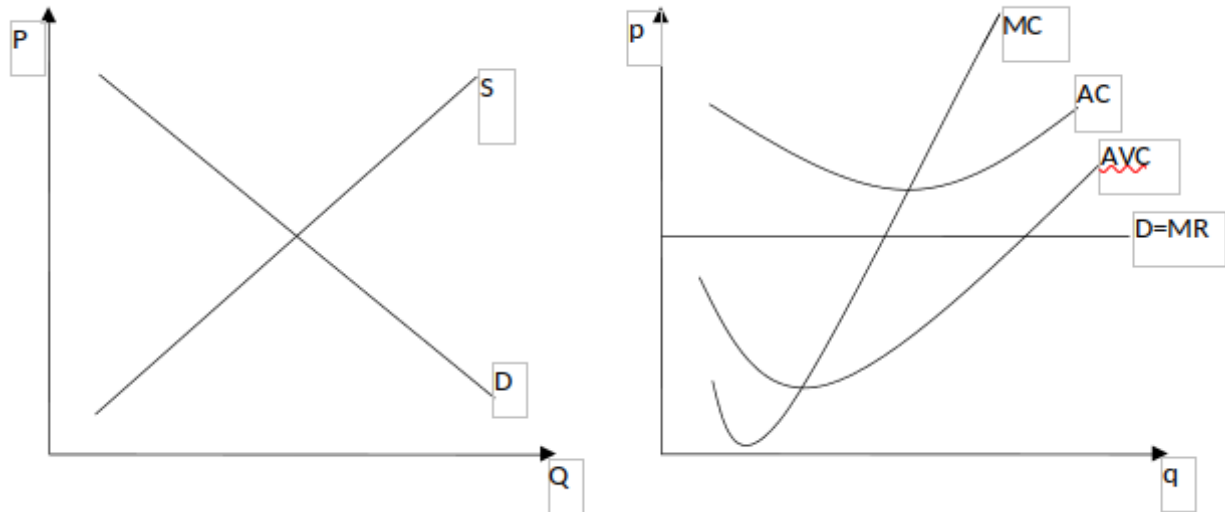


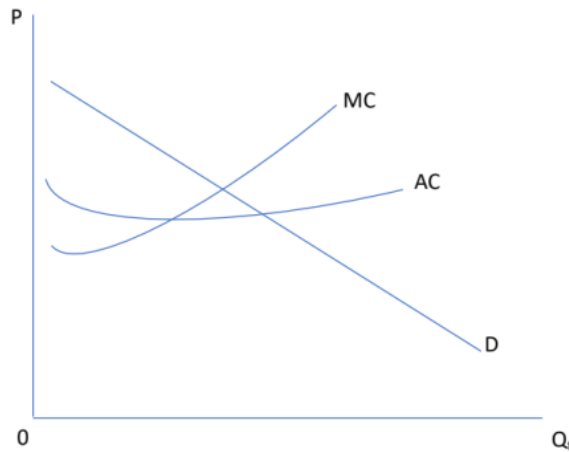
1 Practice Questions

1. (2021Q1) Below, on the right, is a representative firm in a competitive market. Assume there are a hundred firms in the market like the one shown below. Also shown below, on the left, is the market demand and supply for this market.



- On the diagram, show the profit or loss of the representative firm in its current short-run equilibrium position. Be sure to indicate whether it is a profit or a loss.
 - On the same diagram, show the output of the firm and the price that it would charge for this output.
 - If market demand does not change, and input prices do not change, in the long-run would you expect firms to enter or exit this market? Briefly explain your answer.
 - Based on your response to question C., show on the demand and supply diagram what will happen in this market as it attains long-run equilibrium.
2. (2021Q3) You have a little sister at home who is taking AP Economics. You get a text from her that reads, "What does the AVC curve have to do with whether a firm should shut down in the short-run, or keep producing output?" Even though you and your little sister do not always get along, you decide to help her by explaining why the AVC curve shows a firm's shut-down point. What explanation do you text back?

3. (2020Q7) You manage a firm that has developed a new drug that is quite successful at treating pancreatic cancer. The firm has been awarded a patent. The demand and cost curve for the firm you manage is shown below.



- (a) From the perspective of the firm that holds the patent, what is the economic consequence of the patent?
- (b) From the perspective of the economy in which the firm operates, what is the economic logic of having a patent system?
- (c) Based on the graph shown above, how would you describe the likely price the firm will charge for this breakthrough drug and what output will the firm produce? What's the basis for your answer?
- (d) After five years, a new drug is approved that is equally as effective at treating pancreatic cancer and does not violate your firm's patent. What do you expect will happen to the demand curve for your firm's product as the new rival ramps up production of its product?