FIRM X HAS A PATENT FOR ITS PRODUCT ALLOWING IT TO CURRENTLY OPERATE IN THE LONG RUN WITH POSITIVE ECONOMIC PROFITS. FIRM X CHARGES A SINGLE PRICE FOR ITS PRODUCT AT EACH LEVEL OF OUTPUT.

1. WHAT TYPE OF BUSINESS STRUCTURE DOES FIRM X COMPETE AS?
2. DRAW FIRM X’S FIRM GRAPH AND CORRECTLY LABEL AND SHOW:
3. PRICE AND OUTPUT LEVEL MARKED P\* AND Q\*
4. ECONOMIC PROFITS SHADED
5. AREA OF CONSUMER SURPLUS LABELED CS
6. IS FIRM X PRODUCING OUTPUT LEVELS THAT ARE SOCIALLY OPTIMAL? EXPLAIN.
7. ASSUME THE GOVERNMENT WISHES TO SUBSIDIZE FIRM X’S PRODUCTION. SHOULD THEY IMPLEMENT A PER UNIT OR LUMP SUM SUBSIDY TO BE EFFECTIVE? EXPLAIN.
8. IF THEY IMPLEMENT A LUMP SUM SUBSIDY, INDICATE WHAT HAPPENS TO:
9. FIRM X’s OUTPUT LEVEL
10. DEADWEIGHT LOSS CAUSED BY FIRM X
11. FIRM X PROFITS

FIRM A IS A PRICE DISCRIMINATING MONOPOLY IN THE SHORT RUN MAKING POSITIVE ECONOMIC PROFITS.

1. DRAW FIRM A’S GRAPH CORRECTLY LABELED AND INDICATE:
2. PRICE CHARGED BY FIRM A
3. PROFITS EARNED BY FIRM A
4. OUTPUT PRODUCED BY FIRM A

B. WHAT IS THE VALUE OF THE CONSUMER SURPLUS EXPERIENCED BY CONSUMERS OF FIRM X? EXPLAIN.

RICO’S PIZZERIA RELIES HEAVILY ON ADVERTISING, HAS A RELATIVELY ELASTIC DEMAND CURVE, AND CURRENTLY IS EXPERIENCING LOSSES SHORT RUN.

1. CORRECTLY DRAW AND LABEL THE FIRM GRAPH FOR RICO’S PIZZERIA AND INDICATE:
2. PROFIT MAX. LEVEL OF OUTPUT LABELED Q\*
3. PRICE CHARGED BY THE FIRM LABELED P\*
4. AREA OF LOSS SHADED IN.
5. IS THE SOCIALLY OPTIMAL LEVEL OF OUTPUT GREATER THAN, LESS THAN OR EQUAL TO THE FIRM’S OUTPUT? EXPLAIN
6. INDICATE ON THE GRAPH THE AREA OF EXCESS CAPACITY.
7. REDRAW THE FIRM GRAPH IN THE LONG RUN AND INDICTE WHAT HAPPENED TO:
8. FIRM OUTPUT LEVEL
9. FIRM LOSSES. EXPLAIN