COMMON MISTAKES IN HOMEWORK SET #3

1)

Part B)

Since the verdict dictates that $20 be paid *per* snowmobile produced, this cost is a variable cost, *not a fixed cost*.

Part C)

Many people ignored the additional cost associated with the new battery. This cost, $300, outweighed the price increase that consumers would be willing to pay for the improved compwuter with the new battery.

Part E)

The problem states that the firm is in a competitive market where the price of windows is $50 per window. Therefore, the *demand curve that the firm faces* is perfectly elastic at $50, therefore, MR = P = $50. We can immediately see that the MC at each plant for the first unit is less than $50, so we can determine that each plant will produce until MC at each plant is equal to MR = $50. While capacity constraints often affect production decisions of firms, the above analysis shows that each firm will at least produce some units! Additionally, although FC are important for determining if the firm should shut down because of negative economic profits, FC also does not affect the production decisions of firms.

2)

Part A)

Please work out the problem, don't just say it will decrease. For others, the common mistake was simple math mistakes that resulted in a wrong sign (indicating increase) or a 20% decrease.

Part B)

The question asks for total labor required for 100 ACs. Some of you answered with the average labor required of 473.43 minutes instead of the correct 47,343 minutes of labor.

Also some put the wrong units using $ or laborers or hours instead of minutes.

Part C)

Many made the mistake of adding the average unit labor to arrive at the total labor of 718. This is wrong. You need to compute the Labor required per lot and then add up the total.

Part D)

If you did 2C right, you most likely got this right. However, some misread the question and choose between 1 lot of 1000 and 2 lots of 500 and didn't include the third choice of 4 lots of 250.