1. RKB is a profit-maximizing monopoly that produces a new, patented electronic device. RKB is earning positive economic profit.

(b) The government wants RKB to produce the allocatively efficient quantity. Would the government impose a binding price ceiling, a binding price floor, a per-unit tax, or a lump-sum tax?

(c) Suppose that the government does not impose the policy you identified in part (b). Consumers now become aware of research that confirms the use of this new device harms users' vision. Given widespread consumer awareness of this research, what will happen to RKB's profit-maximizing quantity in the short run? Explain.

(ii) Suppose immigration increases the number of workers in this labor market. On your graph in part (d)(i), show the new equilibrium wage and quantity of labor, labeled W_2 and Q_2, respectively.

(iii) RKB uses the optimal combination of capital and labor in its production process. The firm rents capital at \$500 per unit, and the last unit of capital rented has a marginal product of 2,500 units. If the marginal product of the last unit of labor hired is 1,000 units, calculate the wage rate. Show your work.

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.