Short-Run Cost Curves and Determination of Output

In order to earn money for college expenses, you decide to open a pizza joint (that also serves beer) called PizzaBuzz.

- Information about cost is the following:
  - Your only variable cost is labor (don't ask what the pizzas are made of)
  - Since you employ broke students you pay them $3.00 (below minimum wage!)

- Since we are in a college town the market for pizzas and beer is extremely competitive, and the market price of large extra-cheese pizzas with a six pack is $9.00

- Complete the table and answer the following questions:
  - What is the amount of total fixed cost?
  - What is the marginal revenue from the seventh pizza+beer?
  - What is the AVC if you produce six pizza+beer?
  - What is the AFC if you produce nine pizza+beer?
  - What is the ATC if you produce five pizza+beer?
  - What is the MC of the eighth pizza+beer?
  - At what market price does your business break even?
  - What is your profit if the market price is $6.00?
  - What is the shut-down price of your business?
  - What will happen to your business if you were to follow minimum wage laws ($5.15/hr.) and the market price were to remain at $9.00?
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<th>TC</th>
<th>AFC</th>
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<th>ATC</th>
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Price = $9  FC = $10  wage = $3
Use this figure, which illustrates short run cost and revenue conditions for a typical firm in the competitive laser printer industry, to answer the following questions.

1. The short run market price is?

2. In the long run, what will happen to the number of firms in the industry? (increase, decrease, remain the same)

3. In the long run, what will happen to the market supply curve for laser printers? (shift right, shift left, remain the same)

4. In the long run, what will happen to market price? (increase, decrease, remain the same)

5. In the long run, what will happen to economic profits (or losses) in this industry? (increase, decrease, remain the same)

6. Assuming this is a constant cost industry, the long run equilibrium price will be?
As Tren Dee Apparel's chief executive officer, you decide to break into the competitive sweatshirt market. Use the information provided in this figure to answer the following questions concerning Tren Dee's operations.

1. What is the equilibrium market price of sweatshirts?

2. What is the profit-maximizing level of output for Tren Dee (in thousands)?

3. At the profit-maximizing level of output, what is Tren Dee's total revenue (in thousands of dollars)?

4. What is Tren Dee's total cost (in thousands of dollars) at the profit-maximizing level of output?

5. At the profit-maximizing level of output, are economic profits positive, negative, or zero?

6. You should shutdown Tren Dee's sweatshirt operation if the market price falls below what dollar amount?