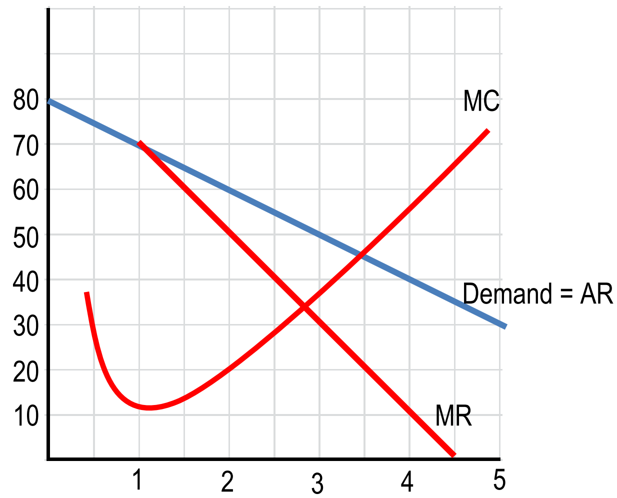
CONCEPT: PROFIT ON THE GRAPH

- The ***profit-maximizing quantity*** will always occur where ______________________
  - ☐ Profit-maximizing could also mean ________________________

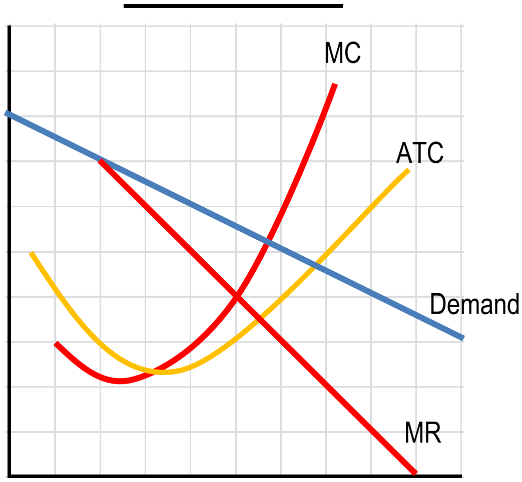


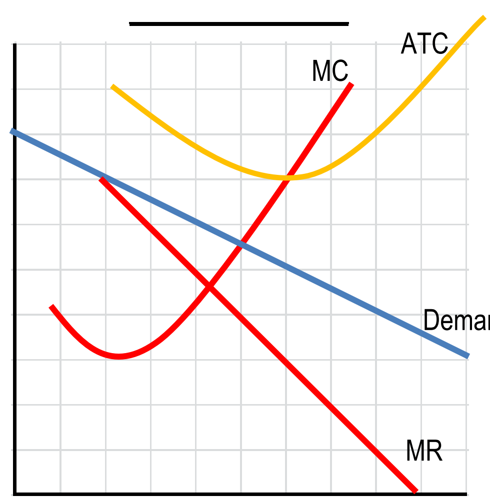
- The ***profit or loss*** is defined by the following formula:

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

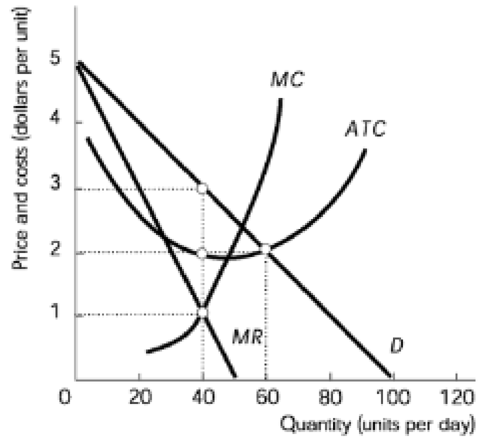
Step 1: Find profit-maximizing quantity where MR = MC

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





PRACTICE: Use this graph to answer the following questions:



The firm's profit-maximizing output in monopolistic competition is:

a) 100 units
b) 40 units
c) 60 units
d) 80 units

The price that the firm will charge at its profit-maximizing output is:

a) $1
b) $2
c) $3
d) $4

In the above figure, the monopolistically competitive firm earns an economic profit of:

a) $0
b) Between $0 and $50 per day
c) Between $50 and $100 per day
d) More than $100 per day

PRACTICE: In the short run, a monopolistically competitive firm chooses

a) Its quantity but not its price
b) Its price but not its quantity
c) Neither its price nor its quantity
d) Both its price and its quantity