

ECON 483
Homework # 2

1. Consider a perfectly competitive industry in long run equilibrium. Assume each firm is identical and has a U-shaped average cost curve. The government is trying to decide between a per-unit subsidy (s per unit) or a lump-sum subsidy (L). If, in the new long run equilibrium, the total amount of subsidy paid to each firm is the same under both programs, show that the market price will be lower and the number of firms will be greater under the lump sum subsidy.
2. Do problems 5 and 6 from page 133 of the text book.