

Homework Assignment #7

Name:

1. Draw and label a graph describing a firm's revenue in a perfectly competitive market. Be sure to draw and/or label the total revenue, average revenue, and marginal revenue curves. How much of the good (q) will the firm produce? Why?
2. Draw and label a graph describing a monopolist's revenue. Include total revenue, marginal revenue, average revenue, and the market demand curve. How much of the good (q) will the firm produce? Why?
3. Suppose a monopolist's demand curve is defined as $Q=40+3P-P^2$. At what price and quantity will the monopolist maximize his revenue? Suppose, instead, that his demand curve is defined by $Q=40+3P-.25P^2$. What are his revenue maximizing price and quantity now?
4. What implications can you draw from your answers in question 3? Are all monopolies equally bad? How does elasticity affect the price that monopolists are able to charge? What affects elasticity? Can you think of any monopolies today? Do these monopolies seem to be exploiting people or providing them with valuable services?