3. Camden's Cakery is one of many dessert cafés serving a local community. Each café produces a slightly differentiated product, there are no barriers to entry or exit, and the firm is in long-run equilibrium.

   (a) Draw a correctly labeled graph showing Camden's demand curve, marginal revenue curve, marginal cost curve, and long-run average total cost curve. Label Camden's profit-maximizing output Q_m and its price P_m.

   (b) On your graph in part (a), label the output at which total revenue is maximized Q_R.

   (c) Do firms in this market experience economies of scale, diseconomies of scale, or neither in long-run equilibrium? Explain.
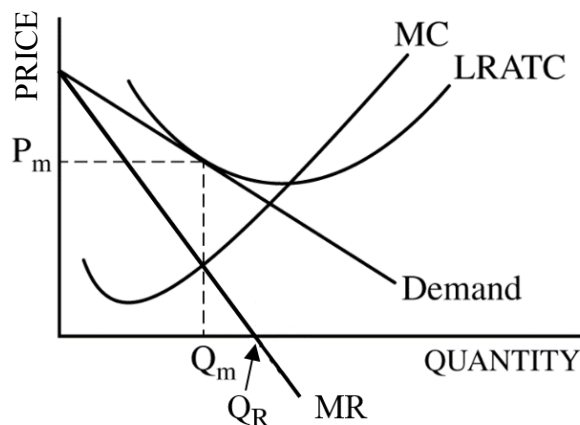
STOP

END OF EXAM

Question 3

6 points (4+1+1)

(a) 4 points:

- One point is earned for drawing a correctly labeled graph showing a downward sloping demand curve with MR curve below the demand curve.
- One point is earned for showing the quantity, Q_m, at MC=MR
- One point is earned for showing the price, P_m, on the demand curve above Q_m
- One point is earned for showing the long-run average total cost tangent to the demand curve at Q_m.

(b) 1 point:

- One point is earned for showing Q_R at MR=0.

(c) 1 point:

- One point is earned for stating that firms in this market are experiencing economies of scale in long-run equilibrium because **LRATC** is decreasing OR because Q_m is to the left of the minimum point of the LRATC.