Teacher Answer Key

Case Study

1. Apple builds products buyers see as premium and one of a kind, which lets it charge more than its competitors charge. Brand loyalty keeps those customers paying the higher price.

2. Apple sets each price so it more than covers the cost of making one more unit, and it aims for the biggest possible gap between total revenue and total cost. That is the marginal cost equals marginal revenue idea in practice.

Multiple Choice

1. D

2. A

3. C

Matching

1-C, 2-E, 3-A, 4-B, 5-D

Fill-in-the-Blank

1) marginal cost, marginal revenue, 2) advertising, branding, 3) pricing, output

Short Answer (Sample Responses)

Q1: Marginal cost helps firms decide whether to increase or decrease production. If the cost of producing an additional unit is greater than the revenue gained from selling it, the firm should reduce production.

Q2: Branding creates consumer loyalty and helps differentiate the product, allowing the firm to charge higher prices without losing market share.

Q3: Firms in an oligopoly often use game theory to predict competitors' responses and adjust their prices and strategies accordingly to maximize profits.