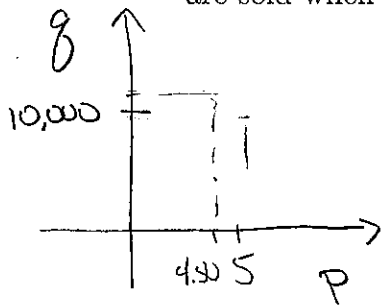




2. (a) [1] Production of an item has fixed costs of \$10,000 and variable costs of \$2 per item. Express the cost,  $C$ , of producing  $q$  items.

$$C(q) = 10000 + 2 \cdot q$$

- (b) [1] The relationship between price,  $p$ , and quantity,  $q$  demand is linear. Market research shows that 10,000 items are sold when the price is \$5 and 12,887 items are sold when the price is \$4.50. Express  $q$  as a function of price  $p$



$$(5, 10000) \\ (4.5, 12887)$$

$$\text{slope} = \frac{10000 - 12887}{5 - 4.5} = \frac{-2887}{0.5} = -5774$$

So

$$q - 10000 = -5774(p - 5)$$

$$q = -5774p + 28870 + 10000 \\ = -5774p + 38870$$

- (c) [3] What is the maximum profit a company with the above data can make? (Partial credit is given if you express the profit earned as a function of one variable.)

$$\text{Profit} = \text{Rev} - \text{Cost}$$

$$= p \cdot q - C(q)$$

$$= \left( \frac{q - 38870}{-5774} \right) q - (10000 + 2q) \quad \text{in 1 variable}$$

$$= \frac{-1}{5774} q^2 + \frac{38870}{5774} q - 10000 - 2q \rightarrow \text{parabola opening down}$$

$$\text{Marginal Profit} = \frac{-2}{5774} q + \frac{38870}{5774} - 2$$

$$\text{max when } 0 = \text{Margin Profit}$$

$$\Rightarrow 2 - \frac{38870}{5774} = \frac{-2}{5774} q$$

$$\Rightarrow q = -5774 + \frac{38870}{2} = 13661.5$$

so max Profit when  $q = 13661.5$  and profit is  $\$22,786$