



AP[®] Micro Economics (Operational) 2004 Sample Student Responses

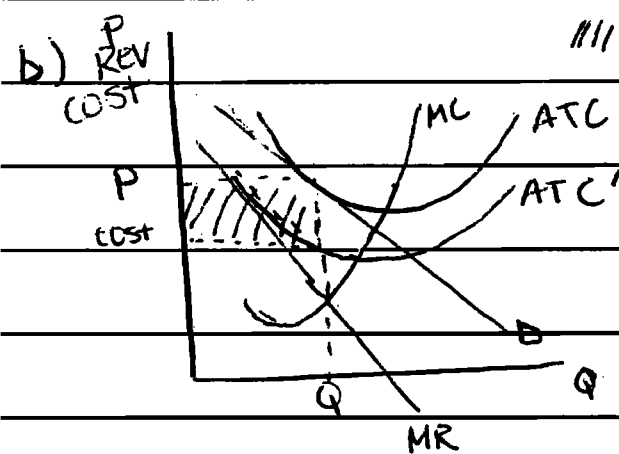
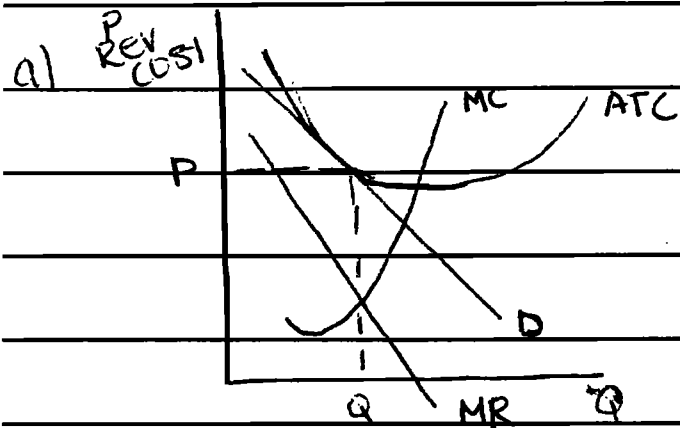
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/// = profit
once ATC
decreases

i) output would not
change

output is determined
by the point where
marginal revenue
equals marginal cost.

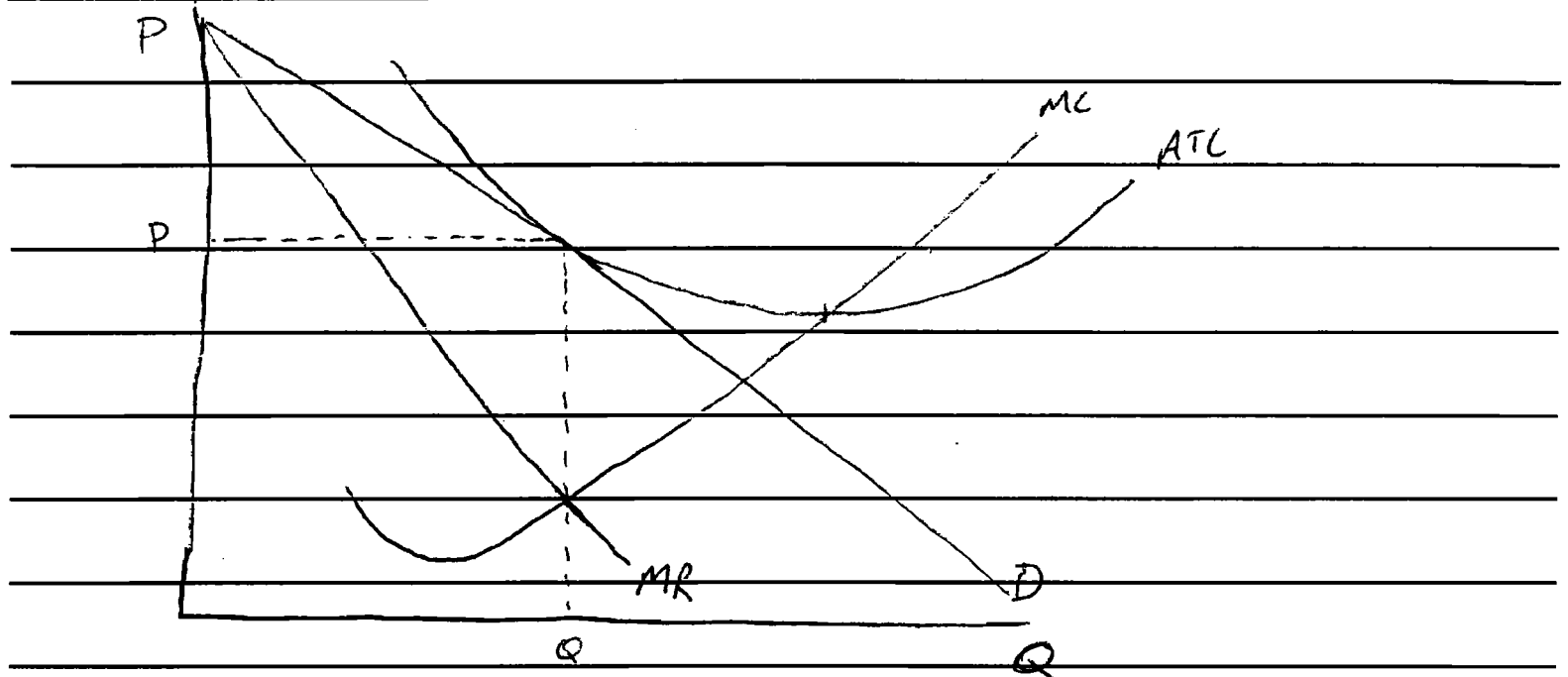
If fixed costs change the average total cost decreases but marginal cost does not change.

ii) profits increase. The firm moves from earning normal or zero economic profit to earning an economic profit. The average total cost curve decreases below the demand curve. Demand remains the same and since output doesn't change price stays the same. The cost though is now below price and the firm is making an economic profit.

3

Write in the box the number of the question you are answering on this page as it is designated in the examination.

(a)



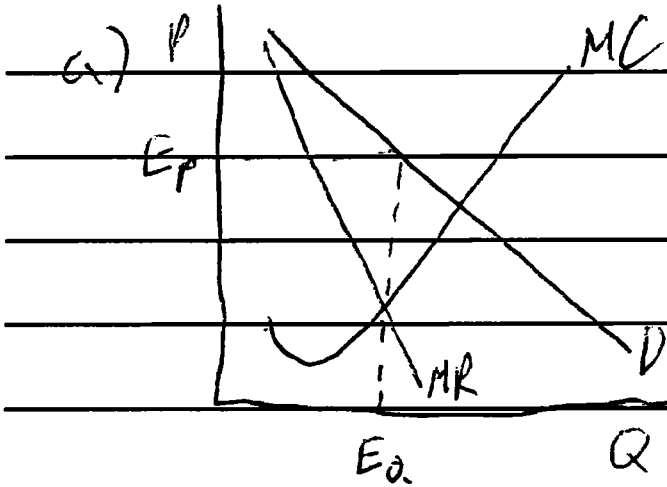
(b)

i) The elimination of the business license fee lowers the fixed cost, which lowers the average cost and the marginal cost. The lowering of the marginal cost causes the marginal cost and marginal revenue to intersect at a point of greater output. $MR=MC$ is the profit maximizing output, so the output increases.

ii) Economic profits are going to increase because the cost has been lowered while the output has been raised. Profits are going to continue to be maximized.

3

Write in the box the number of the question you are answering on this page as it is designated in the examination.



- b) i) Because of new firms entering due to lower entry cost, the output of the product will rise.
- ii) There will be no economic profit, because the new firms will eliminate that.