

## Chapter 14

1. Are the following markets likely to be perfectly competitive? Explain.
  - a. The market for petrol
  - b. The market for blue jeans
  - c. The market for agricultural products such as wheat and milk
  - d. The market for the shares of IBM
  - e. The market for electricity
  - f. The market for cable television

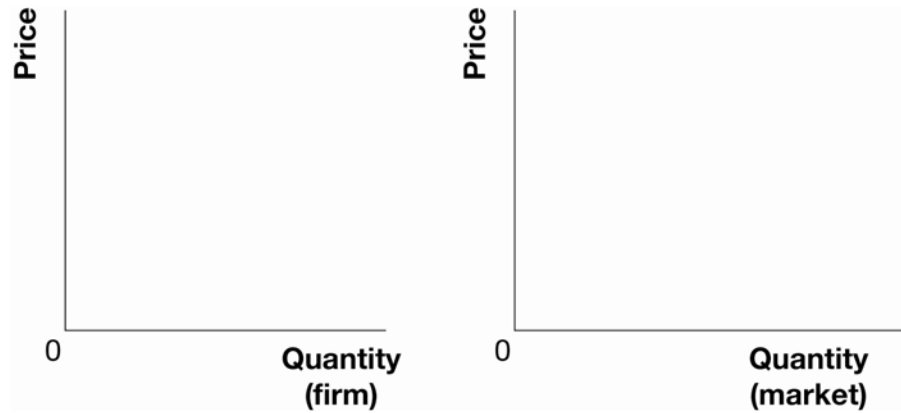
2. a. The following table contains information about the revenues and costs for Barry's Golf Ball Manufacturing. All data are per hour. Complete the first group of columns which correspond to Barry's production if  $P = €3$ . (TR = total revenue, TC = total cost, MR = marginal revenue, MC = marginal cost)

Q	TR, P = €3	TC	Profit	MR	MC	TR, P = €2	Profit	MR
0	_____	€1	_____	_____	_____	_____	_____	_____
1	_____	2	_____	_____	_____	_____	_____	_____
2	_____	4	_____	_____	_____	_____	_____	_____
3	_____	7	_____	_____	_____	_____	_____	_____
4	_____	11	_____	_____	_____	_____	_____	_____
5	_____	16	_____	_____	_____	_____	_____	_____

- b. If the price is €3 per golf ball, what is Barry's optimal level of production? What criteria did you use to determine the optimal level of production?
- c. Is €3 per golf ball a long-run equilibrium price in the market for golf balls? Explain. What adjustment will take place in the market for golf balls and what will happen to the price in the long run?
- d. Suppose the price of baseballs falls to €2. Fill out the remaining three columns of the table above. What is the profit-maximizing level of output when the price is €2 per baseball? How much profit does Barry's Baseball Manufacturing earn when the price of baseballs is €2?
- e. Is €2 per golf ball a long-run equilibrium price in the market for golf balls? Explain. Why would Barry continue to produce at this level of profit?

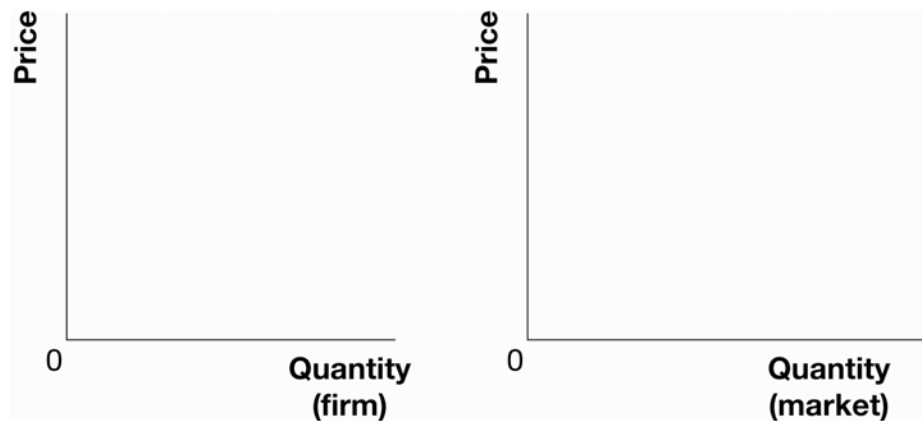
- f. Describe the slope of the short-run supply curve for the market for golf balls. Describe the slope of the long-run supply curve in the market for golf balls.
3. a. In Exhibit 1, show the cost curves of a representative firm in long-run equilibrium along side the corresponding market equilibrium.

Exhibit 1



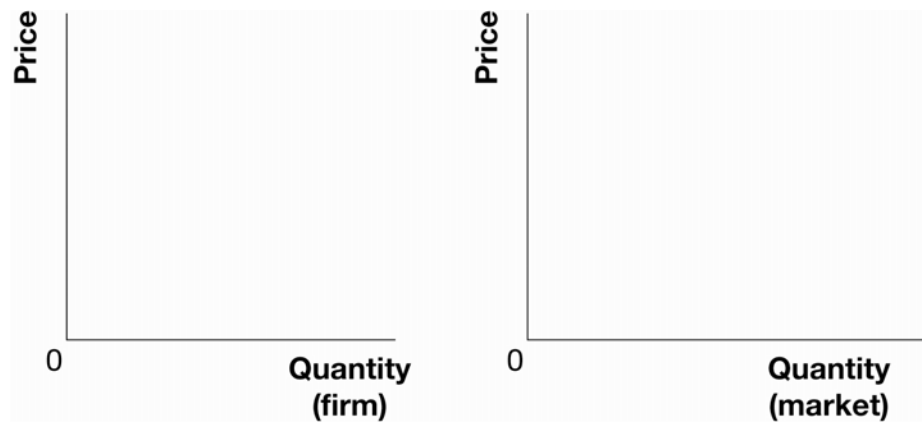
- b. Suppose there is a decrease in the demand for this product. In Exhibit 2, show the shift in demand in the market for this product and the corresponding profit or loss on the cost curves of the representative firm.

Exhibit 2



- c. In Exhibit 3, show the adjustment that takes place in order to return the market and firm to long-run equilibrium.

Exhibit 3



- d. After the market has returned to long-run equilibrium, is the price higher, lower, or the same as the initial price? Are there more, fewer, or the same number of firms producing in the market?