AP® Microeconomics 2003 Sample Student Responses Form B

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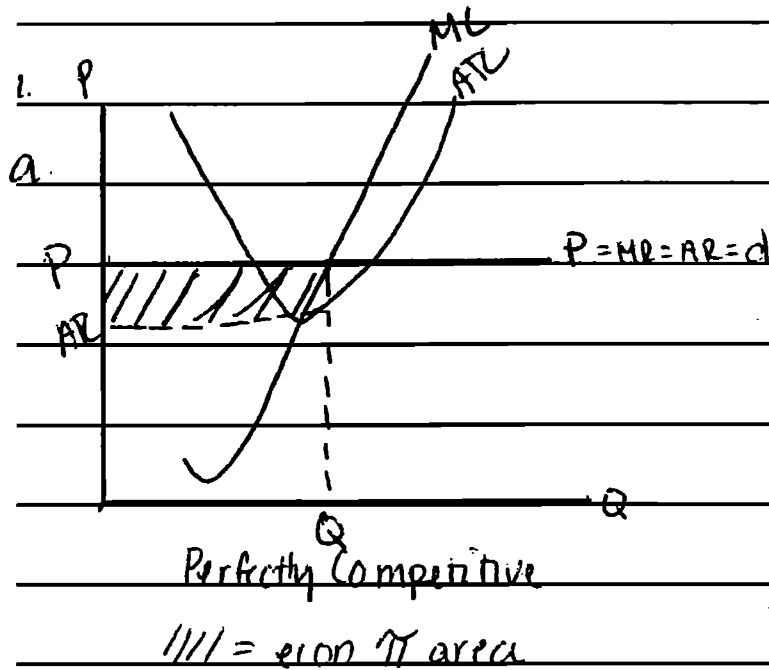
Write in the box the number of the question you are answering on this page as it is designated in the examination.

1

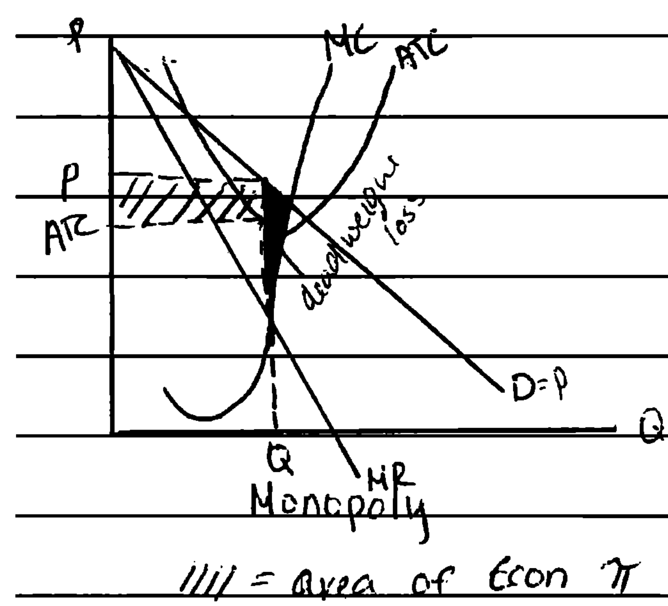
1.

a.



Perfectly Competitive

////= econ π area



Monopoly

////= area of Econ π

b. In perfect competition, P = MR. They are the same. This is because price is constant throughout, so as there is one more unit added, the P will remain the same and the change in TR / change in quantity (MR) will also remain the same because of the constant price.

In a monopoly, the MR curve lies below the P curve (D curve). This is because ~~monopoly~~; the monopolist has to change

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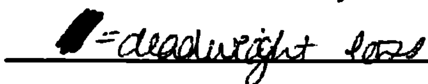
the price of each unit sold and all the other units. Therefore, MR = P - loss on all previously existing units. This proves why the MR ~~is~~ lies below the P curve ~~[illegible]~~ in the monopoly's graph.

c. In ~~[illegible]~~ perfect competition, the short run economic profits will become normal profits in the long run. For a pure competitor, long run economic profits are not possible because no barriers to entry exist, therefore firms will enter the business in the long run until a normal profit is reached.
For a monopolist, the short run economic profit can remain an economic profit in the long run because there are strict barriers to entry forbidding others from entering the business and allowing the monopolist to keep his profit.

d. The deadweight loss represents the area of loss that goes neither to the consumer or to the producer. It is just lost completely because it is not part of consumer surplus or producer surplus.
(On my graph, the area that is colored in completely represents the deadweight loss)



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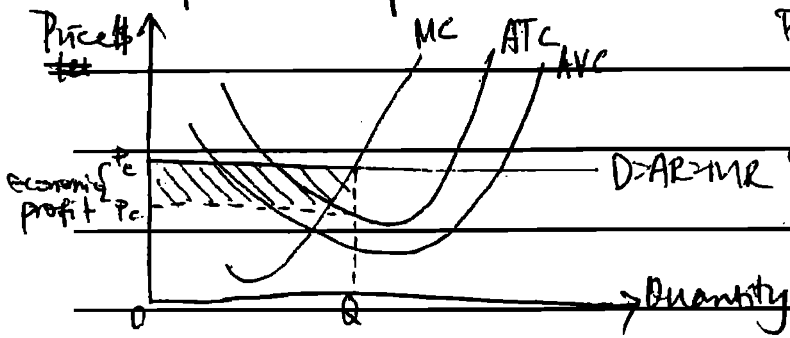
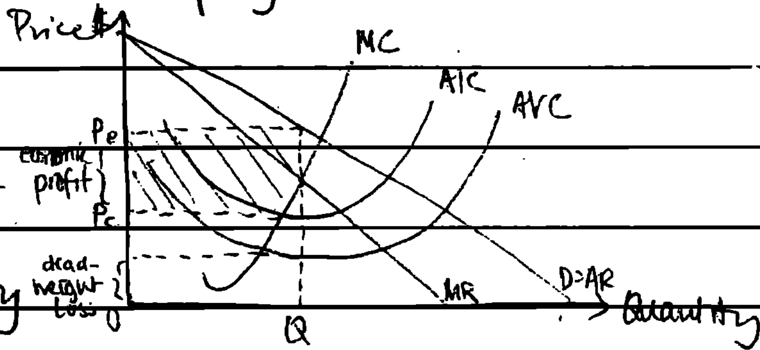
1

1(a) Perfect Competition — Monopoly





b) For perfect competition firm, price equals to marginal ~~revenue,~~ cost ~~between~~ because it is allocatively efficient. ~~But~~ in monopoly ~~firm~~, price also lies on the line of demand = marginal revenue. In a monopoly firm, price is above marginal cost and marginal revenue, it is not allocatively efficient.

c) In the long run, in perfect competition firm, the price will be at the minimum of the average total cost curve, so that it is also productively efficient, therefore it gains zero economic profits. But for monopoly it is the same as the short run, it produces at a higher price and less output as compared to perfect competition, therefore it gains positive economic profit.

d) The deadweight loss represents

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