Unit 5 Quiz D

Randomly select 3 questions to ask members of the group requesting the next set of assignments. If they get all questions correct, give them the entire stack of quizzes and assignments so that they can quiz the next group. If they get any question wrong, send them back to their seats to review and then try again in 10 minutes or more.

1. Under free entry and exit in a competitive market, what profit level will firms earn in the long run?

   Answer: zero economic profit.

2. Why was GSK able to charge $12.50 per pill for Combivir even though it only cost 50 cents to produce?

   Answer: GSK owned the patent, granting them exclusive monopoly rights over production, and demand for the drug was very inelastic.

3. What is the "deadweight loss" caused by a monopoly?

   Answer: The deadweight loss from a monopoly is the gains from trade from all the people who could afford the good if it was priced at marginal cost, but can't afford it at the monopolist's price.

4. Compared to perfect competition, how does quantity (Q) differ under a monopoly?

   Answer: Under a monopoly, quantity (Q) is lower than under perfect competition.

5. Why might price controls on pharmaceuticals potentially harm society in the long run?

   Answer: Price controls on pharmaceuticals would stifle drug innovation. Monopoly profit is the incentive that keeps pharmaceutical companies investing in research and development.

6. What solution did Nobel laureate Michael Kremer propose to balance drug innovation and affordability?

   Answer: Kremer proposed patent buyouts, where governments purchase patents from pharmaceutical firms, ensuring profits for innovators while allowing generic manufacturers to produce the drug at lower prices.