Question 2

6 points \((3 + 1 + 2)\)

(a) 3 points:
- One point is earned for a correctly labeled graph with a horizontal demand curve at the equilibrium price, \(P_E\).
- One point is earned for showing the equilibrium quantity, \(Q_E\), at \(MR = MC\).
- One point is earned for showing that \(ATC\) is below demand or \(MR\) at \(Q\).

(b) 1 point:
- One point is earned for showing a leftward shift of the \(MC\) curve.

(c) 2 points:
- One point is earned for drawing a correctly labeled graph with a horizontal \(MFC_1\) curve at \(w_1\) and a downward-sloping \(MRP\) curve and showing \(QL_1\).
- One point is earned for shifting the \(MFC\) curve up to \(w_2\) and showing the new equilibrium quantity of labor hired, \(QL_2\), which is smaller than \(QL_1\).
Write in the box the number of the question you are answering on this page as it is designated in the exam.

2A

a) \( P \)

b) \( \text{AVOCADO FIRM} \)

\( \text{ATC} \)

\( \text{MC} \)

\( P_E \)

\( Q_E \)

\( D = MR \)

\( Q \)

---

c) \( W \)

\( W_L \)

\( W_H \)

\( MFC' \)

\( MFC = S \)

\( MRP = D \)

\( Q_L_1 \) - \( Q_L_2 \)
Question 2

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

a) Firm: [Diagram of a firm's marginal cost curve (MC) and average total cost (ATC) curves with price (P) and quantity (Q) axes.]

b) MC curve will shift right.

C) W [Diagram of wage (W) and marginal revenue product (MRP) curves with quantity (Q) and labor (L) axes.]
Write in the box the number of the question you are answering on this page as it is designated in the exam.

2. a) [Diagram of Marlet for Supply of Avocados]

b) [Diagram showing ATC and AVC curves]

c) [Diagram of labor in Avocado Market]

- If wage rates increase, labor will become more expensive, so demand will decline due to the higher costs, decreasing equilibrium quantity.
Question 2

Overview

This question tested students' ability to draw and work with models of perfectly competitive product and factor markets. Part (a) asked students to draw the graph for a representative firm in a competitive product market. Part (b) tested for an understanding of how changes in factor prices affect marginal cost. Part (c) asked students to draw and manipulate the graph of labor demand and supply for a representative firm.

Sample: 2A
Score: 6

The student answers all parts of the question correctly and so earned all 6 points.

Sample: 2B
Score: 4

In part (a) the student lost 1 point for failing to identify the correct Q_E and 1 point for an incorrect shift of the marginal cost curve.

Sample: 2C
Score: 1

The student earned 1 point in part (b) for a correct shift of the marginal cost curve.