

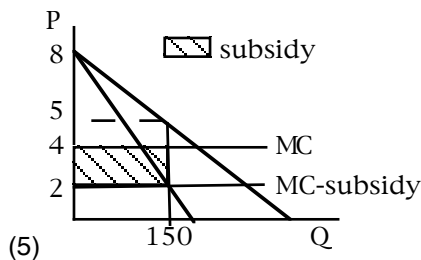
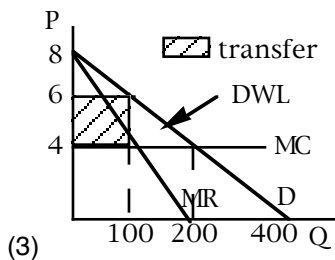
**Answers to Review Problems for Test #2**

- A. (1) False. If the demand curve is perfectly elastic, the slopes are the same.  
 (2) False. A level of fixed costs could exist so that profits are zero (or negative in the short run).  
 (3) True. The producers bear the majority of the tax burden as they cannot adjust quantity supplied enough to shift the burden to consumers.  
 (4) True. The industry supply curve is the horizontal sum of the individual supply curves, so a given price change leads to a larger quantity change at the industry level than at the firm level.

- B. (1) shut down if  $P < 6$       (2)  $\epsilon = -\frac{1}{2}$   
 (3) A quantity tax is a tax levied per unit of quantity. A value tax is a tax expressed as a percentage of the supply price.  
 (4) monopolistic competition

I do not show my work for parts C. and D. You would need to show your work to get full credit on the exam.

- C. (1)  $P = \$6, Q = 100$       (2)  $P = \$4, Q = 200$



- (3) (4)  $P = \$5, Q = 150$       (5) (6) before = \$200, after = \$450

- D. (1)  $P = \$.65, Q = 35$       (2)  $P = \$.40, Q = 10$   
 (3) In the short run, the demand curve would shift to the right and price and quantity would increase. In the long run, supply would shift to the right, price would decrease, and quantity would increase (you could illustrate your answer with the appropriate graph or graphs).

(4) \$17.50