MICROECONOMICS
Section II
Total Time—1 hour
Reading Period—10 minutes
Writing Period—50 minutes

Directions: You are advised to spend the first 10 minutes reading all of the questions and planning your answers. You will then have 50 minutes to answer all three of the following questions. You may begin writing your responses before the reading period is over. <u>It is suggested that you spend approximately half your time on the first question and divide the remaining time equally between the next two questions</u>. Include correctly labeled diagrams, if useful or required, in explaining your answers. A correctly labeled diagram must have all axes and curves clearly labeled and must show directional changes. <u>Use a pen with black or dark blue ink</u>.

1. In the early twentieth century, limited transportation options and the lack of effective substitutes gave Single Cinema monopoly power in a small town. Assume that Single Cinema is a profit-maximizing firm and currently operates at a negative economic profit in the short run.

   (b) Explain why Single Cinema continues to operate in the short run despite earning negative economic profit in the short run.

   (c) Would Single Cinema's total revenue increase, decrease, or stay the same if it decides to sell one fewer ticket than Q_m? Explain.

   (d) Single Cinema hires workers in a perfectly competitive labor market with a downward-sloping demand curve. Suppose the number of workers available in the market decreases.

      (i) What will happen to the wage rate? Explain.

      (ii) What will happen to the marginal revenue product of the last worker hired? Explain.