause that?

3) (18 points) Copy EITHER the table from Part A OR the table from Part B into your test booklet. Fill it in. Show all calculations and work. If there is no calculation, state how you got the answer.

L	TPL	APL	MPL
0			
2	10		
	18		4

Q	TC	TVC	TFC	ATC	AVC	AFC	MC
10	100	40	60	10	4	6	3
12	120						

4) (24 points) Draw the ATC/AVC/AFC/MC/D diagram for a monopoly. Illustrate the effects of EITHER the event in Part A OR the event in Part B. Explain why the curve(s) moved as drawn including why you chose fixed or variable costs and why you moved the lines “parallel” or not. What happens to the price and quantity? How did you find the price and quantity?

A) The pay for security increases.

B) The wages of hourly workers is increased.

5) (32 points) Answer EITHER Part A OR Part B.

A) Draw the industry supply and demand diagram for a perfectly competitive industry. Beside it, draw the ATC/AVC/MC/D diagram for a firm which is losing money but staying in business. State how you know they are losing money and how you know they will not immediately shut down. Illustrate the industry’s movement to the long-run equilibrium on the two graphs. Explain why the curves moved as drawn. State how you know that your graph now shows the long-run equilibrium. Assume a constant cost industry.

B) Draw a perfectly competitive industry’s demand, long-run supply and short-run supply. Beside it draw a firm’s D/ATC/AVC/MC diagram. Have both diagrams show the industry is in the long-run equilibrium. Explain how you know everything is in the long-run equilibrium. How did you use the firm’s diagram to get the two supply curves for the industry?