

Problem Set #11

Sonoma State University

Economics 305-Intermediate Microeconomic Theory

Dr. Cuellar

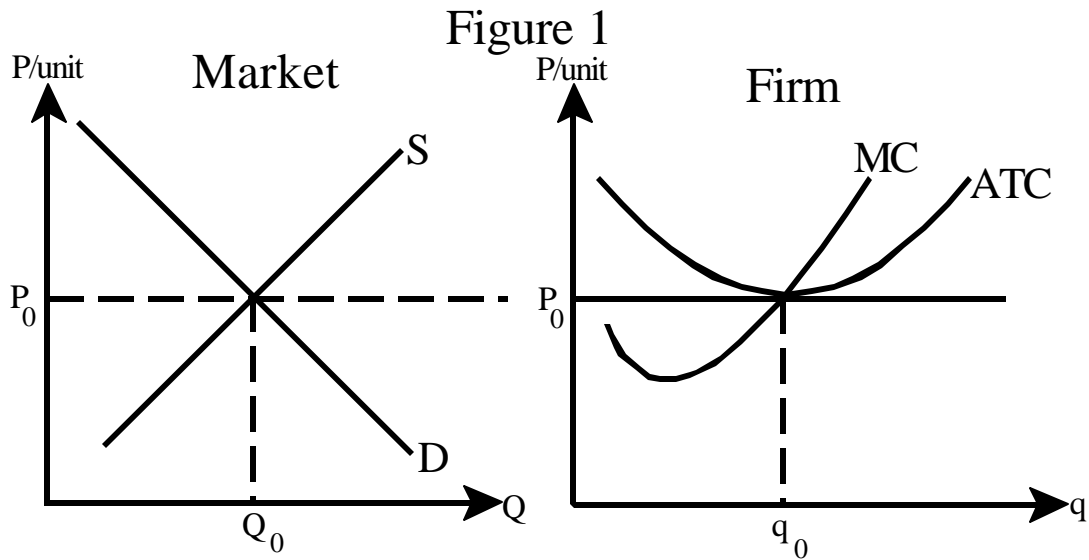


Figure One shows the supply and demand curves for a constant cost competitive industry and the cost curves for a representative firm in the industry. Suppose there is an increase in the market demand for the product shown in Figure One.

- (1) What are the short run effects on equilibrium price and output of the market and the firm? Show graphically.
- (2) What are the short run effects on the firms profits? Show graphically.
- (3) Explain the long run adjustment process and what instigates the adjustment process? Show graphically.
- (4) What are the long run effects on market price and total market output?
- (5) What are the long run effects on the firms profits and output? Show graphically.
- (6) How would your answer change if this were an increasing cost industry? Explain fully and show graphically.
- (7) How would your answer change if this were a decreasing cost industry? Explain fully and show graphically.

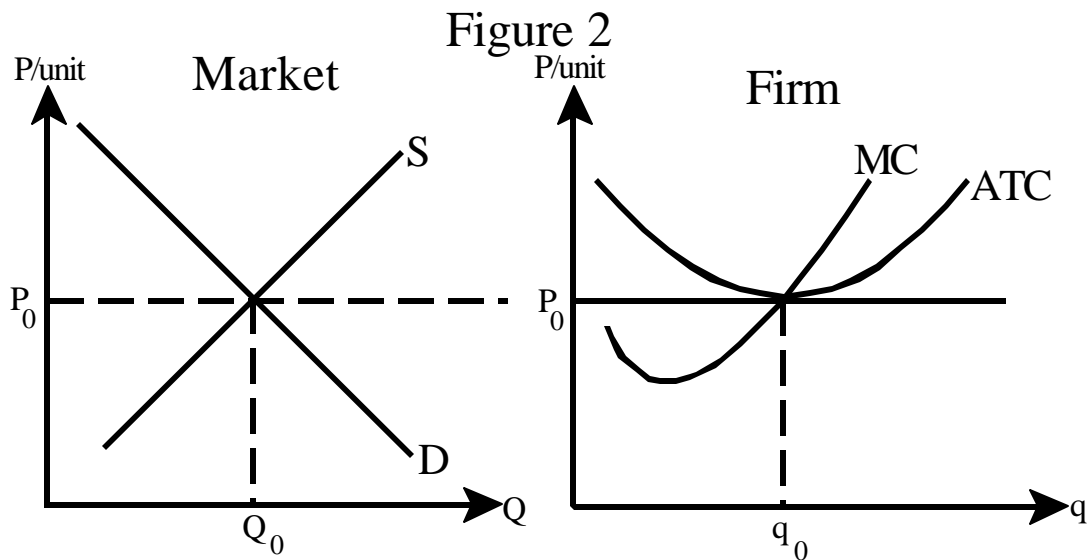


Figure Two shows the supply and demand curves for a constant cost competitive industry and the cost curves for a representative firm in the industry. Suppose that the firm in Figure Two develops a new more efficient technology in its production process.

- (8) What are the short run effects on equilibrium price and output of the market and the firm? Show graphically.

- (9) What are the short run effects on the firms profits? Show graphically.

- (10) Explain the long run adjustment process and what instigates the adjustment process? Show graphically.

- (11) What are the long run effects on market price and total market output?

- (12) What are the long run effects on the firms profits and output? Show graphically.