



AP[®] Microeconomics 2005 Scoring Guidelines

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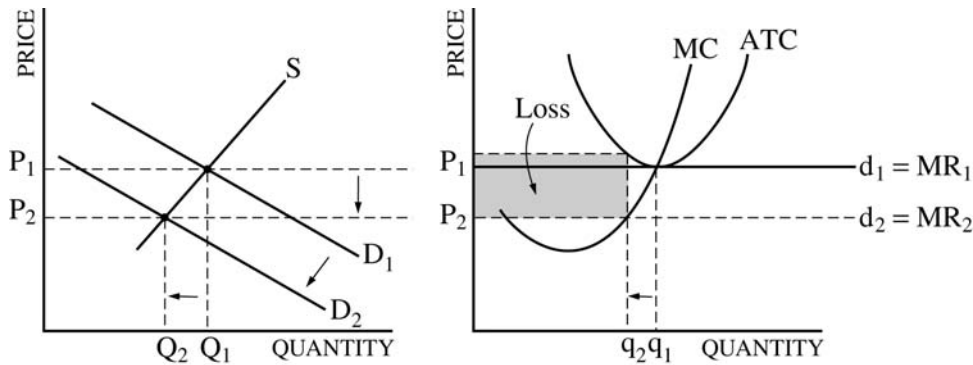
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**AP[®] MICROECONOMICS
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Question 1

12 points (4 + 4 + 1 + 3)



(a) 4 points:

- One point is earned for a correctly labeled market graph of the dairy industry.
- One point is earned for correctly labeled equilibrium industry price and quantity.
- One point is earned for drawing a horizontal demand curve for Bestmilk at the market price.
- One point is earned for showing the equilibrium quantity for Bestmilk where price equals marginal cost and the minimum of average total cost ($P=MC=ATC$).

(b) 4 points:

- One point is earned for showing a decrease in market demand.
- One point is earned for showing a decrease in equilibrium market price and quantity.
- One point is earned for showing the change to a new lower profit-maximizing price and quantity for Bestmilk.
- One point is earned for shading the area of loss for Bestmilk.

(c) 1 point:

- One point is earned for stating that $P \geq AVC$, or $TR \geq TVC$, or $P > AVC$, or $TR > TVC$, or losses are less than total fixed cost.

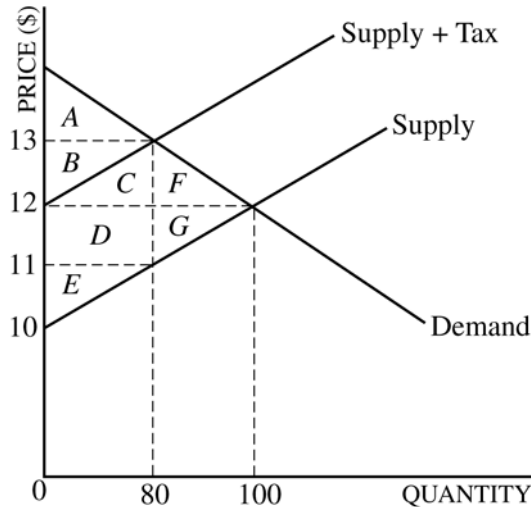
(d) 3 points:

- One point is earned for stating that industry price returns to the original long-run equilibrium price.
- One point is earned for stating that the output of a typical firm returns to the original profit-maximizing quantity.
- One point is earned for stating that there is a decrease in the number of firms.

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Question 2

9 points (3 + 2 + 4)



(a) 3 points:

- One point is earned for identifying $P=\$12$ and $Q=100$ units.
- One point is earned for identifying the consumer surplus before the tax, $A+B+C+F$.
- One point is earned for identifying the producer surplus before the tax, $D+E+G$ or $\$100$.

(b) 2 points:

- One point is earned for stating that the price paid by the buyers does not rise by the full amount of the tax.
- One point is earned for a correct explanation: P increases by $\$1$ and the tax is $\$2$ per unit; or a correct elasticity explanation, such as S is not perfectly elastic, or D is not perfectly inelastic, or D and S have the same elasticities.

(c) 4 points:

- One point is earned for identifying the net price received by the sellers, $\$11$.
- One point is earned for identifying the tax revenue, $B+C+D$ or $\$160$.
- One point is earned for identifying consumer surplus, A .
- One point is earned for identifying the deadweight loss, $F+G$ or $\$20$.

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Question 3

8 points (2 + 2 + 2 + 2)

(a) 2 points:

- One point is earned for indicating perfect competition.
- One point is earned for a correct explanation: The price is constant, or the firm is a price taker in the product market.

(b) 2 points:

- One point is earned for indicating perfect competition.
- One point is earned for a correct explanation: The wage rate is constant, or the firm is a price taker in the labor market.

(c) 2 points:

- One point is earned for stating that MRP is \$400.
- One point is earned for showing the calculation: $MRP = P \times MP$, so $MRP = 20 \times \$20 = \400

(d) 2 points:

- One point is earned for indicating six workers, or in between six and seven workers.
- One point is earned for a correct explanation: $MRP > W$ for the sixth worker, but $MRP < W$ for the seventh worker.