



AP Microeconomics 1999 Free-Response Questions

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1999

The College Board
Advanced Placement Examination

MICROECONOMICS

Planning Time – 10 minutes

Writing Time – 50 minutes

Directions: You have fifty minutes to answer all three of the following questions. It is suggested that you spend approximately half your time on the first question and divide the remaining time equally between the next two questions. In answering the questions, you should emphasize the line of reasoning that generated your results; it is not enough to list the results of your analysis. Include diagrams, if useful or required, in explaining your answers. All diagrams should be clearly labeled.

Question 1

In the United States, textiles are sold in two separate and perfectly competitive markets. The textiles produced in the United States are sold in market A, and imported textiles are sold in market B.

- a. Explain how the supply curve for textiles produced in the United States will be affected by each of the following.
 - i. A decrease in the number of firms in the United States producing textiles
 - ii. An increase in the price of textiles

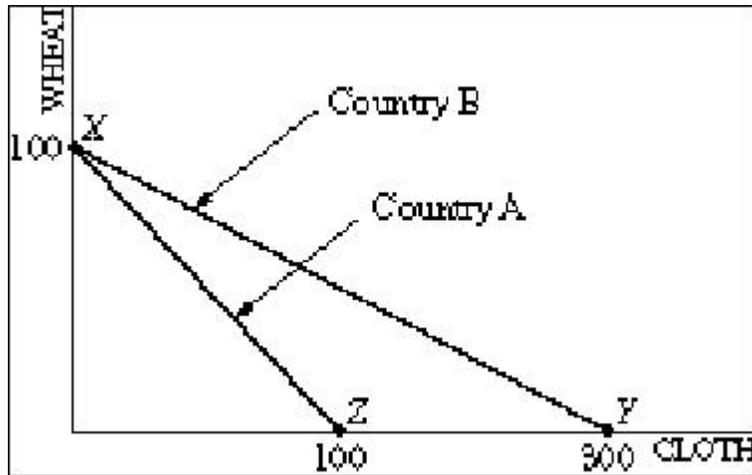
Assume that textiles produced in market A and market B are close substitutes.

- b. Using one graph for market A and another for market B, show and explain how a substantial increase in the tariff on textiles imported into the United States will affect each of the following.
 - i. Equilibrium price and quantity of textiles sold in market B (imported textiles)
 - ii. Equilibrium price and quantity of textiles sold in market A (textiles produced in the United States)

Assume that the labor market for textile workers is perfectly competitive. Following a decrease in the supply of textile workers, the wage rate of textile workers increases.

- c. Using a new graph for market A, show and explain how a substantial increase in the wage rate of textile workers will affect the equilibrium price and quantity of textiles sold in market A.
- d. Using a graph, show and explain how the increase in the wage rate of textile workers and the change in the equilibrium price and quantity of textiles you identified in part (c) will affect each of the following.
 - i. A firm's demand for labor
 - ii. A firm's supply of labor

Question 2



Assume that Countries A and B have equal amounts of resources and identical technologies. Country A can produce 100 bushels of wheat or 100 yards of cloth or any combination, as shown by the line XZ in the figure above. Country B can produce 100 bushels of wheat or 300 yards of cloth or any combination, as shown by the line XY in the figure above.

- Which country has an absolute advantage in the production of wheat and which has an absolute advantage in the production of cloth? Explain how you determined your answer.
- Which country has a comparative advantage in the production of wheat and which has a comparative advantage in the production of cloth? Explain how you determined your answer.
- With specialization and trade, which country will import wheat? Explain why.
- Assume that the two countries trade, and that one bushel of wheat is exchanged for two yards of cloth. Explain why the country that imports wheat will gain from trade.

Question 3

- Using one graph for a monopoly firm and one for a perfectly competitive firm, draw and label the demand curve and the marginal revenue curve for each of these firms.
- For the perfectly competitive (a price taker) firm, explain why the relationship between demand and marginal revenue exists.
- For the monopoly firm, explain why the relationship between demand and marginal revenue exists.