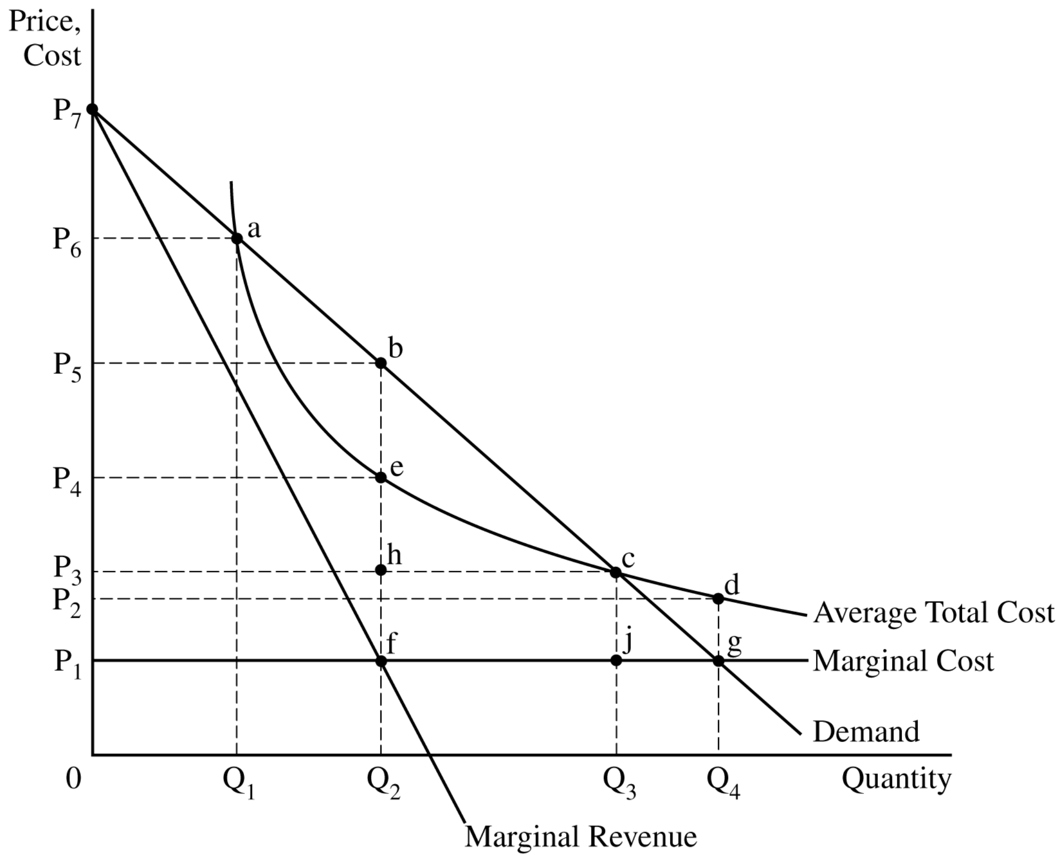

3. The graph shows the cost and revenue curves for an unregulated, profit-maximizing monopoly.

(a) Is the firm shown in this graph a natural monopoly? Explain.

(b) Using the labeling from the graph, identify the area representing the deadweight loss for this profit-maximizing monopoly.

(c) In order to improve resource allocation, the government sets a price that results in the firm earning zero economic profit.

(i) Using the labeling from the graph, identify the price and resulting quantity the firm would produce.
(ii) Will this government policy eliminate the deadweight loss? Explain using labeling from the graph.

(d) Instead, the government decides to set a price that results in the socially optimal quantity of output. Will the firm earn positive, negative, or zero economic profit? Explain using labeling from the graph.

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.

STOP

END OF EXAM