

Problem Set # 7

Due 11/10/10

1. Text problem 12.2
2. Text problem 12.7
3. Text problem 12.10 (you may assume the result from problem 12.9)
4. Suppose that the market demand for a product is given by $Q_D = A - BP$. Suppose also that the typical firm's cost function is given by $C(q) = k + aq + bq^2$.
 - a. Compute the long-run equilibrium output and price for the typical firm in this market.
 - b. Calculate the equilibrium number of firms in this market as a function of all of the parameters in this problem.
 - c. Describe how changes in the demand parameters A and B affect the equilibrium number of firms in this market. Explain your results intuitively.
 - d. Describe how the parameters of the typical firm's cost function affect the long run equilibrium number of firms in this example. Explain your results intuitively.