1. B
2. B
3. B
4. B
5. B
6. A
7. C
8. B
9. C
10. B
11. D
12. D
13. D
14. D
15. D
16. B
17. B
18. B
19. C
20. A
21. C
22. C

Analytical Questions

1. For the diagram see p. 336 in Landsburg. A U-shaped AC should intersect MC at minimum AC and at a point below the demand curve. Monopoly is inefficient because P<MC. P measures the marginal value to society from having one additional unit of the good to consumer. MC represents the value society attaches to the resources used up in producing one more unit. Since P>MC, the value to society of an additional unit exceeds its cost at the monopoly output, but the unit is not produced (because the monopoly maximizes its profit rather than total surplus of society).
2. (i) The answer is to charge an admission fee of $7 and price popcorn at marginal cost, $.50. Leksis will enter because he values the movie at $8. Trebe only values the movie itself at $5, but he values the opportunity to buy popcorn in the theatre (at a price of $.50) at $2 (his consumer surplus at that price). The theatre can capture this surplus from him by pricing the admission fee at $7. So both will enter, and the profit is $14 (no profits made pricing popcorn at MC).(ii) This is the simpler case. The highest admisstion fee at which both enter is $4. Charge the monopoly price of $1 for popcorn to get total profit of $9. The surplus extraction strategy of part (i) is not useful here, because adding to Trebe's valuation does not increase the amount you can charge and still get both to enter (Leksis still has a valuation of $4).