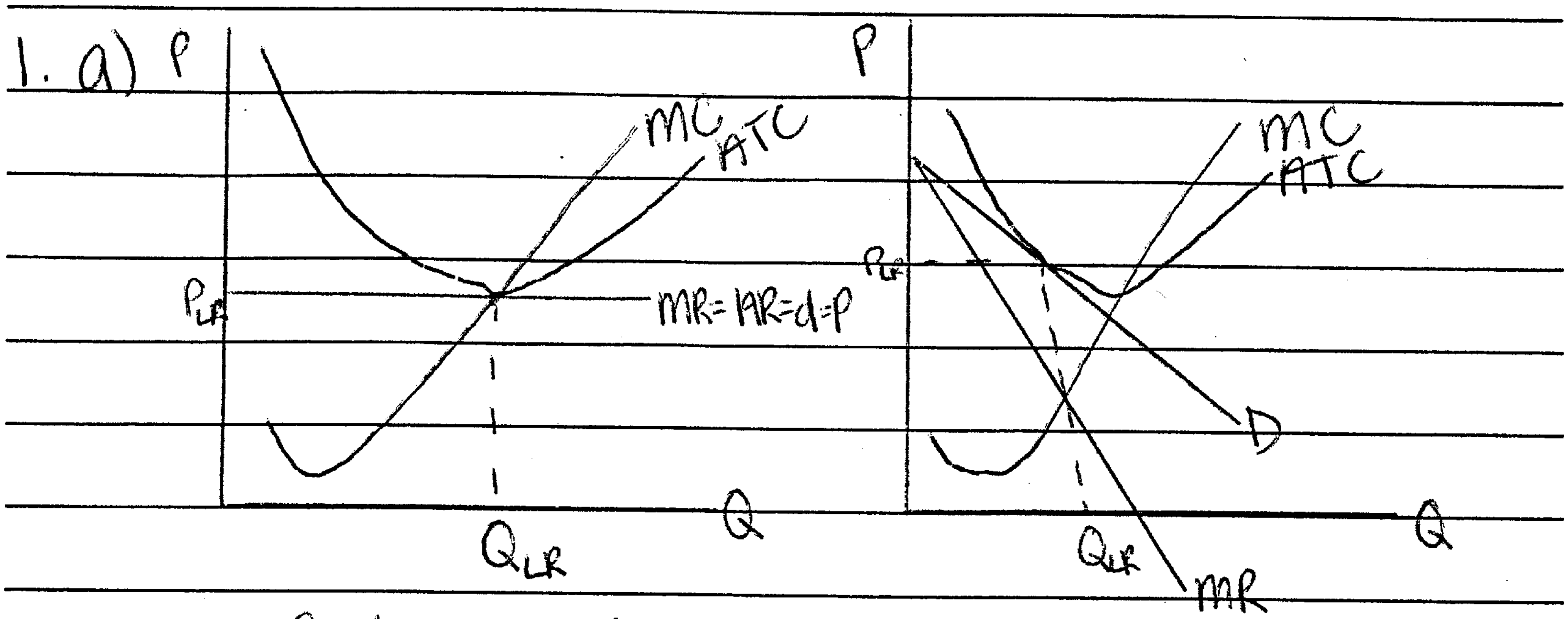
AP® Microeconomics
2002 Sample Student Responses
Form B

IMICCLA,

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

Question 1

1. a)



perfect competitor   monopolistic competitor

b) A perfect competitor will produce where MC=MR=P. This is also at ATC minimum, production efficient. The perfect competitor will produce a higher output and at a lower price than a monopolistic competitor. Mono. competitor produces ~~where~~ output where MR=MC but follow that output up to the D-curve & that is where he produces price. This results in an underallocation of resources while the Pure competitor is operating at social optimum

c) These firms will earn only a normal profit in the long run because a common characteristic to both market structures is no or few barriers to entry, thus if in the short run

Question 1

IMICCLA 2

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firms are earning an economic profit, new firms can enter, increasing the industry supply and effectively bringing profits back to 0. Also if earning a loss in the short run some firms may leave the industry and other firms will have an ↑D back to normal profits.

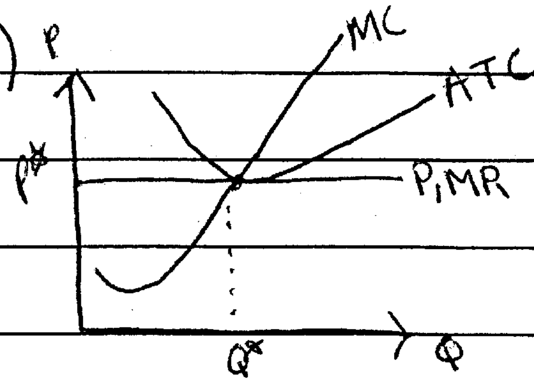
d) For the monopolistic competitor the D-curve is elastic at the equilibrium quantity because firms avoid the inelastic segment of their D-curve as an ~~↑TR~~ ↓P will cause a ↓TR and the monopolistic competitor is producing where MR is positive, thus the D-curve is elastic. For the pure competitor the D-curve is perfectly elastic because any change in quantity is the same price, D-curve is horizontal. Also pure competitor is a price taker at the industry equilibrium & mono competitor is a price maker.

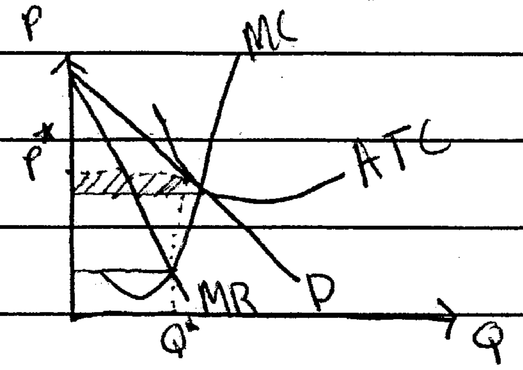
1MICCLB1

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

1

① A)





The long-run equilibrium price and output is shown on the graph as (P* : Q*)

B) Although both are producing at the same price, the monopolistic market produces less output than perfectly competitive ~~market~~ industry. This is due to the downward sloping demand curve and marginal revinue curve

C) The perfectly competitive ~~market~~ industry will ~~be~~ have a normal profit (profit = 0) in the long-run. This is due to the min ATC = Marginal Cost = Price However, in the monopolistically competitive industry, there will be profits in the long run (as shown on graph as ▨) This occurs because in perfect competition, ~~MR~~ D = MR, but in a mopolistic industry MR < D.

IMICCLB2

1

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D) For a perfectly competitive industry, the demand curve is perfectly elastic. This is proven by the flat demand curve (as shown on graph) The demand curve for a monopolistically competitive industry is ~~non elastic~~ inelastic. This is because of the downward sloping demand curve and marginal revenue curve.