



## AP<sup>®</sup> Microeconomics 2002 Sample Student Responses Form B

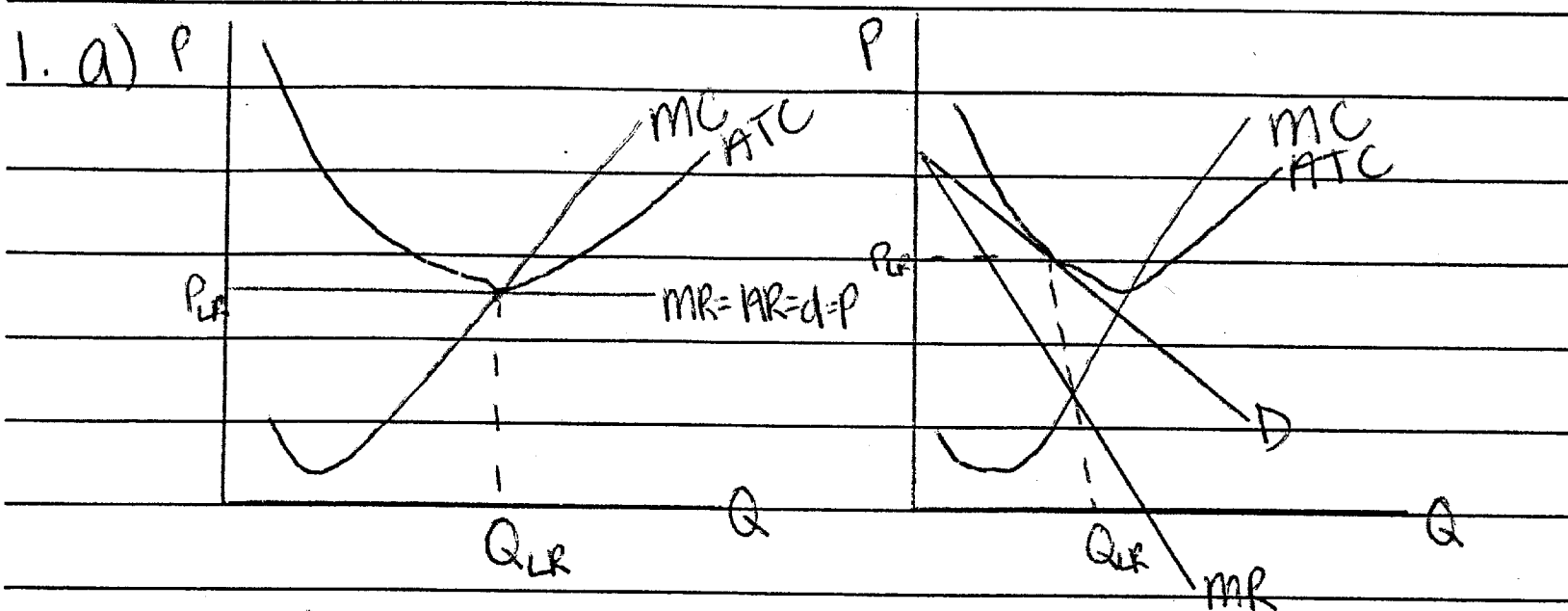
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Write in the box the number of the question you are answering on this page as it is designated in the examination.



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

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

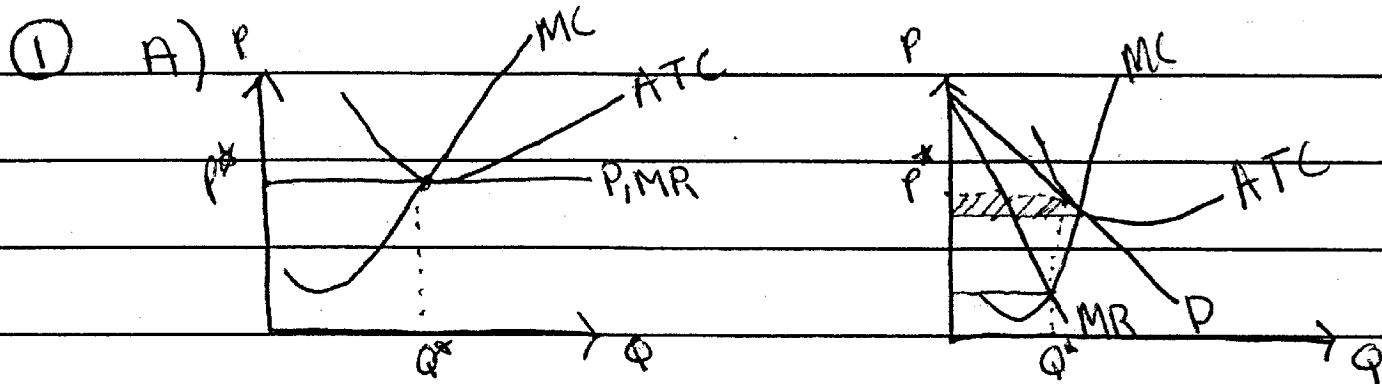
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Firms are earning an economic profit, new firms can enter, increasing the industry supply and effectively bringing profits back to 0. Also if earning a loss in the short run some firms may leave the industry and other firms will have an  $\uparrow D$  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  $\uparrow P$  will cause a  $\downarrow TR$  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; monopolistic competitor is a price maker.

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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~~<sup>industry</sup>. This is due to the downward sloping demand curve and marginal revenue curve

c) The perfectly competitive ~~market~~<sup>industry</sup> will ~~be~~ have a normal profit (profit = 0) in the long-run. This is due to the  $\min ATC = \text{marginal cost} = \text{Price}$ . However, in the monopolistically competitive industry, there will be profits in the long run (as shown on graph as ~~profit~~) This occurs because in perfect competition, ~~MR~~ = MR, but in a monopolistic industry  $MR < D$ .

1

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p) 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 ~~not elastic~~ <sup>inelastic</sup>. This is because of the downward sloping demand curve and marginal revenue curve.