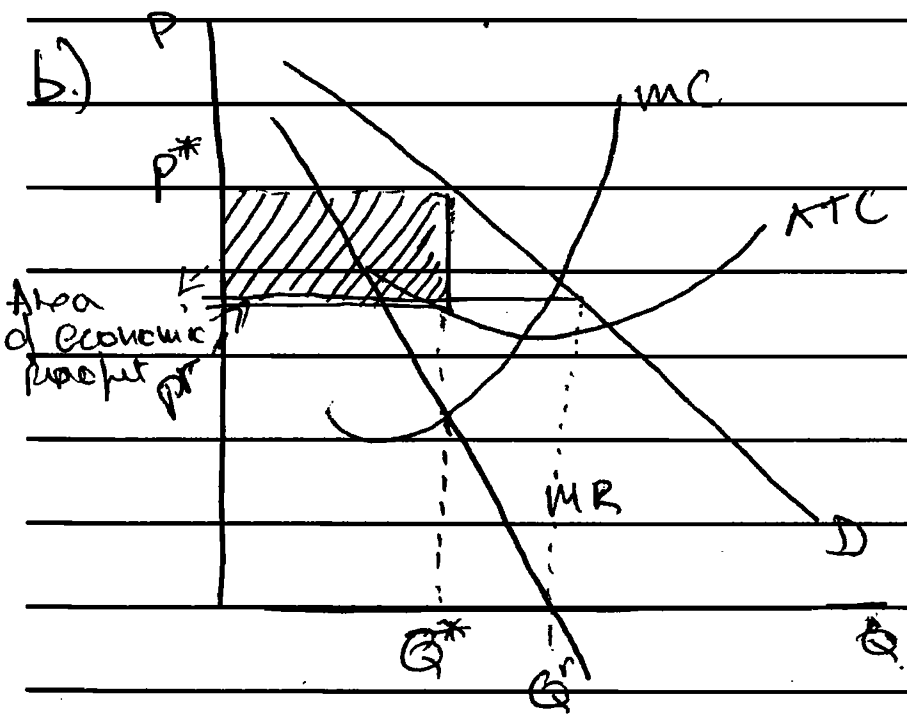
AP® Micro Economics
2004 Sample Student Responses
Form B

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

1

a) As Brunelle Inc enjoys monopoly power, its demand curve is the demand curve for the industry and is therefore downsloping. Brunelle needs to lower the price of its product in order to sell more output, but this lower price also applies to all previous units of output produced, resulting in a marginal revenue curve that is lower than its demand curve.

b)



c) As shown above. Total revenue is maximized at the level of output at which MR = 0, and the P^r is the price level of this quantity off the demand curve.

1

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d.) No, it is not. At Q^*, Brunelle is producing at a price that is above the marginal cost the firm faces ($P > MC$). In this scenario, there is an underallocation of resources, as society is willing to pay more for the good than it is for other uses of its money.

e.) Brunelle will slowly loose monopoly power, and as substitutes would emerge for the goods Brunelle produces, its demand curve would become more elastic, and therefore less steeply sloped (more horizontal)

1B

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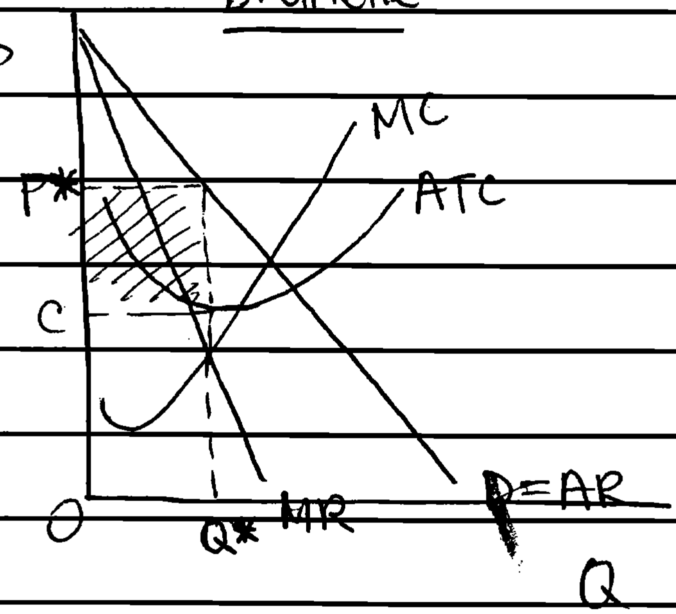
1

Brunelle

1



a) in a monopoly, the demand, or average revenue curve is greater than the marginal revenue curve. This is because, as you sell one more good your average revenue increases However as you lower your price to sell one more product, you need to lower your price for the previous consumers. So the marginal revenue of selling one more good is equal to the revenue added, minus the lost revenue from previous purchases.

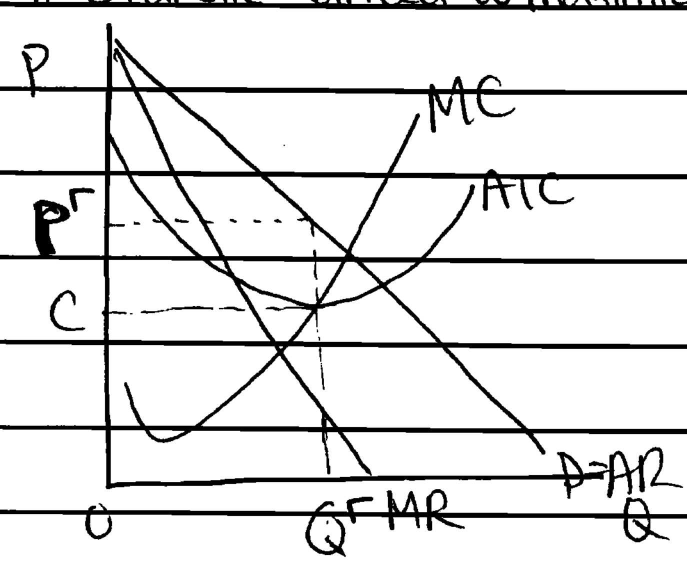
b) (i) & (ii) see above graph for Q* and P*

(iii) see shaded area.

~~shaded area between~~

~~economic profits is the total revenue - total costs~~.

c) If Brunelle wanted to maximize total revenue, they would produce where the ATC is at its minimum



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d. No Brunelle is not producing at the allocatively efficient level of output. Allocatively efficient means that the price of the last good sold is equal to the marginal revenue generated by it. Brunelle is selling to little of an output.

e. If more firms adopt the same technology, ~~without be~~ and if there are no barriers for market entry, Brunelle will no longer be a monopoly. This will cause the demand curve to become more elastic. This is because there will be more substitutes for the product, and consumers will go elsewhere if the price gets too high.

1C

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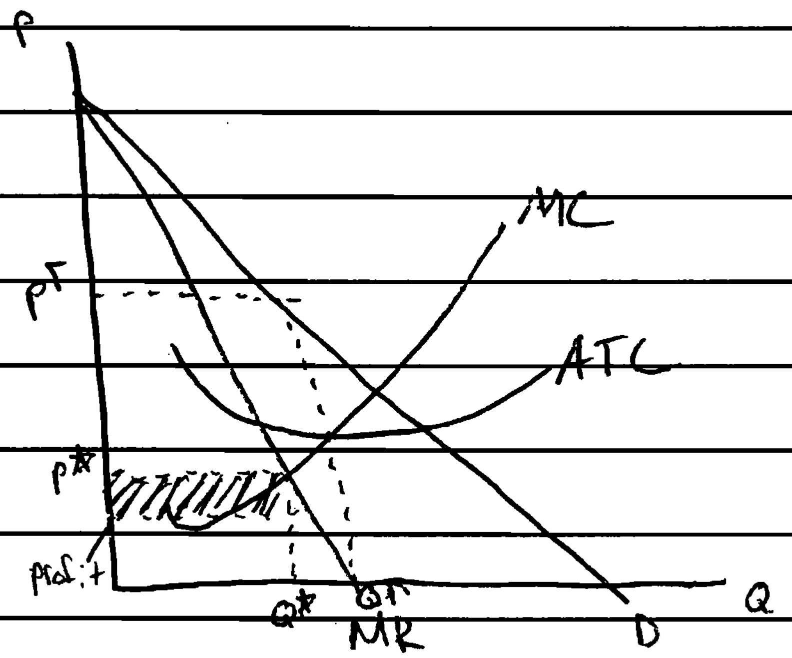
a) Since price does not equal Marginal revenue the price does not dictate the demand. Brunelle charges a profit maximizing price + at that point the supply does not meet the demand so Marginal revenue is separate + not equal to demand.

b)



c) on above graph

d) If they are producing at P* + Q* than yes they are producing the allocatively effient level of output. This is because MC=MR at this point and as long as that is true output is efficently allocated.

1

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e) As other firms adopt the same technology as Brunelle the demand for Brunelle's goods will shift to the left and total demand will decrease. This is because others are making the same goods as Brunelle + people can buy the goods elsewhere causing the individual firm of Brunelle to lose demand for its goods.