

## Answer on Question 70153-Economics - Microeconomics

- a) If a competitive firm is making a short-run loss, would it be better to produce nothing at all or to continue operating at a loss? Elucidate.

### Answer.

During the short-run term (when one of the production factors is constant) it is better to continue operating at a loss, because in this case fixed costs are reimbursed. In the case of production shutdown fixed costs have already been invested (for the purchase of equipment, for example), and without reproduction are actually lost.

- b) You recently noted that a national beverage company generously assisted in renovations of the basketball arena and library at a large state university, and university officials agreed to an exclusive beverage contract with the company. Was this most likely a benevolent charitable act by the beverage company?

### Answer.

These most likely were the marketing costs, which were intended to increase the demand for manufactured products, i.e. to shift the demand curve to the right. In this case, the equilibrium quantity and the equilibrium price should increase.

