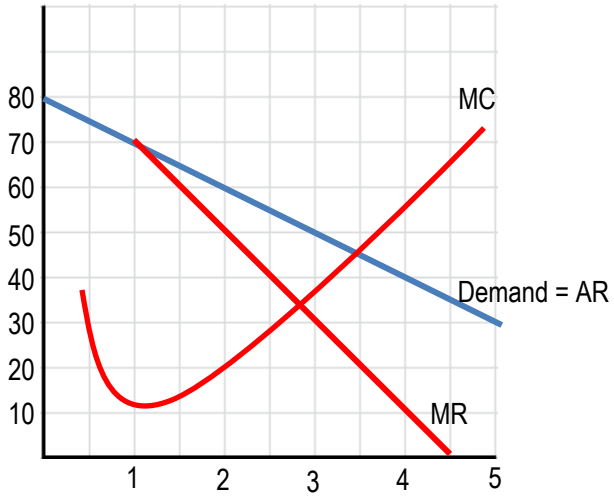
CONCEPT: PROFIT ON THE GRAPH

- The ***profit-maximizing quantity*** will always occur where _____
  - □ Profit-maximizing could also mean _____



- The ***profit or loss*** is defined by the following formula:

$$Profit = (Price - ATC) * Quantity$$

Step 1: Find profit-maximizing quantity where MR = MC

Step 2: Find Price (on Demand Curve) and ATC at that quantity

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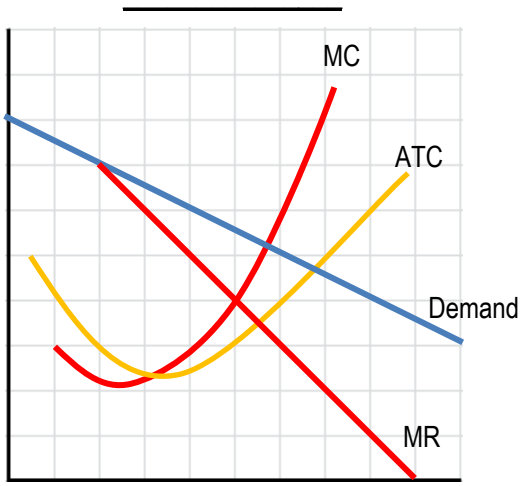

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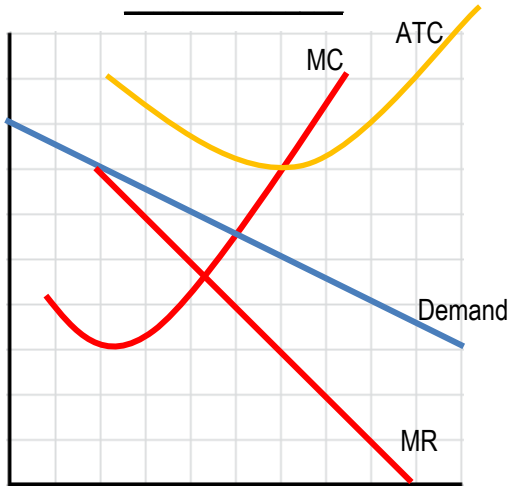
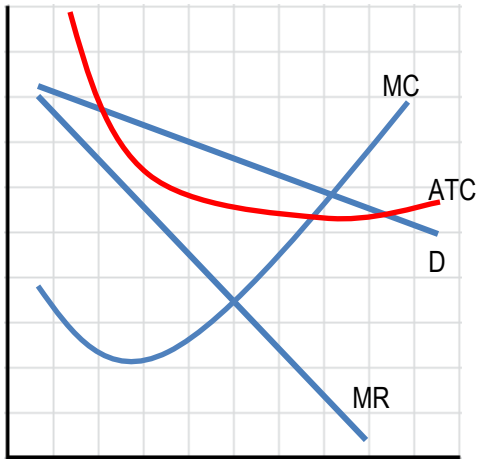


PRACTICE: Use the graph to answer the following questions.



The MR curve lies below the demand curve in this figure because the:

a) Demand curve is linear
b) Demand curve is highly inelastic throughout its full length
c) Demand curve is highly elastic throughout its full length
d) Gain in revenue from an extra unit of output is less than the price charged for that unit

The economic profit can be found by multiplying the difference between P and ATC by quantity. It can also be found by:

a) Dividing profit per unit by quantity
b) Subtracting total cost from total revenue
c) Multiplying the coefficient of demand elasticity by quantity
d) Multiplying the difference between P and MC by quantity

This pure monopolist:

a) Charges the highest price it could achieve
b) Earns only a normal (accounting) profit in the long run
c) Restricts output to create an insurmountable entry barrier
d) Restricts output to increase its price and total economic profit

At this monopolist's profit-maximizing output:

a) Price equals marginal revenue
b) Price equals marginal cost
c) Price exceeds marginal cost
d) Profit per unit is maximized