

Price Controls free response question 2.

Assume that there is a perfectly inelastic supply of krypton power and that 1,000,000 units of power are produced. The marginal cost of the last unit produced is \$1. The equilibrium price of a unit of krypton power is \$4.

1. A. Draw a graph of the market for krypton power.
 - B. Illustrate the equilibrium price and quantity on your graph.
 - C. Illustrate the consumer surplus at the equilibrium price.
 - D. What is the total revenue from the sale of krypton power?
 - E. What is the total cost of producing krypton power?
 - F. What is the economic profit that is realized?
2. Assume that an effective price ceiling is established at a price of \$3.
 - A. Illustrate this price ceiling on the graph.
 - B. Explain the affect on output created by the price control.