Econ 301 Discussion - 11/3/2023

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Content Review

- Short run vs. Long run, entry and exit

- Licensing, taxes, caps on firms

Practice Questions

1. A firm has a cost curve of $c(q) = 50 + 60q$. Assuming the firm is a price taker, what is the minimum price it must be collecting in order for operating in the short run to be the profit maximizing choice?

2. There are $N > 0$ identical firms in a market, each with cost function $c(q) = 3q^2 + 5q + 27$, and market demand is $D(p) = 53 - p$. What is the long run equilibrium market price and per-firm quantity? Find the number of firms in the long run.

3. Consider the setup of 2, but the government imposes a licensing fee of \$21 so that the fixed cost increased to 48. What's the new long run equilibrium price and quantity per firm, and the equilibrium number of firms?

4. There are $N > 0$ identical firms in a market, each with cost function $c(q) = 3q^2 + 5q + 27$, and market demand is $D(p) = 53 - p$. The government imposes a per-unit tax of $\tau = \$3$. Find the price received by producers and paid by consumers, and the number of firms in the long run.