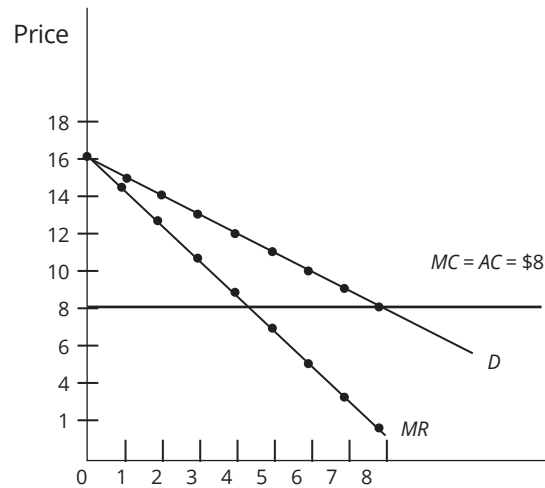


Part 2 - Comparing Monopoly and Perfect Competition

Assume that the following graph represents the demand, marginal revenue, average total cost, and marginal cost for a small business that has been granted a monopoly to provide lunches for visitors to a state park. Additionally, assume that the average and marginal cost of each lunch is \$8.



Answer the following questions:

- To maximize profit, the monopoly will produce _____ lunches and charge \$ _____ per lunch.
- How did you determine the monopoly's equilibrium price and quantity?
- If the firm loses its monopoly and many other firms are allowed to enter the market so that the market becomes perfectly competitive, the output will be _____ lunches, and the price will be \$ _____ per lunch.
- Compared to perfect competition, the output for a monopoly will be _____ (less, more), and the monopoly price will be _____ (higher, lower) than the price in perfect competition.
- Explain how you determined the perfectly competitive firm's price and output.
- Compare monopoly and perfect competition with respect to productive and allocative efficiency.

Checklist

Part 1

- Fill in the chart with regards to monopolies and barriers to entry.

Part 2

- Compare monopoly and perfect competition.