Quiz 9 Name:_____

Microeconomics - EC 2106

Fall Semester 1999

Instructor: Robert McNab Score:_____

INSTRUCTIONS: Read each question carefully before answering the question. For multiple choice and true/false questions, please choose the most accurate answer. For questions requiring you to show your work, ensure to include sufficient detail to receive full or partial credit. You will have 10 minutes to complete this 10-point quiz.

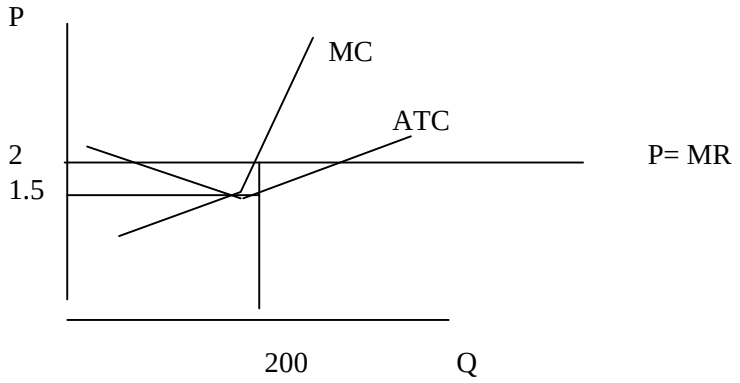
1. Assume that Frank's video store operates in a perfectly competitive market. Currently, Frank rents 200 videos a week at a price of $2.00 per video. The average total cost for Frank to sell the 200 videos is equal to $1.50 per video. Illustrate the above, calculate total revenue, total cost, and determine whether Frank operates at a profit or loss and the magnitude of the profit or loss. 4 points

2. Using the space provided below, illustrate a monopolist operating at a loss (but not shutting down) and a monopolist operating at profit. Make sure to illustrate the Average Total Cost, Marginal Cost, Marginal Revenue, Demand, and Average Variable Cost curves. 4 points

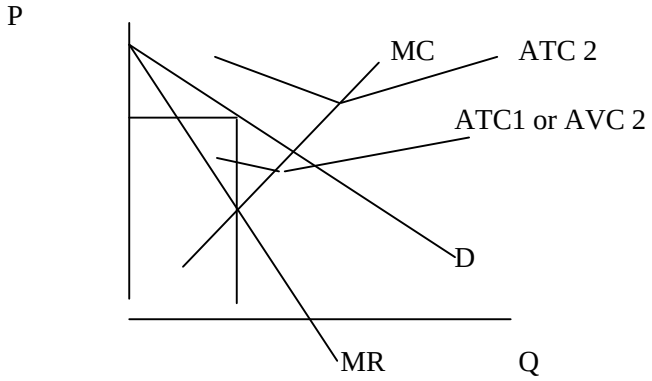
3. Assume that initially the quantity demanded for non-stop airline tickets between Atlanta and Miami was 35,000 a month at an average price of $200 per ticket. When the price increased to $225 per ticket, quantity demanded decline to 28,000 per month. What is the price elasticity of demand for airline tickets between Atlanta and Miami? 2 points

Answer Key

1. Total Revenue = P * Q = 2 * 200 = 400, Total Cost = ATC * Q = 1.50 * 200 = 300, Profit = 100



2.



If ATC = ATC 1, the economic profit. IF ATC = ATC 2 with AVC 2, then economic loss.

3. Po = $200, Qo = 35,000 Pn = $225, Qn = 28,000

Ed = | ((Qn-Qo)/(Qn+Qo)/2) / ((Pn – Po)/(Pn+Po)/2) | = 1.88