1 - Florence is considering going into business for herself and has developed the following estimates of monthly costs and revenues to aid her in her decision-making process. She has decided to house the business in a building that she already owns, although she could rent the building to someone else for $1,000 per month. Estimated payments for utilities (electricity, natural gas, water, and telephone) are $475 per month. She will hire one employee at a total cost of $1,100 per month. Inventory is estimated to cost $2,800 per month. Finally, Florence earns $3,000 a month in her current job. [Chapter 5] a. How much monthly revenue would Florence have to take in to earn 0 economic profit? b. Assume that Florence has estimated her monthly revenue to be $9,000. In this case, what would Florence’s accounting profit (loss) and economic profit (loss) be? c. Assume instead that Florence does not own a building, and that she will have to rent a building for $1,000 per month (all other estimates remain the same). In this case (assuming estimated monthly revenue is still $9,000), what would Florence’s accounting profit (loss) and economic profit (loss) be?

2 -

Output (Q): 0 1 2 3 4 5 6

Total Cost (TC): $36 $45 $52 $61 $74 $91 $110

2a) What is the average fixed costs of producing 4 units of output?

2b) What is the marginal cost of producing the third unit of output?

2c) At what level of output does the firm start to encounter diminishing marginal returns?

3 –

The demand for supply sweatshirts are as follows:

Demand Supply

Price Quantity Demanded Pirce Quantity Supplied

$10 15,000 $10 22,000

$9 15,500 $9 19,000

$8 16,000 $8 16,000

$7 16,500 $7 13,000

$6 17,000 $6 10,000

$5 17,500 $5 7,000

$4 18,000 $4 4,000

$3 18,500 $3 1,000

$2 19,000 $2 0

Qd(emand) = 20,000 - 500P

Qs(upply) = -8000 + 3000P

3a) What is the equilibrium price and quantity?

3b) If supply function changes to -5000 + 3000P, does supply increase or decrease? What is the new equilibrium price and quantity?