1) b) 3, 6, and 9 trinkets. $12; $24 and $36. MC = $4 and ATC = $4 at all levels of output

c) d) If the value of Bob’s time increased, this would be an increase in input price. The production function would not shift, but Total Cost would pivot upward; and the per unit cost curves (ATC & MC) would shift upward.

2) a) i) many small independent sellers and buyers; ii) undifferentiated (homogeneous) good; iii) no barriers to entry or exit.

b) Perfect (= “pure”) Competition implies firms are price takers MR = P

c) Firm demand curves are horizontal - perfectly elastic at the market price

d) Firm SR supply curve is its MC curve above the minimum of AVC. Horizontally sum firm supplies to get industry supply (add quantities together for a given price).

e) Profit – figure 14-5a; loss 14-5b (pg. 304).

f) LR under perfect competition - firms are at the minimum of their ATC earning zero econ profit.

g) See Figure 14-8 (pg. 309) Price increases in the Short Run (SR) so that firms can make economic profit in the SR, price will fall in the Long Run (LR) – (back to the original level if input prices don’t change as industry output increases, as in figure 14-8).

h) Allocative efficiency - the efficient level of output is produced (allocative efficiency is always from “society’s” prospective). In our model of perfect competition, profit maximizing firms produce where MC=Price (and Price = Marginal Utility to the “last” buyer = Marginal Benefit to society), implying allocative efficiency.

i) Diseconomies is a long run concept with all inputs changing as output changes. Diminishing marginal product of the variable input (labor) is short run with capital fixed.