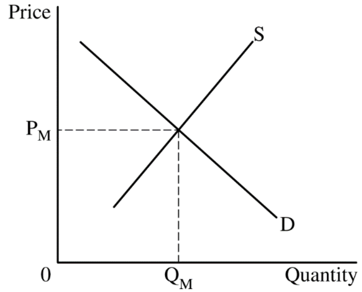
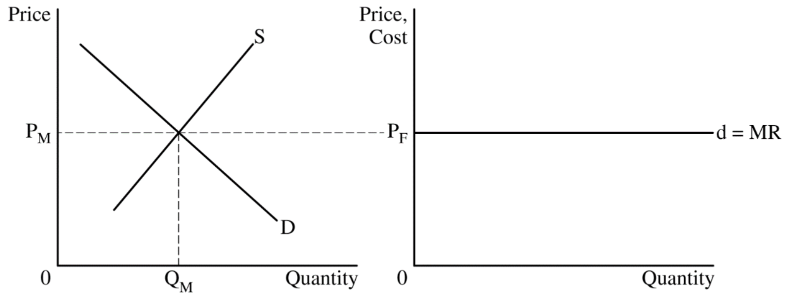
Question 1: Long	**10 points**

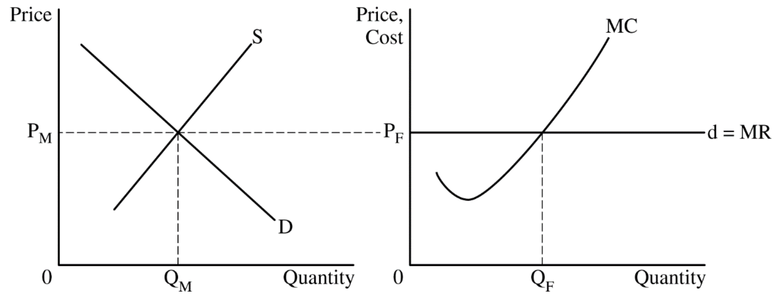
(a)	State that Anderson Company's accounting profit must be greater than its economic profit.	**1 point**
(b)	Draw a correctly labeled graph of the market for Good G with a downward-sloping demand (D) curve and upward-sloping supply (S) curve and label the market equilibrium price as P_M and the market equilibrium quantity as Q_M.	**1 point**



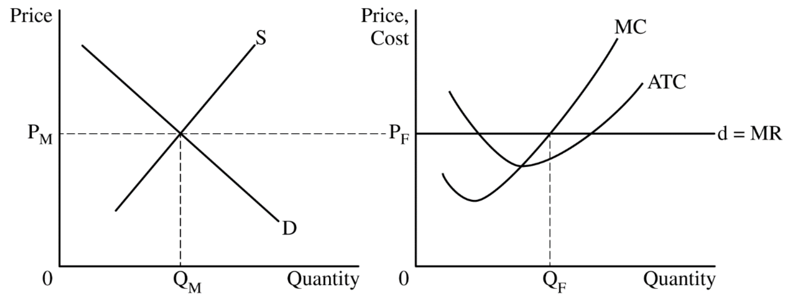
For the second point, draw a correctly labeled graph for the firm and show the firm's horizontal demand and marginal revenue (d=MR) curve extended from the market equilibrium price (P_M), and label the firm's price as P_F. **1 point**



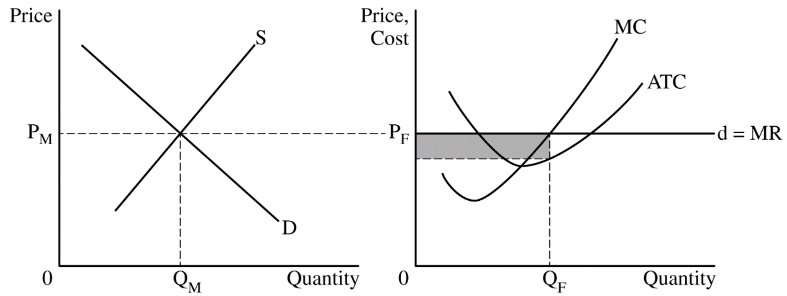
For the third point, the firm's graph must show a rising marginal cost (MC) curve and the profit-maximizing quantity, labeled Q_F where MR = MC. **1 point**



For the fourth point, the firm's graph must show the average total cost (ATC) curve below the firm's demand curve at Q_F and show the MC curve passing through the minimum point of the ATC curve. **1 point**

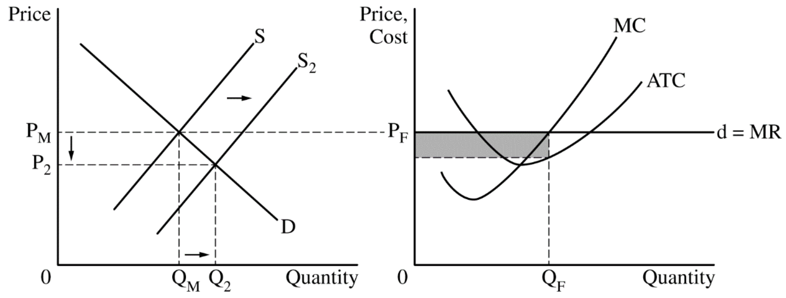


For the fifth point, the firm's graph must show the area representing positive economic profit, shaded completely. **1 point**

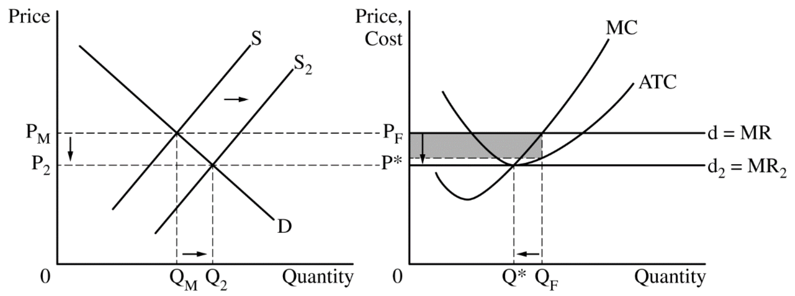


Total for part (b) **5 points**

(c)(i)	On the market graph from part (a), show a rightward shift in the market supply curve, resulting in a lower market equilibrium price, labeled P_2, and a greater market equilibrium quantity, labeled Q_2.	**1 point**



(ii)	On the firm's graph from part (a), show a lower price, labeled P*, extended from the new market equilibrium price, P_2, and show a lower quantity produced, Q*, at the new intersection point of $P^* = MR_2 = MC =$ minimum ATC.	**1 point**



	Total for part (c)	**2 points**
(d)(i)	State that the market equilibrium quantity will be less than the allocatively efficient quantity and explain that the positive externality in production causes the marginal social cost to be less than the marginal private cost (MSC < MPC) at the market equilibrium.	**1 point**
(ii)	State that total economic surplus will increase and explain with **ONE** of the following: • The quantity produced will increase to the allocatively efficient quantity. • Deadweight loss will decrease to $0. • The marginal private cost will equal the marginal social cost, causing the externality to be internalized.	**1 point**
	Total for part (d)	**2 points**
	Total for question 1	**10 points**