

Instructions: Complete each of the following, which are based on your lecture notes or the textbook. When asked to draw graphs, use a different graph for each problem.

1. Explain the assumptions used in developing the model of perfect competition.
2. Draw three separate graphs showing a firm operating in a market with perfect competition when the firm is (i) breaking even, or earning the normal rate of profit; (ii) earning an economic profit; and (iii) earning an economic loss.

Make-up numbers for Q and P, and show the profit/loss area. Also calculate the amount of profit/loss, based on your graph and numbers. Finally, explain and define 'breakeven' and 'normal rate of profit' in the context of this model.

3. Illustrate and explain how the supply curve can be derived from the firm's graph illustrating profit maximizing production output at various prices.
4. Draw a graph including AVC to illustrate a firm that is losing money, continues to operate, and is minimizing its loss. Explain a situation in which a firm would want to produce at a loss, rather than not produce at all.
5. Draw a graph of a typical firm and an industry market (with supply and demand). Illustrate and explain what happens in the market if, at the initial price, the typical firm is earning an economic profit. Show and explain how the two graphs will adjust toward market equilibrium.
6. Draw a graph illustrating a monopoly firm that is maximizing its profit. Draw a separate graph to show a different monopolist earning a loss.
7. Explain the three types of price discrimination. (Frank describes the 'hurdle model', which we'll consider to be third degree.) Give examples of each that you have experienced in your life. What conditions are required for price discrimination to be successful?
8. Draw a graph illustrating price discrimination and two different groups of consumers. Explain.