



AP Microeconomics 2000 Student Samples

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- a) This firm is in a ~~scope~~ competitive market. This is shown by the fact that the firm is a "price taker" and cannot set its own price.
- b) The firm hires its labor from a competitive labor market as shown by the fact that the ~~rate~~ wage it must pay is fixed regardless of the number of workers.
- c) Each worker is being paid \$11, the firm should continue adding workers ~~with~~ as long as each addition worker ~~is~~ increases revenue by more than or equal to \$11. The firm should hire 5 workers because the sixth worker brings in \$6 while costing \$11. The 5th worker brings in \$12 and only costs \$11.
- d) With five workers the firm will produce 46 units of output.
- e) The firm is earning an economic profit. Total revenue (\$138) is greater than total cost (\$65).

2a.) It seems to be a perfectly competitive market. I can tell because the price is the same no matter how many items are sold. The demand is elastic and that only happens in a perfectly competitive market.

2b.) It seems to be ~~in~~ a perfectly competitive market that these workers are hired from. This is evident because one can hire as many workers as he wants for the same wage rate. The supply of workers is perfectly elastic.

2c.) The firm should hire ^{five} ~~two~~ workers to maximize its profits. Workers are \$11 each, while each output is \$3 each. To find the profit for each point we must subtract the product of the # of workers and the wage rate from the product of the price and output. We find the ~~best~~ profit-maximizing point is with ~~two~~ 5 workers. We can also find where the $MC = MR$, or the point closest to it. In this case, the MC is 11 and the MR is 14, the closest point

2d.) It will produce ⁴⁶ ~~two~~ units of output to seek its profit-maximizing point.

2e.) It's earning economic profits. One can see this when we subtract the product of the wage rate and number of workers from the product of the price and output. We get \$83 in profit.

$$(3 \cdot 46) - (11 \cdot 5) = 138 - 55 = \$83$$

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* You can find the MR by subtracting the profits from a certain # of employees by that of another #. You can find the MC by subtracting the total cost from a certain employee by that of another #.

Essay 2

Write in the box the number of the question you are answering 2MIC C
on this page as it is designated in the examination.

a) This firm sells its output in a purely competitive market. You can tell by the way that it ~~proceeds~~ can sell all of its products at 3\$.

b) This firm hires its employees in a market that has unlimited employees, since it can hire all of the workers it wants. Market wage rate must mean it is a purely competitive market structure.

c) This firm should hire as many employees as possible in the short run. The more employees it has, the greater its marginal profit

d) The firm will produce 48 outputs of labor

e) This firm is recognizing an economic profit because when you subtract all costs from total revenue you still have a profit.