AP® Microeconomics
2001 Sample Student Responses

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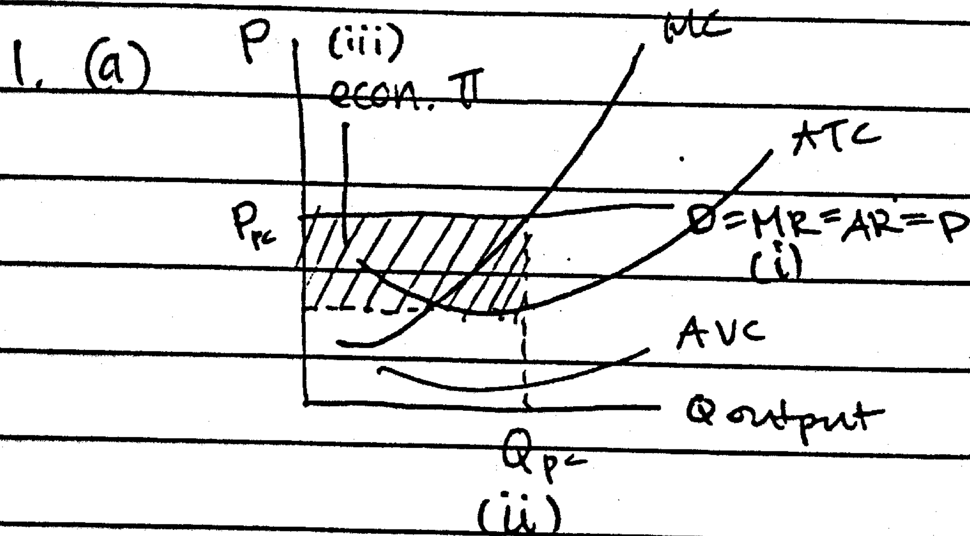
Write in the box the number of the question you are answering on this page as it is designated in the examination.

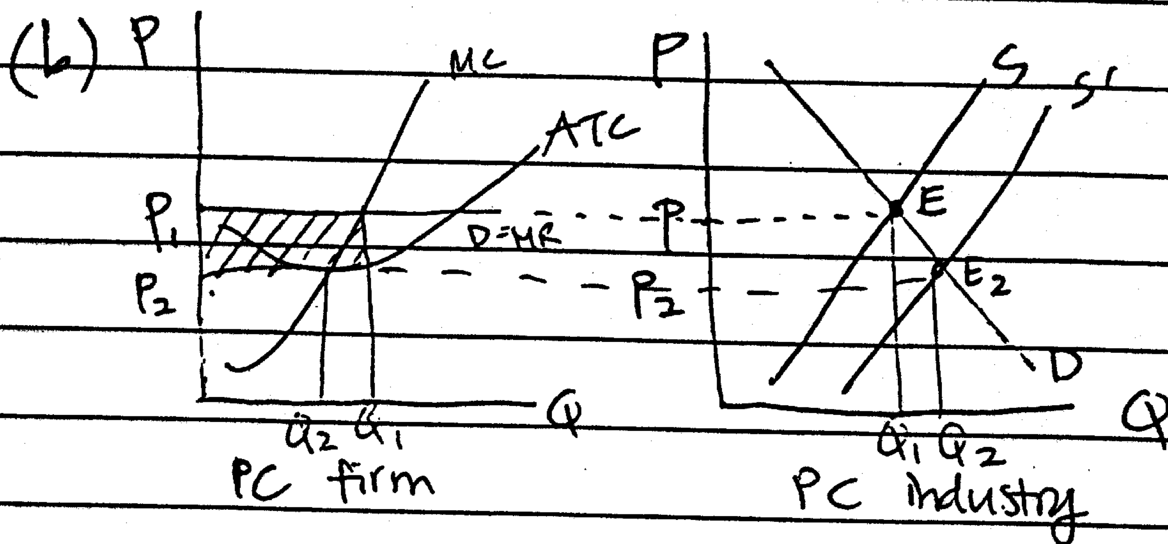
Question #1

1MICCLB1

1. (a)



(b)



(i) with the existence of economic profits, more firms will enter the industry. This shifts the supply of the industry to the right until the industry price is equal to the point where MC=ATC for the firms. Here, the number of firms will remain constant because econ π=0. This is where long-term equilibrium lies.

(ii) The equilibrium price and quantity output for each firm are points (P_2) and (Q_2) on the firm graph. In the industry, P_2 and Q_2 are the equilibrium price and quantity

Question #1

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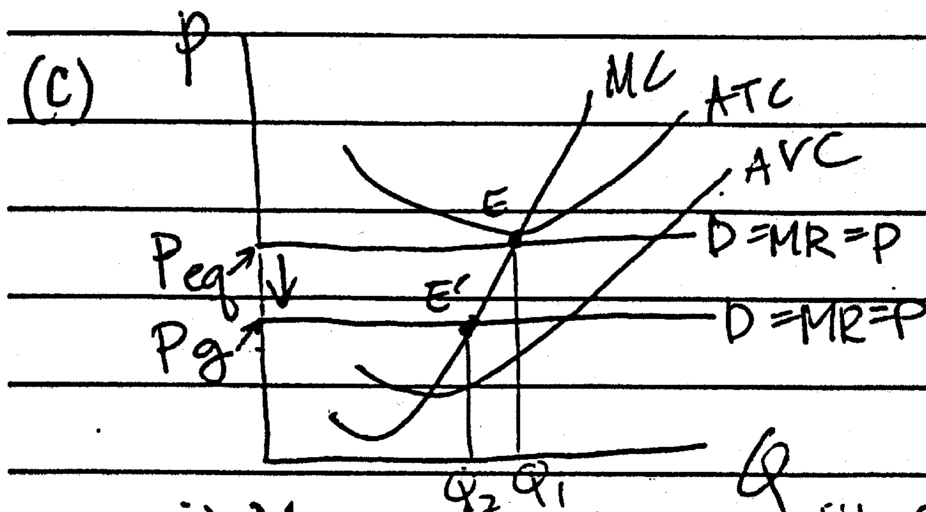
1MICCLB2

(C)



(i) Marginal revenue will fall because the firm is getting less revenue than before for each additional unit sold. Also, since MR is equal to prize, and the price decreases, so does MR.

(ii) The level of output also falls, because MC = MR at a lower level of output. Unless the firm lowers their quantity output, their MC will be greater than marginal revenues, and they will incur even greater loses.

(iii) Short-run total cost falls because the firm is producing less output.

(iv) Short-run total revenue falls because the firm is producing less output at a lower prize.

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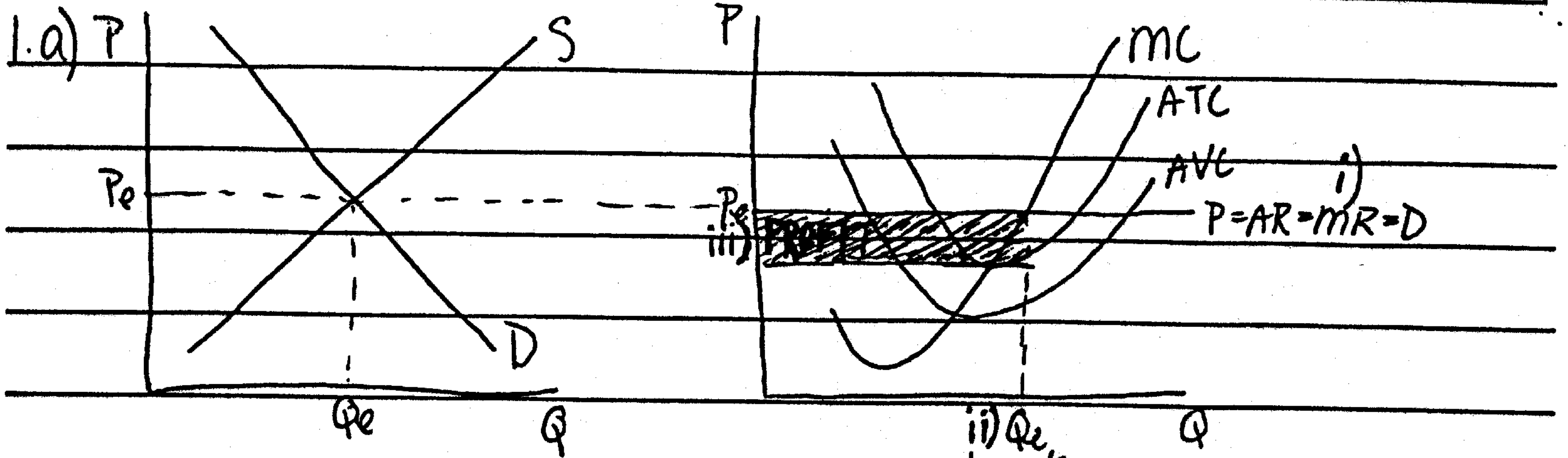
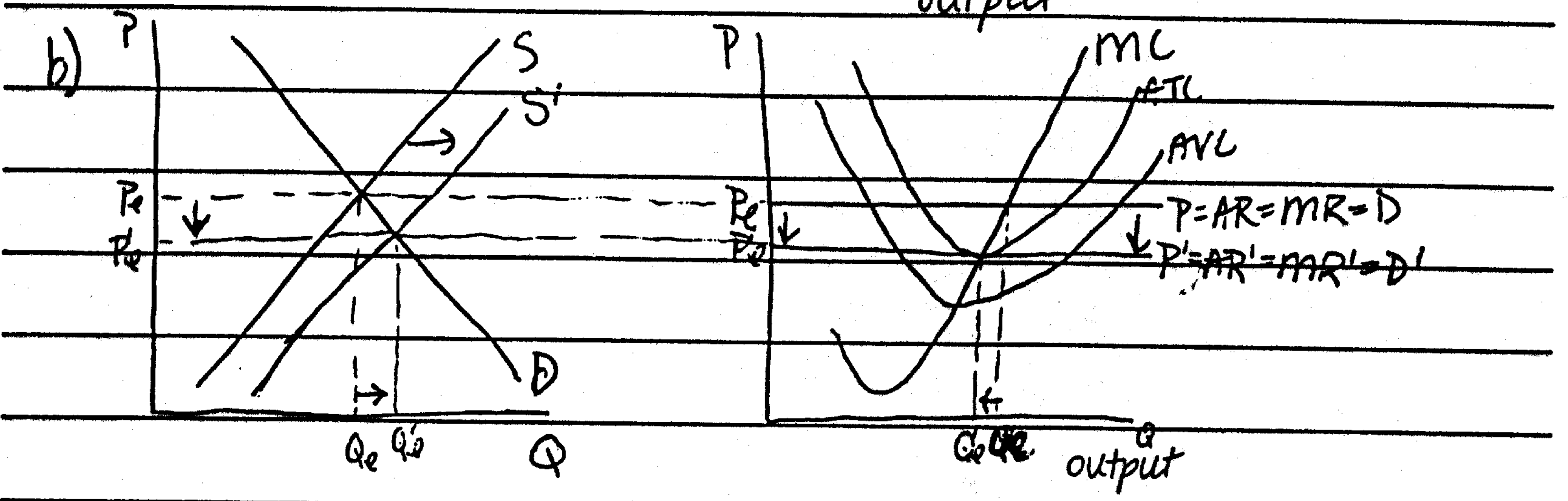
1

1.a)



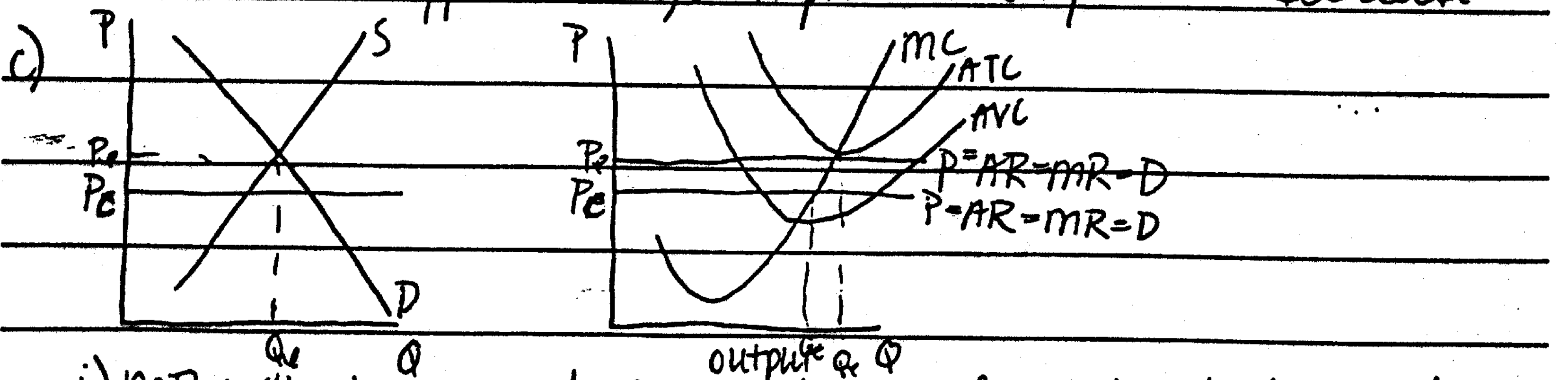
b)



i) The industry will use the profits earned to make more products, increasing supply. This will lower Price bringing the economy to equilibrium where MC=P=AR=MR=D=ATC.

ii) In the industry, Price will decrease and ~~quantity~~ output will increase and in a typical firm, both price and output will decrease.

c)



i) MR will decrease because it equals price, which has decreased due to the gov't's action.

ii) output will decrease because where MR=MC has changed.

iii) The firm will now incur a loss because ATC is greater than

1 cont'd

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3MICCLG2

the point where MC=MR. Short-run total cost will increase as a result.

iv) Short-run total revenue decreases because average revenue decreases.

1 MICC AJ,

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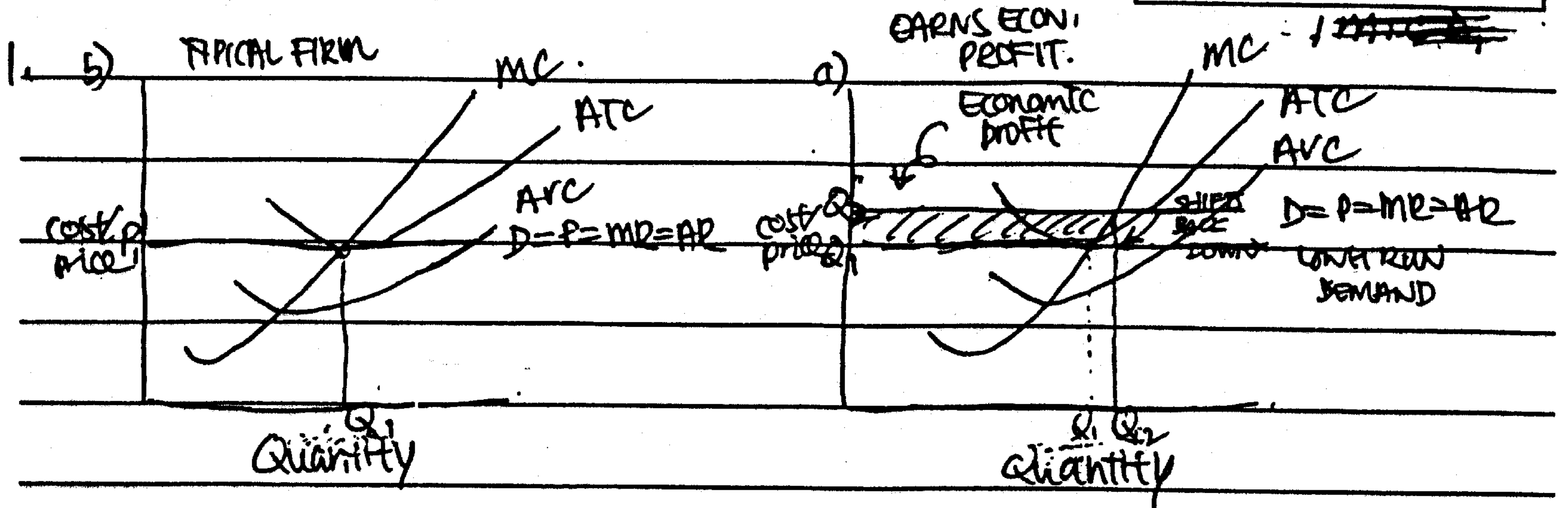
1.



a) i) marginal rev. is determined by where the demand curve lies. This is because in perfect com. they are price takers ∴ MR = P

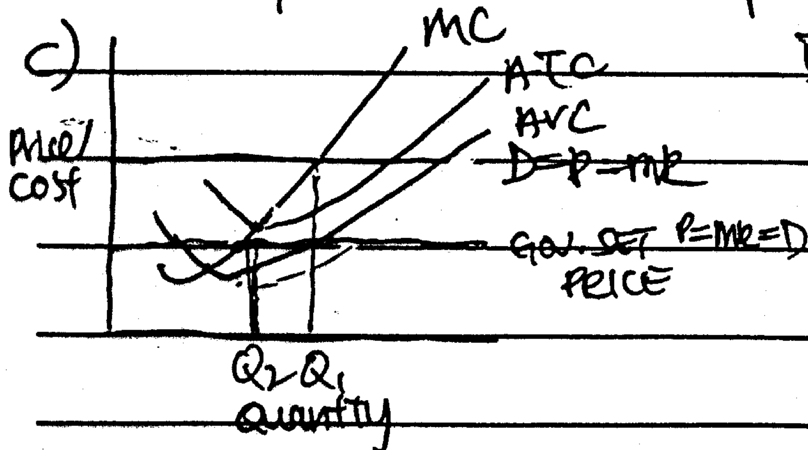
ii) Output is established at the pt where MR=MC. The firm at this level does not want to change any of its goods. You go vert. down and the quantity is at (Q_1).

iii) Economic profit is the shaded region on the graph. This is where price is above the ATC curve. (P > ATC)

b) i) Because of economic profit, firms will enter in the industry. This will shift the demand curve back down to where P = ATC (RED). Firms in the long run operate where MR=MC=ATC. They make zero profits.

ii) The economic profits industry produces Q_2 output @ P_2 price. The typical firm in long run produces Q_1 output @ P_1 price.

c)



I) MR will decrease because the price is forced down to gov. set price

II) The quantity has decrease since the price decrease forces MC=MR at a lower level (from Q_1 to Q_2)

iii) Short run total cost is going to increase because the ATC is greater than the gov. set price (cost is higher than price)

iv) The short run total rev will also decrease because price is below ATC (cost more than price) However since they are covering their AVC cost, they will continue to operate.