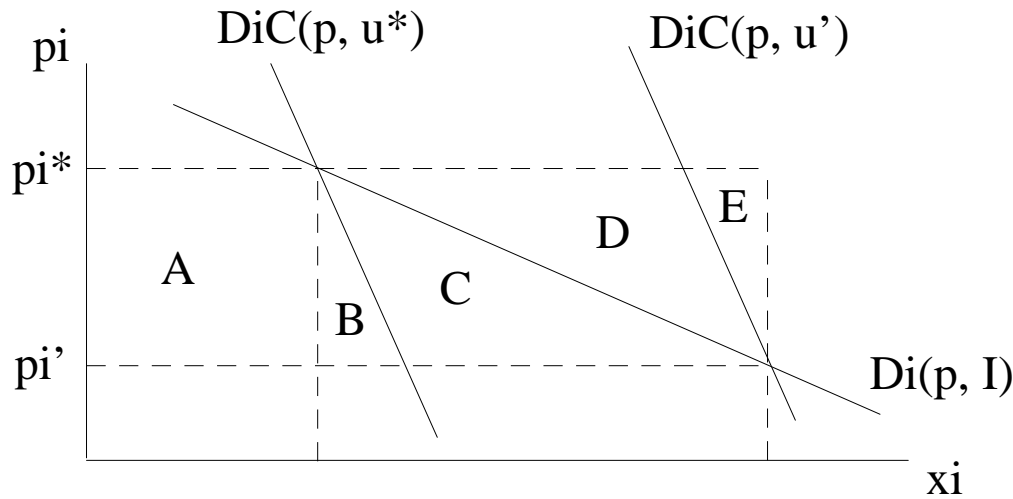


Quiz 5



a) Use the areas denoted A, B, C, D, and E in the above diagram to determine the different measures of welfare change:

for a price increase ( $pi' \rightarrow pi^*$ )

for a price decrease ( $pi^* \rightarrow pi'$ )

naive:

naive:

$\Delta$  in CS:

$\Delta$  in CS:

CV:

CV:

EV:

EV:

b) Mickeysoft™'s cost function is  $C = Y^2$  where  $Y$  is output. Determine Mickeysoft™'s profit-maximizing output supply as a function of the given output price  $P$ . Does the underlying technology exhibit increasing, decreasing, or constant returns to scale? What (IRS, CRS, or DRS) would you expect for a software company?