

DUE 1/29/09

Please type your answers on a separate sheet of paper.

1. Suppose a monopoly produces less output and charges a higher price than the same industry under perfect competition. Discuss why this may be considered "socially undesirable." Discuss and explain at least three reasons.
2. If a competitive firm earns zero economic profits, explain why anyone would invest money in it? (Hint: Think about the difference between economic profits and accounting profits.)
3. The following are the demand and total cost schedules for the Normal Telephone Company, a local monopoly.

Output (# of calls)	Price (dollars per call)	Total Cost (dollars)
0	.12	0
50,000	.11	2,000
100,000	.10	6,500
150,000	.09	11,000
200,000	.08	16,000
250,000	.07	23,000
300,000	.05	32,000

How much output will Normal Telephone company "produce," and what price will it charge? Will it earn a profit? How much? (Hint: You first have to compute its MR and MC schedules. If you have two answers, choose the one with the lowest price.)