



AP[®] Microeconomics 2003 Sample Student Responses

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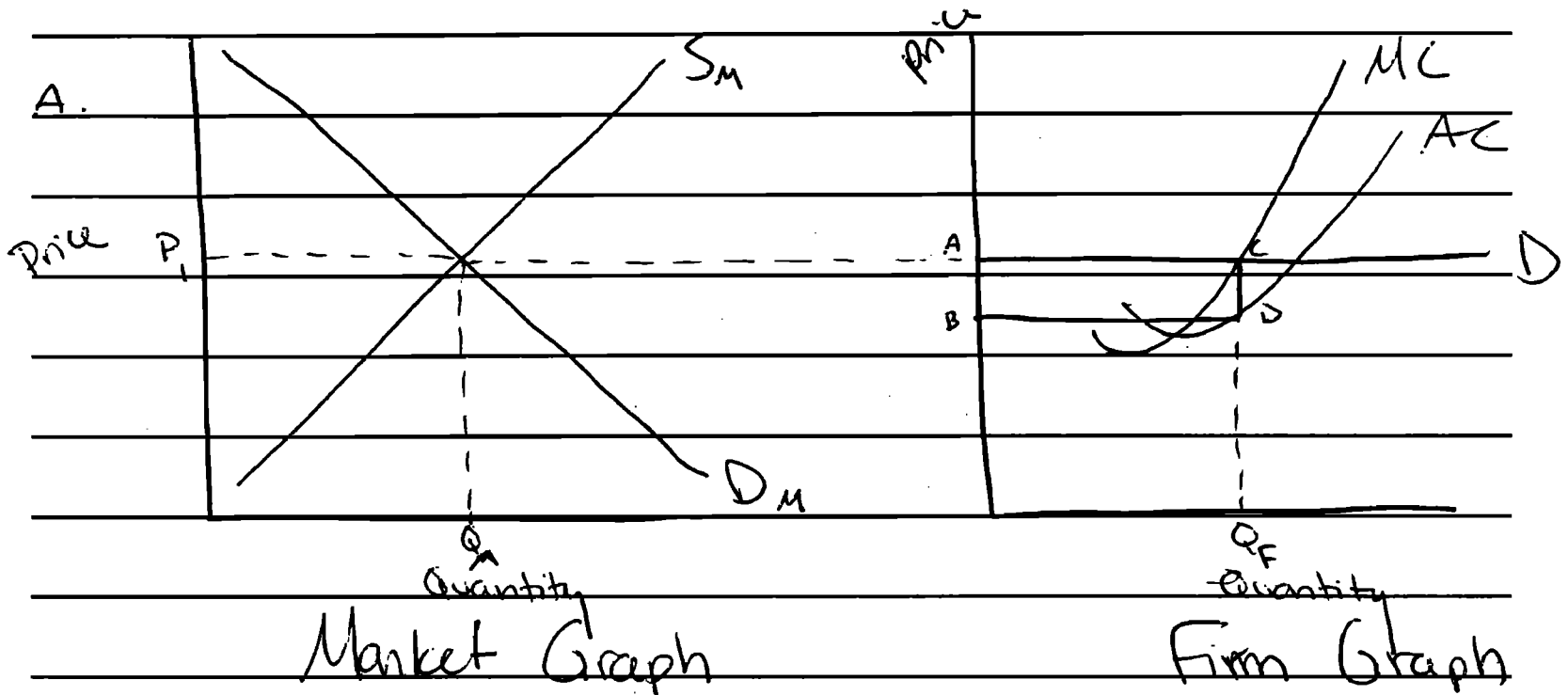
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1 MICLA,



- i. The price at which the market would operate at is price P_1 shown in the graph on the left. The firm would operate at the same price, P_1 .
- ii. The output for the market is Q_M in the graph on the left while the output for the firm is Q_F in the right graph.

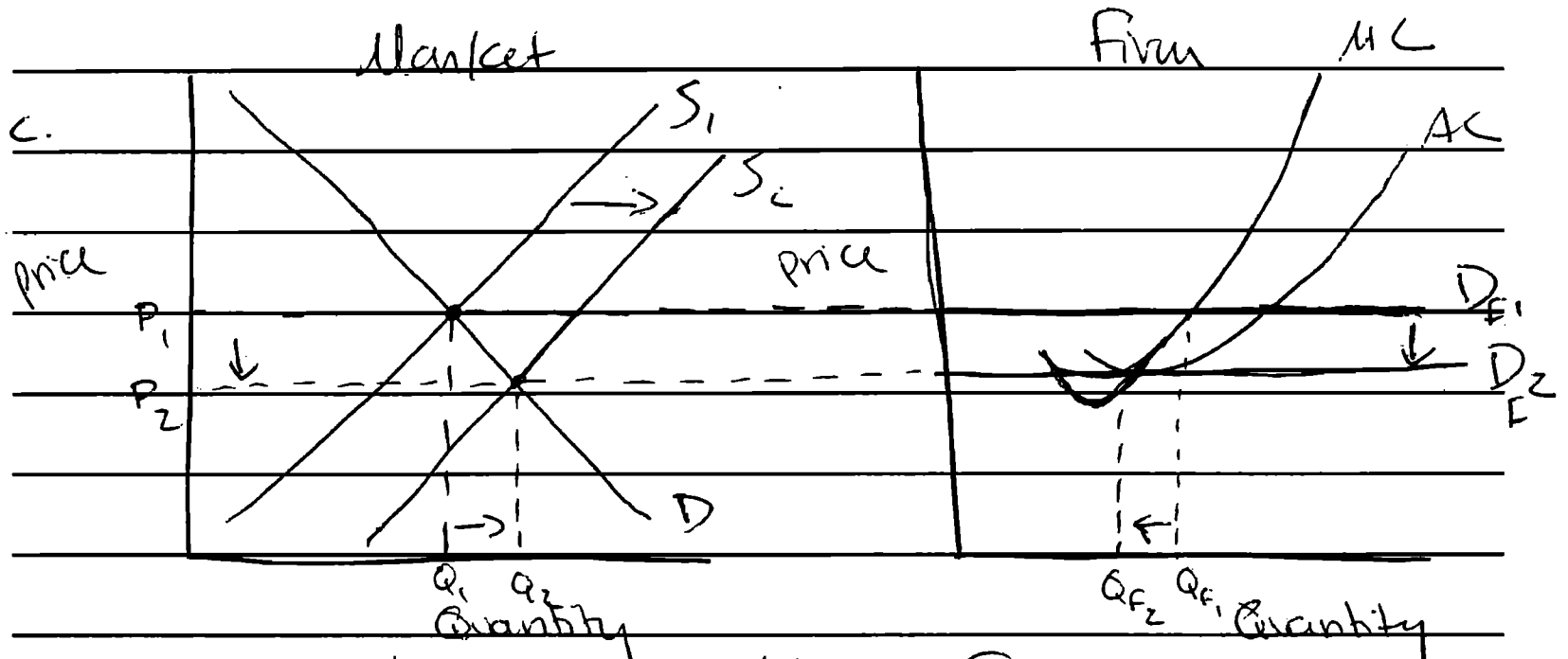
B. The short-run economic profits realized by the firm are represented by the box formed by ABCD in the Firm graph on the right.

11.

Next page for rest of answer.

1

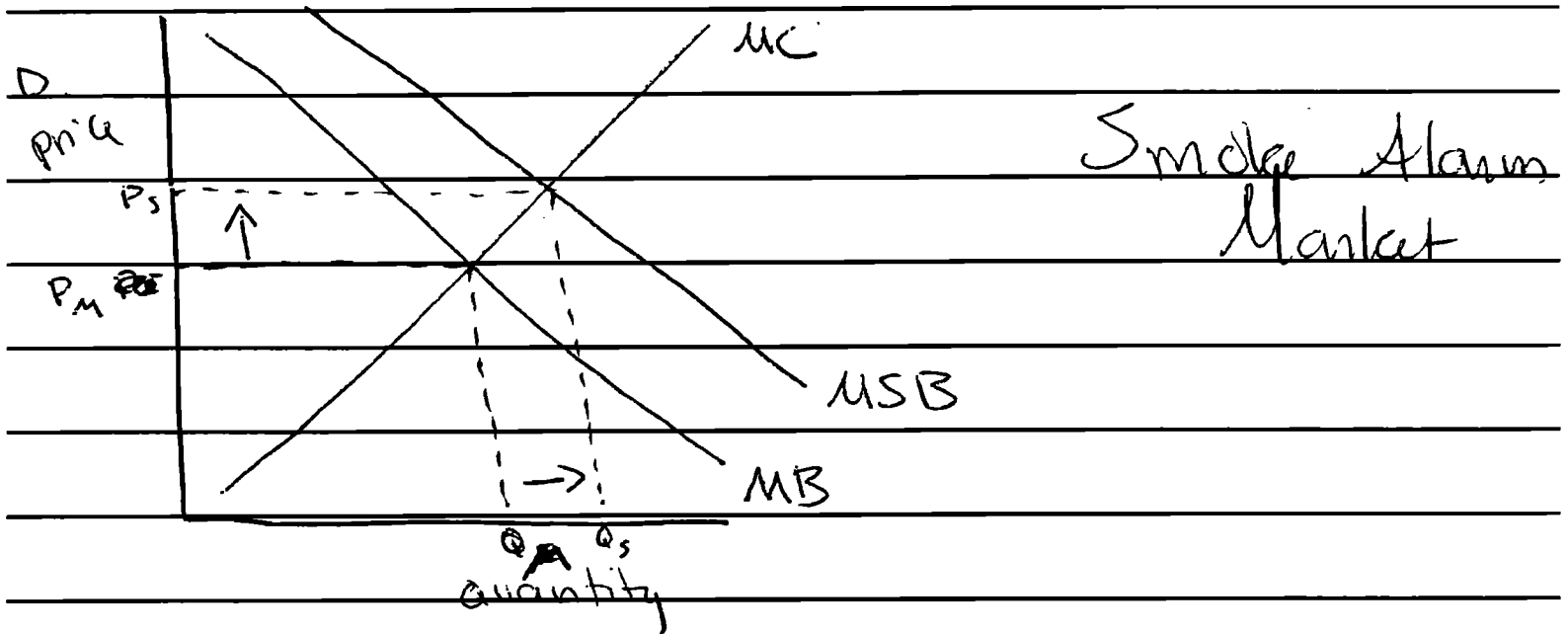
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- i. In the long run, other firms will realize that economic profits can be earned in this market. They will join, causing the supply to increase in the market. This will cause a decrease in price, from P_1 to P_2 , and an increase in output, from Q_1 to Q_2 .
- ii. These changes will cause the demand curve for the firm to shift down, from D_{F1} to D_{F2} , until there are no more economic profits being earned. This causes a decrease in the price level, P_1 to P_2 as with the market, and also a decrease in output from Q_{F1} to Q_{F2} .

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

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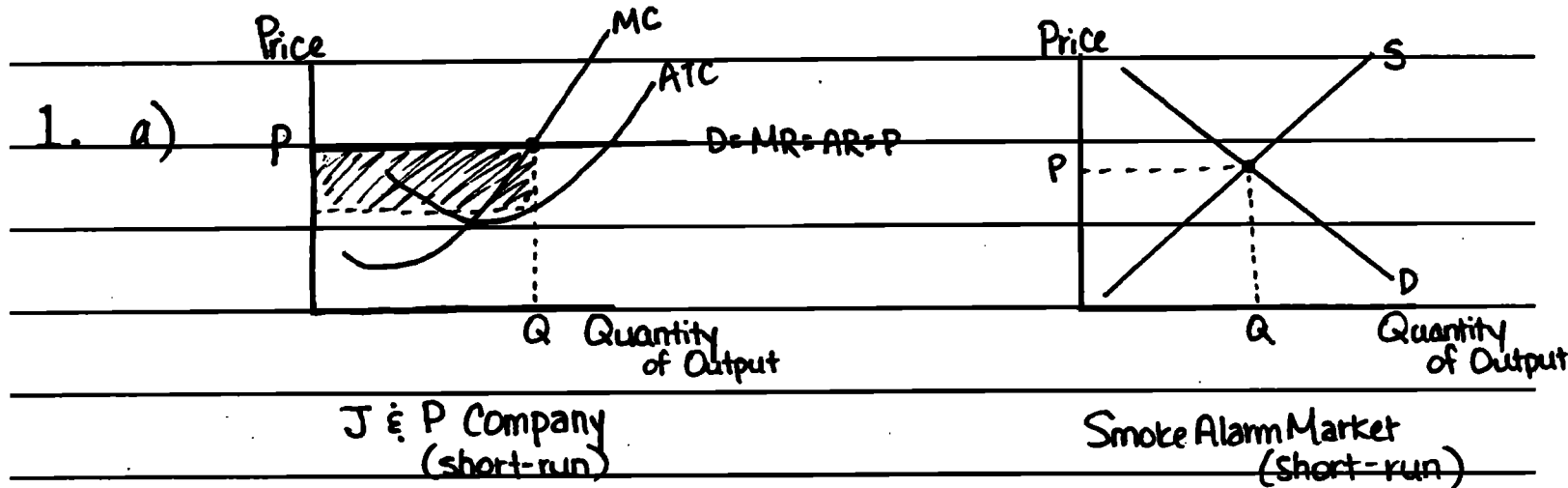


E. In order to encourage smoke alarm production because of its positive externalities, the government could subsidize the price increase that would result from producing at the Socially Optimal Level. This would allow more people to be able to afford this life saving device.

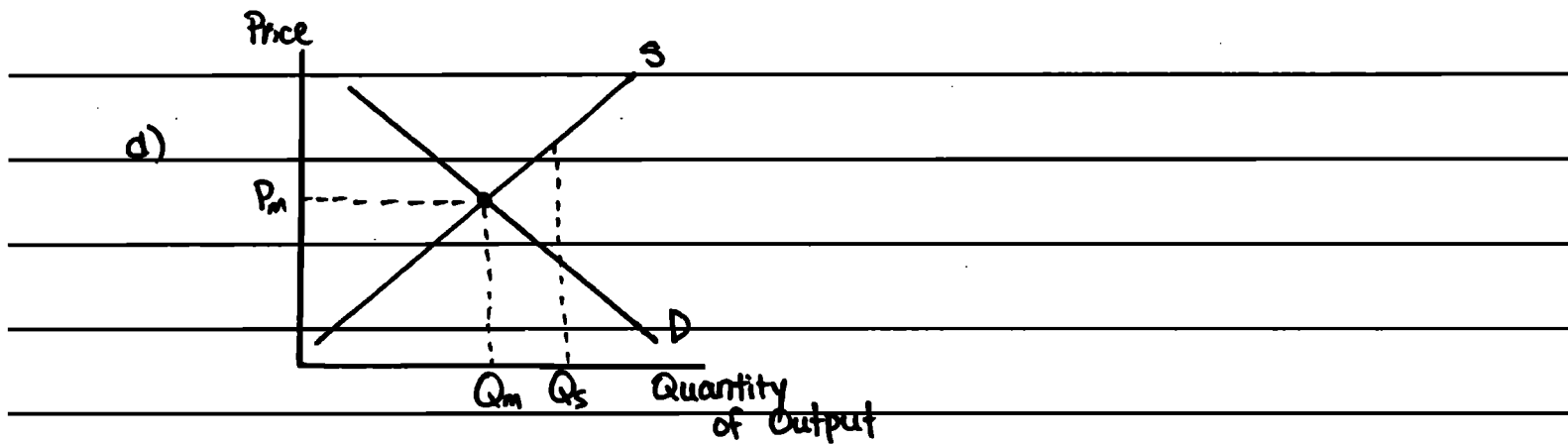
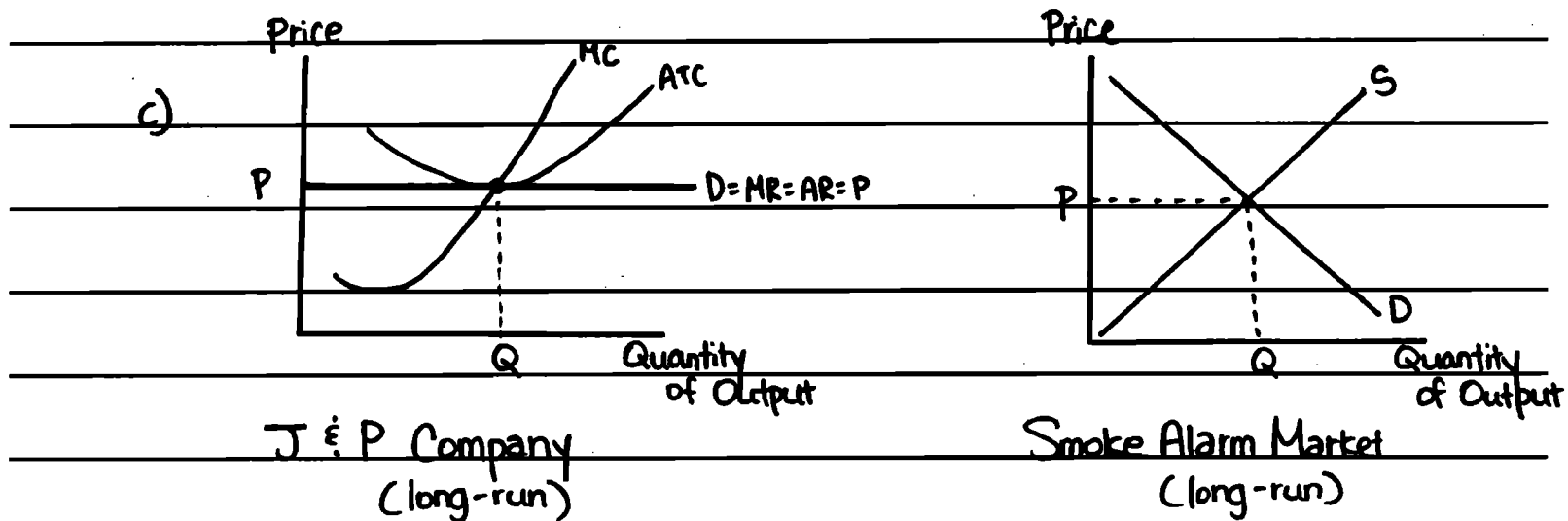
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1. a) - e)

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b) (see part A, graph of J & P Company)



e) Since smoke alarms create a positive externality, the government would pay ^{for} some of the transaction costs since the transaction would benefit the society more than it would the buyer.