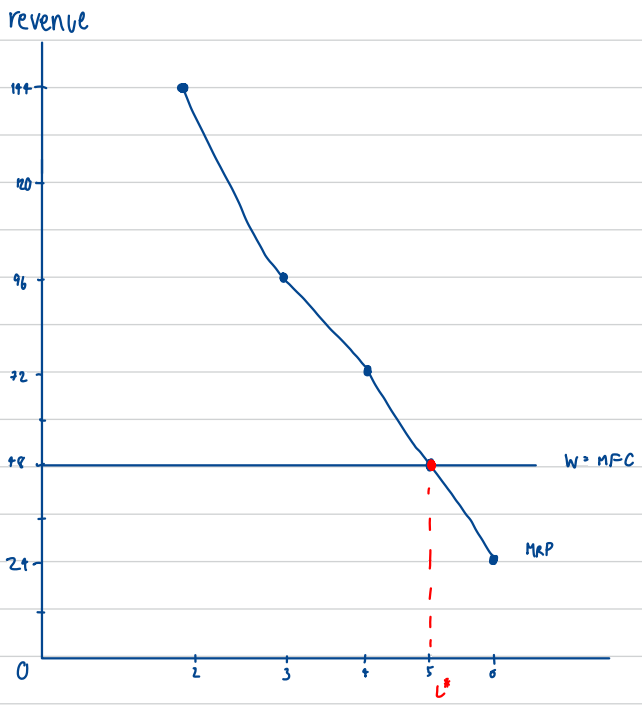
(1) a)



since product market is perfectly competitive (P = MR), MRP = MPxMR = MPxP

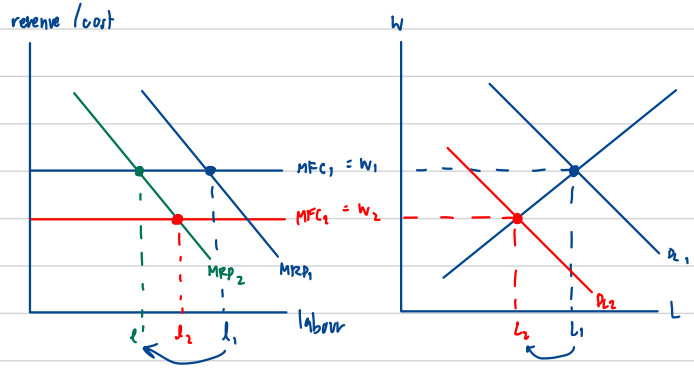
MRP = marginal revenue produce

MFC = wage factor cost

∴ optimal units of labour to maximise profit is when MRP = MFC, marginal benefit = marginal cost

↳ $L^* = 5$ #

(1) b) Lower consumer's purchasing power shifts MRP ecrve downwards as demand and price drop in the product market Firm demands less labour so D_L shifts left and wage drops.



This results in less units of labour hired by this firm ($l_1 \rightarrow l_2$).

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(2) a) $L_A = \frac{P-MC}{P} = \frac{1-0.2}{1} = 0.8$ #

b) $H = \sum_{i=1}^{3} S_i^2 = 0.5^2 + 0.2^2 + 0.3^2 = 0.38$ #

c) $H = 0.5^2 + 0.5^2 = 0.5$ #

3)

a) People feel that price level is hiking.

b) Morpheus always hears a loud fight coming from a room next to his.

c) Trinity does not receive her full-benefit until her first 3-month of her work position.

d) In Chiang Mai, there is no earthquake alarming system.

e) Starbucks coffee is more expensive than Amazon coffee.

a) Market failure - The price of sin goods may add the cost of externalities too.

b) Not a market failure - not related to what we have studied

c) Moral Harzard - full benefits was something both parties mutual but after contract were signed, employer doesn't follow the agreement

d) Public goods - it's something that should be provided by the government as it is non-excludable + non-rivalry

e) Market power - as starbucks reputation + brand image is a luxury goods and has a larger market share internationally