ECO 401-002
Spring 2003
Problem Set #6

Due: Thursday, April 10

1. Browning and Zupan, 9.23, p. 256.

2. TRUE or FALSE and Explain briefly. "In order to maximize short-run economic profit a perfectly competitive firm will want to produce that output where average total cost is at a minimum."

3. Would you characterize the following industries as being perfectly competitive? Explain briefly why or why not. (Hint: Recall the characteristics of a perfectly competitive market.)
    a. Automobiles
    b. Cable TV
    c. soybeans

4. Knowing that you have become an expert on the functioning of perfectly competitive markets as a result of taking intermediate microeconomics, over Christmas break your parents ask you to explain something to them. They grow soybeans on the family farm. They have just learned of the development of a new drought-resistant and insect-resistant seed that will reduce the cost of growing soybeans. In trying to decide how much to spend on your Christmas present, they need to know what is going to happen in the soybean industry as a result of this cost-reducing technological advancement. Can you predict for them what is going to occur? Describe the adjustment process in a step-by-step fashion. Illustrate your answer with diagrams of a representative firm and the market. Assume that the industry is currently in long-run equilibrium.

5. The market for one-bedroom apartments in Lexington is in long-run equilibrium. Market price is $500 per month. Assume that this is an increasing cost perfectly competitive industry. After much lobbying by UK students who haven't had ECO 401, city council enacts a rent control ordinance that sets a price ceiling for one-bedroom apartments at $400 per month. Illustrate this in a diagram. Briefly discuss some of the short and long-run effects that you anticipate from this rent control.