MICROECONOMICS
Section II
Planning time—10 minutes
Writing time—50 minutes

Directions: You have 10 minutes to read all of the questions in this booklet, to sketch graphs, to make notes, and to plan your answers. You will then have 50 minutes to answer all three of the following questions. <u>It is suggested that you spend approximately half your time on the first question and divide the remaining time equally between the next two questions</u>. Include correctly labeled diagrams, if useful or required, in explaining your answers. A correctly labeled diagram must have all axes and curves clearly labeled and must show directional changes. <u>Use a pen with black or dark blue ink</u>.

1. A typical profit-maximizing firm in a perfectly competitive constant-cost industry is earning a positive economic profit.

   (a) Is the market price greater than, less than, or equal to the firm's price? Explain.

      (ii) The firm's quantity, labeled Q_f

      (iii) The firm's average revenue curve, labeled AR

      (iv) The firm's average total cost curve, labeled ATC

      (v) The area representing total cost, shaded completely

   (c) If one firm in the market were to raise its price, what will happen to its total revenue? Explain.

   (d) Now suppose the market is in long-run equilibrium. The government gives a lump-sum subsidy to each firm producing in the industry. Indicate whether each of the following will increase, decrease, or remain the same.

      (i) The firm's quantity in the short run. Explain.

      (ii) The market price and quantity in the long run. Explain.