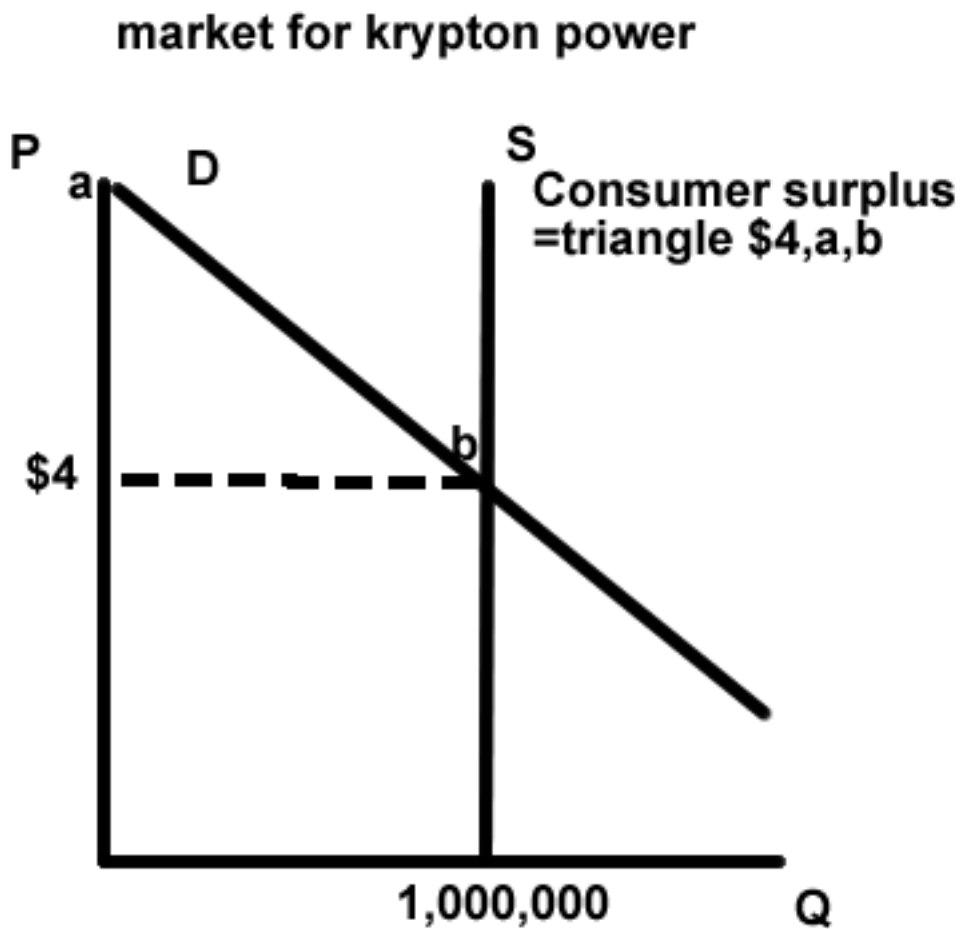


Price Controls free response question 2. rubric

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?

$$\$4 \times 1,000,000 = \$4,000,000$$

E. What is the total cost of producing krypton power?

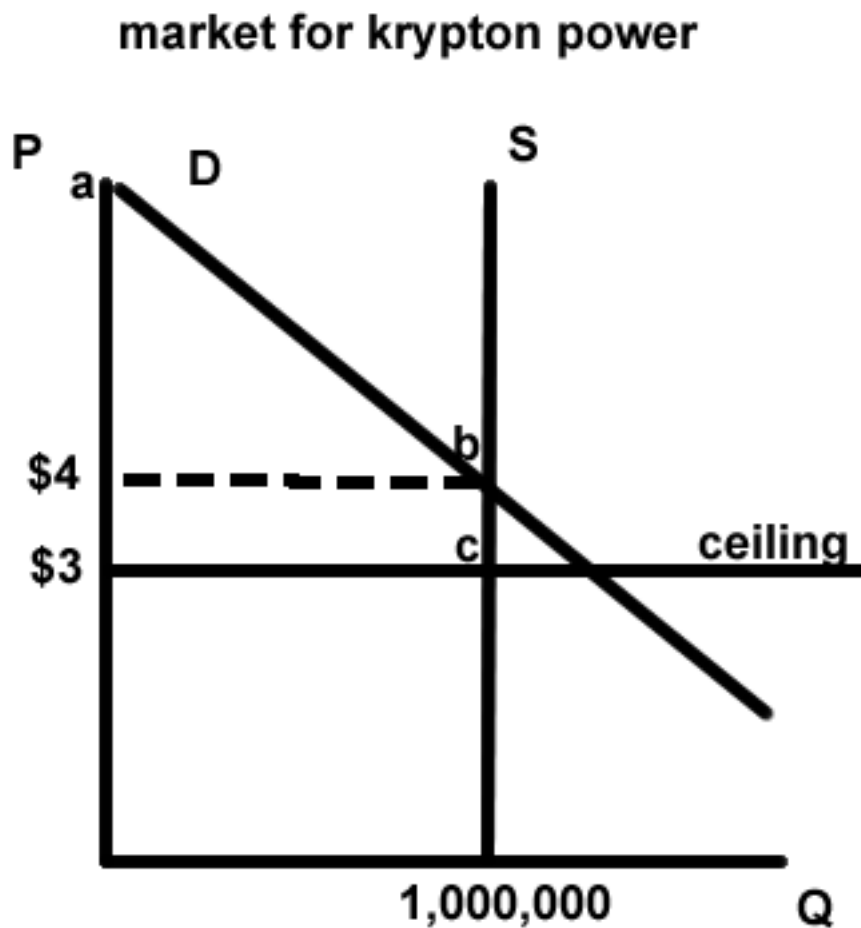
$$\$1 \times 1,000,000 = \$1,000,000$$

F. What is the economic profit that is realized?

$$(\$4 - \$1) \times 1,000,000 = \$3,000,000$$

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.

**Output remains at 1,000,000**