

Answer on Question #67372 – Economics – Economics of Enterprise

Question

If Eskom (assumed sole supplier of electricity) is earning economic profits in the short run. Explain using a well labelled diagram how much output Eskom will produce and at what price this output will be sold if Eskom maximises profits

Answer

In monopolistic market the profit maximization occurs when the firm produce quantity for which MC (marginal cost) = MR (marginal revenue). The price of profit maximization corresponds to intersection of demand curve and vertical line at the found output.

