ECON 101

TA Worksheet, Module 13 (Profit and Pricing)

Name:_____   TA:_____

1. Let's suppose Elon Musk somehow manages to make Twitter "profitable" and earns $200 million in accounting profit. Suppose the $44 billion he used to buy Twitter could have bought the entire NBA. And suppose he would have earned $600 million in accounting profit from the NBA. What is Musk's economic profit from Twitter?

2. Draw a picture of an imperfectly competitive firm in the long run in a market with unrestricted entry. Label everything! (hint: think about profit and the average cost curve).

3. What info do you need to figure out an imperfectly competitive firm's quantity, price, and profit?

4. Assuming unrestricted entry, describe (with words and pictures) how an industry moves to zero economic profits.

5. (Challenge – skip if no time) Consider the taco stands on State Street. Suppose that the taco market on State Street is a perfectly competitive market, where all taco stands are exactly the same (i.e. producing the exact same tacos and having the exact same cost features). The market demand for tacos is given by the demand curve where P is the price per taco and Q is the market quantity of tacos:

$P = 100 - 2Q$

Each taco stand faces a marginal cost curve given by the following equation where q is the quantity of tacos produced by the firm:

$MC = 4q$

and a total cost curve given by:

$TC = 2q^2 + 8$

a) For each taco stand, what is the fixed cost (FC)? What is the average fixed cost (AFC) curve and the average total cost (ATC) curve?

b) What is the break-even price for each taco stand (when profit = 0)? Hint: it's where ATC=MC. Warning: the quantity will seem really low.

c) In the long run, what would the price for one taco be on State Street? How many taco stands will stay in the market?

d) Assume that the current price for one taco on State Street is $12. How many tacos does each taco stand produce? Suppose that there is no cost in setting up/closing down a taco stand. What will happen to the number of taco stands?

6. What does price elasticity of demand have to do with price discrimination?

7. Describe a time that you paid more or less due to price discrimination (try to avoid the student discount example). Was it 3rd degree (group pricing) or second degree (hurdle) price discrimination?