1. The French government announced plans to convert state-owned power firms EDF and GDF into separate limited companies that operate in geographically distinct markets. BBC News reported that France's CFT union responded by organizing a mass strike which triggered power outraged in some of the Paris suburbs. Union workers are concerned that privatizing power utilities would lead to large scale power outrage and job losses. Suppose prior to privatization the price per KW hour of electricity was 0.105 Euro and that the inverse demand for electricity in each of the two region in France is $P = 1.255 - 0.001Q$(in euros). Furthermore to supply electricity to these two particular region of France, it cost each firm $C(Q) = 100.625 + 0.105Q$. Once privatized each firm will have incentive to maximize profit. Determine
   I. Number of KW of electricity will each firm produce post-privatization.
   II. Price of Per Kilowatt power after privatization.
   III. Compute the price elasticity at the profit maximizing output.
   IV. Compare the price-quantity combination before and after privatization.
   V. How much more profit will each firm earn as a result of privatization?

competitive market: firm are price takers thus if she will increase the price then she she will be out of the competition as a lot of substitute are present

2. The owner of Italian restaurant has been notified by her landlord that the monthly lease on the building in which the restaurant operates will increase by 20% at the beginning of the year. Her current prices are competitive with nearby restaurant of similar quality. However she is considering raising prices by 20% to offset the increase of monthly rent. Would you recommend her to raise the price? Would you have recommended her to raise the price if she was the only Italian restaurant in the town?

if monopoly : firms are the price setters thus it

3. The CEO of a major automaker overheard one of his divisional manager makes the following statement regarding the firms' production plan "In order to maximize the profit it is essential that we should operate in the minimum point of out average total cost curve. "If you were the CEO of the automaker would you praise or chastise the manager?" Explain your answer.

chastise
as profit maximises at the pt where MR meets MC which may or may nor occur at minima

4. You are the manager of a small US firm that sells nails in competitive US market. You are concerned about events you recently learned about through trade publications: the overall market supply of nail will decrease by two percent due to exit of foreign competitors. Based on this information, should you plan to increase or decrease your production of nails?

increase my production as there is decrease in supply hence MR increases hence my profit will increase but it will happen only for short period of time