

Question 3: Short 5 points

- (a) Calculate the total net benefit of placing three advertisements as \$2,200 and show your work: 1 point

$$\text{Total net benefit} = \$3,000 - \$800 = \$2,200$$

- (b) Calculate the marginal net benefit of the third advertisement as \$500 and show your work: 1 point

$$\text{Marginal net benefit} = (\$3,000 - \$2,200) - (\$800 - \$500) = \$800 - \$300 = \$500$$

- (c) Identify the optimal number of advertisements as 4 and explain that the marginal net benefit of the 4th advertisement is positive (\$600 – \$500 = \$100), but the marginal net benefit of the 5th advertisement is negative (\$400 – \$800 = –\$400). 1 point

- (d) Identify the optimal number of advertisements as 4. 1 point

- (e) State that AZY Foods is operating in a monopolistically competitive market structure. 1 point

Total for question 3 5 points

AP[®] Microeconomics 2016 Scoring Guidelines

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2016 SCORING GUIDELINES

Question 1

10 points (3+3+4)

(a) 3 points:

- One point is earned for stating that the quantity supplied exceeds the quantity demanded at the price floor or the price floor would result in a surplus because the price floor is binding or effective.
- One point is earned for correctly calculating the price elasticity of supply.
Students can use either the midpoint formula or the point elasticity formula.

$$E = (500/1250) / (0.2/1.1) = 2.2$$

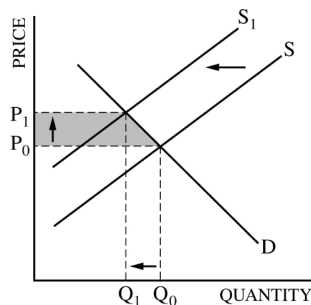
$$E = (50\%/20\%) = 2.5$$

$$E = (500/0.2) \times (1/1000) = 2.5$$

$$E = [(1500-1000)/1000] / [(1.2-1)/1] = 0.5/0.2 = 2.5$$

$$E = (500/0.2) \times (1.2/1500) = 2$$
- One point is earned for stating that the supply is elastic and for explaining that the percentage change in quantity supplied exceeds the percentage change in price or because price elasticity of supply is greater than one. (Other equivalent explanations are accepted.)

(b) 3 points:



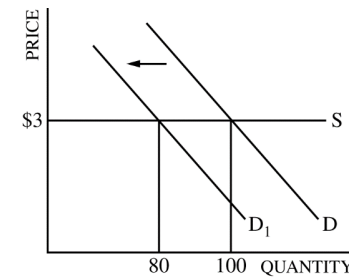
- One point is earned for drawing a correctly labeled graph and for showing the equilibrium price and quantity, labeled P_0 and Q_0 , respectively.
- One point is earned for shifting the supply curve to the left and for showing the new equilibrium price and quantity, labeled P_1 and Q_1 , respectively.
- One point is earned for completely shading on the graph the area representing the change in consumer surplus.

2016 SCORING GUIDELINES

Question 1 (continued)

(c) 4 points:

- One point is earned for stating that coffee and muffins are complementary goods.



- One point is earned for drawing a correctly labeled graph for the coffee market and showing a horizontal supply curve (S) and a downward sloping demand curve (D).
- One point is earned for shifting the demand curve to the left and for showing a decrease in the equilibrium quantity and no change in the equilibrium price of coffee.
- One point is earned for correctly calculating the new equilibrium quantity and showing the work.

$$\% \Delta Q = (10\% \times -2) = -20\%$$

$$\text{New Equilibrium Quantity} = 100 \times (-20\%) = 80$$
OR

$$\text{New Equilibrium Quantity} = 100 - (0.2 \times 100) = 80$$

(Using the midpoint formula is also acceptable.)

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Question 2

7 points (1+1+1+1+3)

(a) 1 point:

- One point is earned for stating that the marginal benefit is \$1.

(b) 1 point:

- One point is earned for correctly calculating the total consumer surplus from consuming 5 units of X.

$$CS = (\$16 - \$4) + (\$12 - \$4) + (\$8 - \$4) + (\$4 - \$4) + (\$1 - \$4) = \$21$$

OR

$$CS = \$41 - \$20 = \$21$$

(c) 1 point:

- One point is earned for explaining that this combination of X and Y is not optimal because the marginal benefit per dollar of good X ($MB_X/P_X = \$4/\$4 = 1$) is less than the marginal benefit per dollar of good Y ($MB_Y/P_Y = \$8/\$2 = 4$). (This can also be stated as $MB_X/MB_Y < P_X/P_Y$.)

($MB_X/P_X = 1$) is not equal to ($MB_Y/P_Y = 4$) is acceptable.

MB_X/P_X is less than MB_Y/P_Y is acceptable.

MB_Y/P_Y is greater than MB_X/P_X is acceptable.

(d) 1 point:

- One point is earned for stating that Martha's optimal combination is 3 units of X and 4 units of Y.

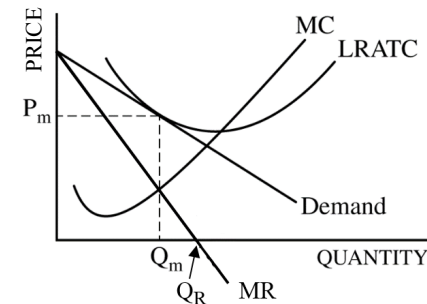
(e) 3 points:

- One point is earned for stating that the optimal quantity of good Y will decrease.
- One point is earned for stating that the optimal quantity of good Y will decrease.
- One point is earned for stating that the optimal quantity of good Y will stay the same.

2016 SCORING GUIDELINES

Question 3

6 points (4+1+1)



(a) 4 points:

- One point is earned for drawing a correctly labeled graph showing a downward sloping demand curve with MR curve below the demand curve.
- One point is earned for showing the quantity, Q_m , at $MC=MR$.
- One point is earned for showing the price, P_m , on the demand curve above Q_m .
- One point is earned for showing the long-run average total cost tangent to the demand curve at Q_m .

(b) 1 point:

- One point is earned for showing Q_R at $MR=0$.

(c) 1 point:

- One point is earned for stating that firms in this market are experiencing economies of scale in long-run equilibrium because LRATC is decreasing OR because Q_m is to the left of the minimum point of the LRATC.