Micro FRQ Practice #2

Organize Your Answers in the form of the Question

1. JSlo's Pizza Palace hires workers in a perfectly competitive factor market for unskilled labor.

(a) Using correctly labeled side-by-side graphs for the labor market and JSlo's Pizza Palace, show each of the following.

(i) The equilibrium wage and quantity for unskilled labor, labeled WE and QE, respectively

(ii) The wage paid by JSlo's Pizza Palace and the quantity of unskilled labor hired, labeled WR and QR, respectively

(b) Is the marginal factor cost of unskilled labor for JSlo's Pizza greater than, less than, or equal to WE? **Explain**.

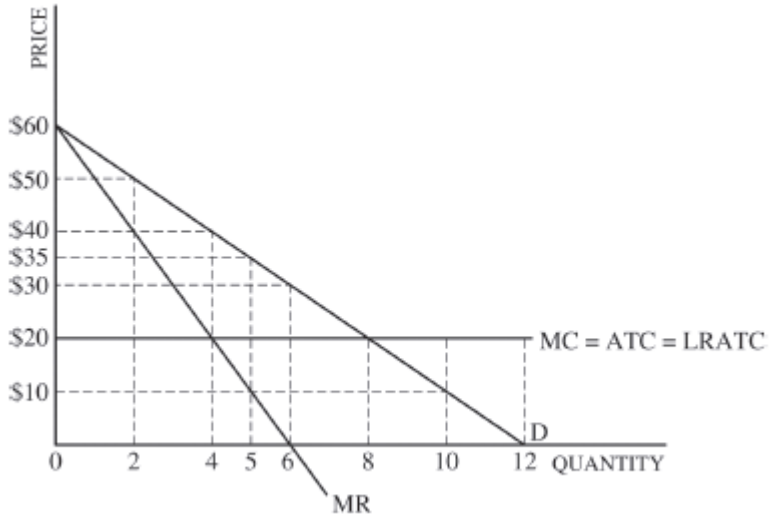
(c) Now assume that the government imposes an effective minimum wage for unskilled labor.

(i) Show the minimum wage on your graphs in part (a), labeled W_{MIN}.

(ii) On the labor market graph in part (a), show the quantity of unskilled labor supplied in the labor market as a result of the minimum wage, labeled QS.

(iii) As a result of the new minimum wage, will the marginal revenue product of the last worker hired by JSlo's Pizza Palace increase, decrease, or stay the same?

2. The graph below shows the demand curve (D), marginal revenue curve (MR), marginal cost curve (MC), average total cost curve (ATC), and long-run average total cost curve (LRATC) for a monopolist.



(a) Using the numbers given in the graph, identify each of the following for the profit-maximizing monopolist.

(i) The quantity produced

(ii) The price

(iii) The allocatively efficient quantity

(b) At the profit-maximizing quantity from part (a)(i), is the monopolist experiencing economies of scale? **Explain**.

(c) Now assume that the monopolist produces 10 units. Using the numbers given in the graph, calculate each of the following. Show your work.

(i) The monopolist's economic profit
(ii) The consumer surplus
(iii) The deadweight loss

(d) At what quantity is demand unit elastic?

(e) Suppose the monopolist perfectly price discriminates and chooses the quantity that maximizes profit. Determine the dollar value of each of the following.

(i) The monopolist's profit
(ii) The consumer surplus