

Homework # 7

- (1) Answer questions 11.2 and 11.23 -part c *only* on page 342 and 343 of the textbook.
- (2) a. Suppose marginal cost of gasoline is \$1.00, and an isolated gasoline station in Nevada has a price elasticity of demand for gasoline of 2. What will the station charge for gasoline? b. What is the Lerner index?
- (3) The demand function for a monopolist is $P = 30 - 0.75Q$; total costs are $TC = 20 + 9Q + 0.3Q^2$; marginal revenue is $MR = 30 - 1.5Q$; and marginal cost is $MC = 9 + 0.6Q$. a. What is the profit-maximizing rate of output? b. What are the profits? c. What would be the price and output under perfect competition if the monopolist's marginal cost curve is the competitive industry's supply curve? d. Calculate the amount of the deadweight loss associated with the monopoly outcome.