Discussion section 6

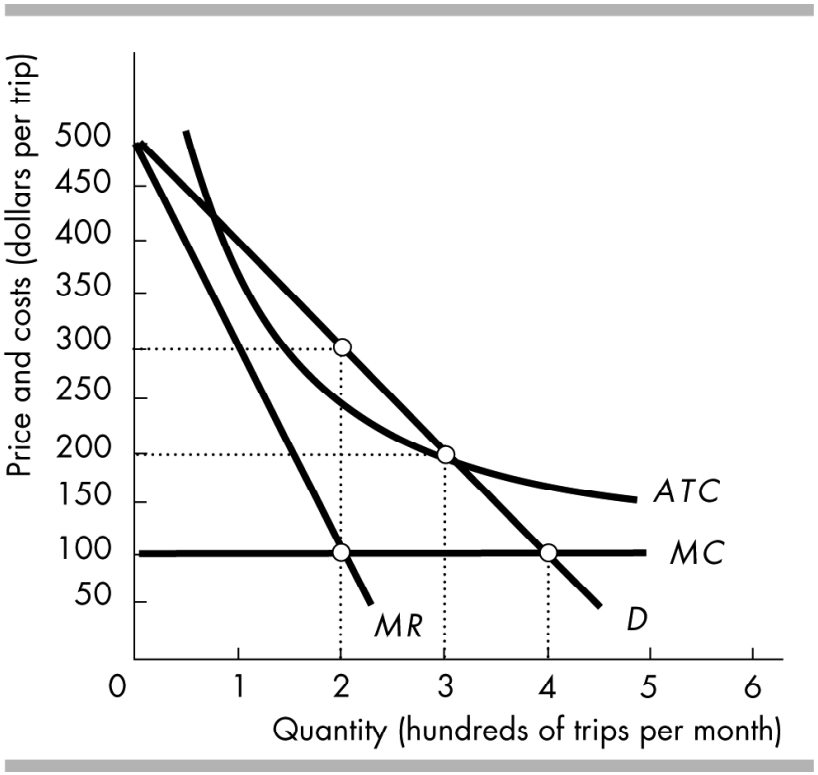
5.22.12

1. Suppose a monopolistically competitive firm is producing 2000 units of output and has total revenues of $200,000. If this is a long run equilibrium, then it must be the case that

a) marginal cost is $50
b) minimum average total cost is $50
c) total cost is $200,000
d) None of the above

2. Suppose a perfectly competitive firm is producing 1000 units of output and has total revenues of $100,000. If this is a long run equilibrium, then it must be the case that

a) marginal cost is $100
b) minimum average total cost is $50
c) total cost is $100,000
d) both a and c

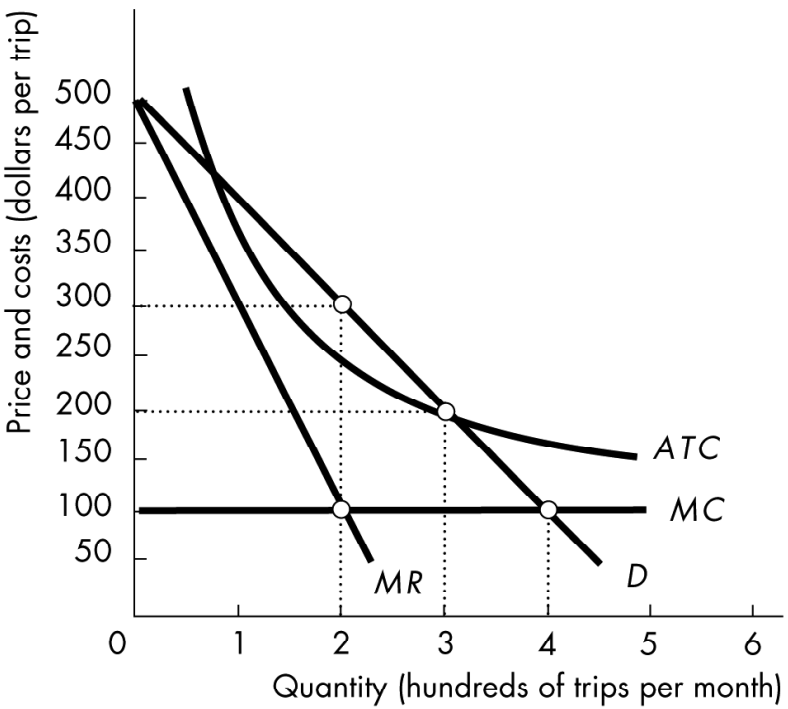


3) The figure above shows MR, MC, and demand for an airline offering flights between LA and Toronto. If the airline is regulated, marginal cost pricing implies that ____ flights will be offered each month at a price of ____ per flight.

A) 200; $300
B) 200; $100
C) 300; $200
D) 400; $100

Regulation

- Marginal Cost pricing
  - Force monopolist to set price equal to marginal cost.
  - When P=MC, the efficient quantity is produced and consumed
  - Usually this results in a loss for the firm…



4) If the airline is regulated, average total cost pricing implies that ____ flights will be offered each month at a price of ____ per flight.

A) 200; $300

B) 200; $100

C) 300; $200

D) 400; $100

Regulation

- Average cost pricing, set p=AC
  - Less efficient quantity
  - Firm makes exactly 0 profits

2. Suppose the following table gives all the information we have about a firm that is not price discriminating and that is in short run equilibrium. This information is enough to fill in the rest of the table accurately.

3. Suppose now that this same firm has moved to a long run equilibrium, and we again have only limited information, but it is enough to fill in the rest of the table accurately.

4. What type of market is this firm most likely to be operating in? Briefly explain how we know this.