

9*. Starting from Figure 8-6 showing the short-run price and output determination by the monopolist, suppose that the average fixed costs of the monopolist increase by \$5 and that its AVC is \$6 less than the new ATC at the best level of output. Draw a figure showing the best level of output and price, the amount of profit or loss per unit and in total, and whether it pays for the monopolist to produce. * $ATC = AFC + AVC$. After AFC increases by \$5, ATC will increase by \$5 (ATC curve moves up vertically by \$5 for every output Q) and MC, D and MR stay the same. The AFC for 500 units is \$6, in other words, the TFC is \$3,000.

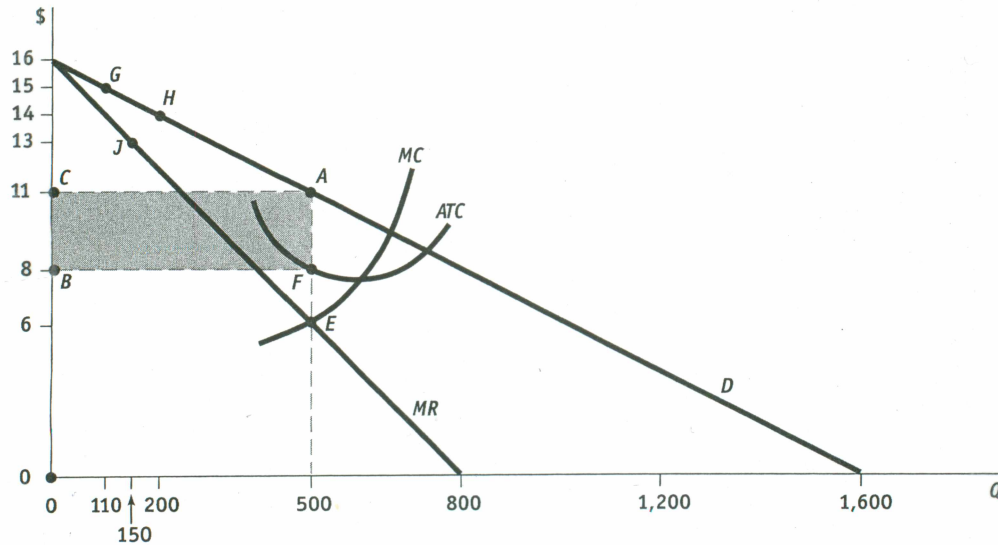


FIGURE 8-6 Short-Run Price and Output Determination by a Monopolist The best level of output for the monopolist in the short run is 500 units and is given by point E , where $MR = MC$. At $Q = 500$, $P = \$11$ (point A on the D curve), and $ATC = \$8$ (point F), so that the monopolist earns a profit of $AF = \$3$ per unit and $AFBC = \$1,500$ in total (the shaded area).