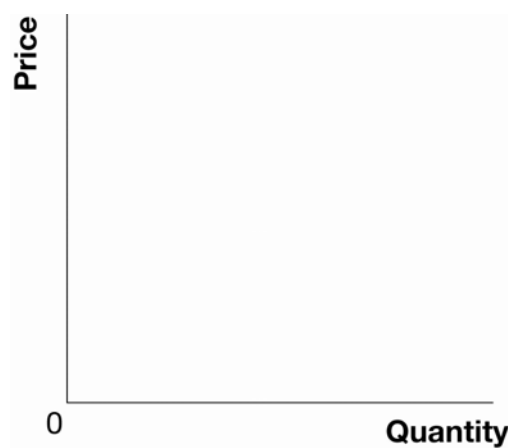


Chapter 17

1. Categorize each of the following markets as one of: competitive, monopolistic, or monopolistically competitive. Explain.
 - a. toothpaste
 - b. local newspapers
 - c. magazines
 - d. wheat
 - e. video games
 - f. beer
2. Suppose that there are many restaurants in the city and that each has a somewhat different menu.
 - a. In Exhibit 1, draw the diagram of the cost curves (average total cost and marginal cost), demand curve, and marginal revenue curve for Mario's Pizza when it is in long-run equilibrium.

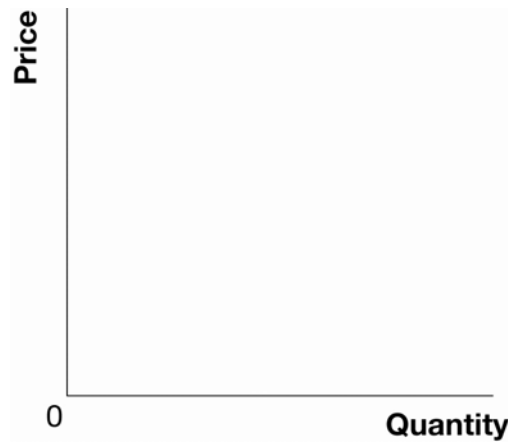
Exhibit 1



- b. Is Mario's Pizza profitable in the long run? Explain
 - c. Is Mario's Pizza producing at the efficient scale? Explain. Why doesn't Mario's expand its output if it has excess capacity?

- d. In Exhibit 1, show the deadweight loss associated with Mario's level of output. Does this deadweight loss occur because the price is higher than a competitive firm would charge or because the quantity is smaller than a competitive firm would produce? Explain.
- e. Suppose that Mario's engages in an advertising campaign that is a huge success. In Exhibit 2, draw the diagram of Mario's cost curves, demand curve, and marginal revenue curve and show Mario's profit in the short run. Can this situation be maintained in the long run? Explain.

Exhibit 2



3. For each of the following pairs of firms, which firm would likely spend a higher proportion of its revenue on advertising? Explain.
 - a. the maker of Disprin or the maker of a generic aspirin pill
 - b. a firm introducing a low quality ice cream or a firm introducing a high quality ice cream that each cost about the same to make
 - c. the bakery that bakes Hovis bread or a wheat farmer