Solutions

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

2.1

- any two of: many firms, differentiated products, free entry and exit

2.2

- zero economic profit (normal profit)

2.3

- it produces where $P > MC$ and above minimum ATC (excess capacity)

3.1 B

3.2 C

3.3

(a)

- its demand falls (shifts left) toward tangency with ATC

(b)

- zero economic profit

(c)

- advertising or product differentiation (any one)