

Solutions

Each answer shows the steps, then the **result**.

2.1

- to sell an extra unit it must lower the price on all units, so the added revenue is less than the price

2.2

- produce where marginal revenue equals marginal cost

2.3

- it produces where price exceeds marginal cost, so some beneficial units are not made

3.1 B

3.2 B

3.3

(a)

- $25 - 18 = \$7$

(b)

- $7 \times 40 = \$280$

(c)

- it underproduces (relative to $P = MC$), so mutually beneficial trades are lost