

3. Camden's Cakery is one of many dessert cafés serving a local community. Each café produces a slightly differentiated product, there are no barriers to entry or exit, and the firm is in long-run equilibrium.
- (a) Draw a correctly labeled graph showing Camden's demand curve, marginal revenue curve, marginal cost curve, and long-run average total cost curve. Label Camden's profit-maximizing output Q_m and its price P_m .
 - (b) On your graph in part (a), label the output at which total revenue is maximized Q_R .
 - (c) Do firms in this market experience economies of scale, diseconomies of scale, or neither in long-run equilibrium? Explain.

STOP

END OF EXAM