

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. 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. 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. Use a pen with black or dark blue ink.

1. As the only gas station in a small town, FillUp has a local monopoly on the sale of gasoline. FillUp is currently earning positive economic profit.
 - (ii) FillUp's profit-maximizing price, labeled P_F
 - (iii) The deadweight loss associated with FillUp's profit-maximizing quantity, shaded completely
 - (iv) The maximum quantity at which FillUp would earn zero economic profit, labeled Q_Z
- (b) Assume that FillUp's fixed costs increase because of a new lease on its property and FillUp stays in business. Will each of the following increase, decrease, or remain unchanged at FillUp's profit-maximizing quantity?
 - (i) The deadweight loss. Explain.
 - (ii) FillUp's economic profit
- (c) Assume the demand for gasoline decreases because people bike to work more often.
 - (i) What must be true for FillUp to continue to operate in the short run?
 - (ii) What happens to FillUp's profit-maximizing quantity and price in the short run assuming the firm continues to operate?