Chapter 12







Chapter 13



Chapter 14

Assume the following conditions hold at the profit maximizing point of output for a typical firm in an industry:

* market price of a good is $25
* the firm’s marginal revenue is $25
* AVC is $22 and AFC is $6
* Output is 50 units

1. What type of a market structure is this? How do you know? ***P=MR, therefore perfect competition.***
2. What is the total profit/loss per unit at the profit-maximizing point? ***$25-$22-$6=-$3, therefore loss.***
3. Construct a rough (hand-drawn, not to scale) but neat graph of the above situation showing the price level, marginal revenue, the ATC and MC curves.
4. What will happen to the price and the level of output in this industry in the long- run? Why? ***P will increase, output will decrease, due to exit.***