

Problem Set #7
 PAI 723
 Professor John McPeak

Name: _____

1) Complete the following table.

a) Quantity of Output	Fixed Cost	Total Cost	Average Cost	Marginal Cost (from lower to higher q, listed with higher q)	Variable Cost	Average Variable Cost
0		5	-----	-----	-----	-----
1			23			
2			20			
3		56		16		
4					66	
5				16		
6		104				
7		122				
8					137	

b. If the market price for the output produced is 17 and the market structure is competitive, what level of output is the profit maximizing level of output? Why?

- e. What level should the monopolist produce at?

- f. What is the implied price?

- g. What is the implied profit?

- h. What is the size of producer surplus for the monopolist?

- i. What is the size of consumer surplus for the monopoly setting?

- j. Compare the implications for social welfare for the perfectly competitive market with the monopoly market structure. Which leads to greater total social welfare?

- 3) Illustrate the concept of deadweight loss by graphing the impact of a policy that limits the amount that can be sold in the market to a level below the perfectly competitive market equilibrium quantity at a price above the equilibrium market price. Label areas to correspond to producer surplus, consumer surplus, and deadweight loss in your graph.