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. Gigantic Pharmaceutical Corporation has a patent on a prescription drug, making it the only manufacturer of that prescription drug. Gigantic is currently earning a positive economic profit.

   (b) Suppose the demand for the prescription drug increases, and Gigantic hires its warehouse workers in a perfectly competitive labor market.

      (i) What will happen to Gigantic's demand for warehouse workers? Explain.

      (ii) What will happen to the wage rate Gigantic pays its warehouse workers and the number of warehouse workers it hires?

   (c) After Gigantic's patent expires, another firm enters the prescription drug market and produces an identical drug that sells for a lower price.

      (i) What will happen to Gigantic's producer surplus?

      (ii) What will happen to the consumer surplus in this prescription drug market? Explain.