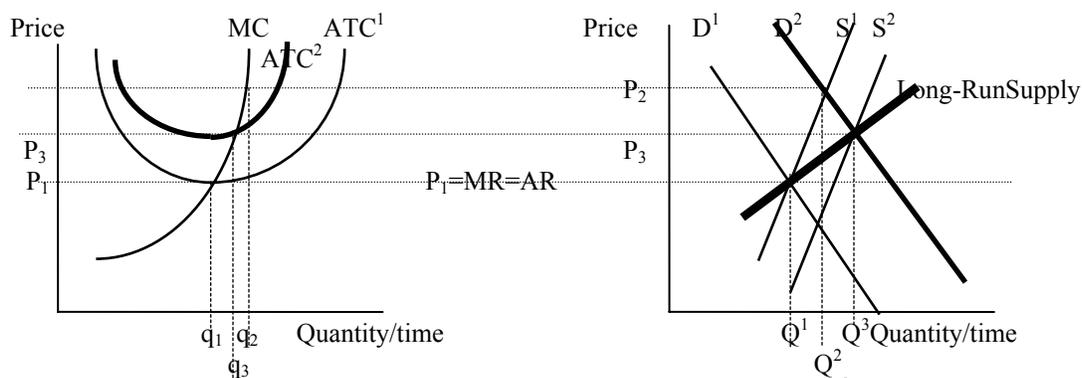


Answer Practice Exam 2

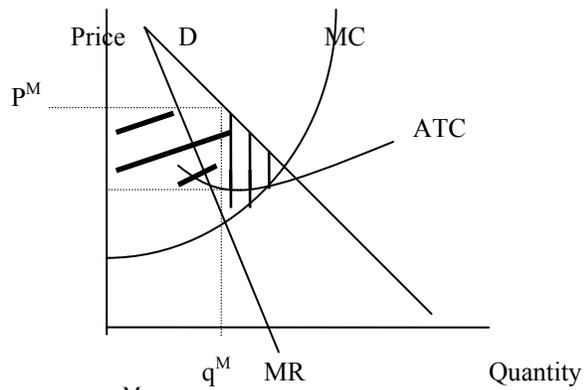
1. A
2. B
3. C
4. D
5. B
6. A
7. D
8. C
9. D
10. A
11. B
12. B
13. D
14. A
15. A
16. B
17. A
18. B
19. Diminishing marginal returns to labor (MPL decreases)
20. SR – Fixed input; LR – all inputs variable
21. Profits are positive – firms enter – increases supply – lowers price – drives profits to zero.
22.
 - a) a) AVC should be U-shaped (increase after it hits MC)
 - b) Profits should be zero (at Q^* $MC = MR = P$ and $P = ATC$ so Profits = 0)
 - c) Incorrect Q^* , not where $MC = MR$
 - d) $P = d = MR$ should be perfectly elastic

23.



- a) P complement decreases so D increases (shifts right) to D²
- b) Above
- c) Profits – firms enter, so S increases; p and q shown above
- d) Long-Run Supply given above – more elastic in LR
- e) Limited resources (example bison farmland becomes more expensive as more farmers wish to raise bison).

24. MONOPOLY:



 = profit (NOTE: P to ATC is profit, not P to MC = MR point)

 = DWL (NOTE: DWL is where $MB > MC$ for q^M)

- q^M is profit max quantity because it is the quantity where $MC = MR$.
- Monopolist is not efficient because D (willingness to pay) $> MC$.
- Shown above