

ECON 0100 | Part E

Vignette E1

Careful Consideration of Cauldron Costs

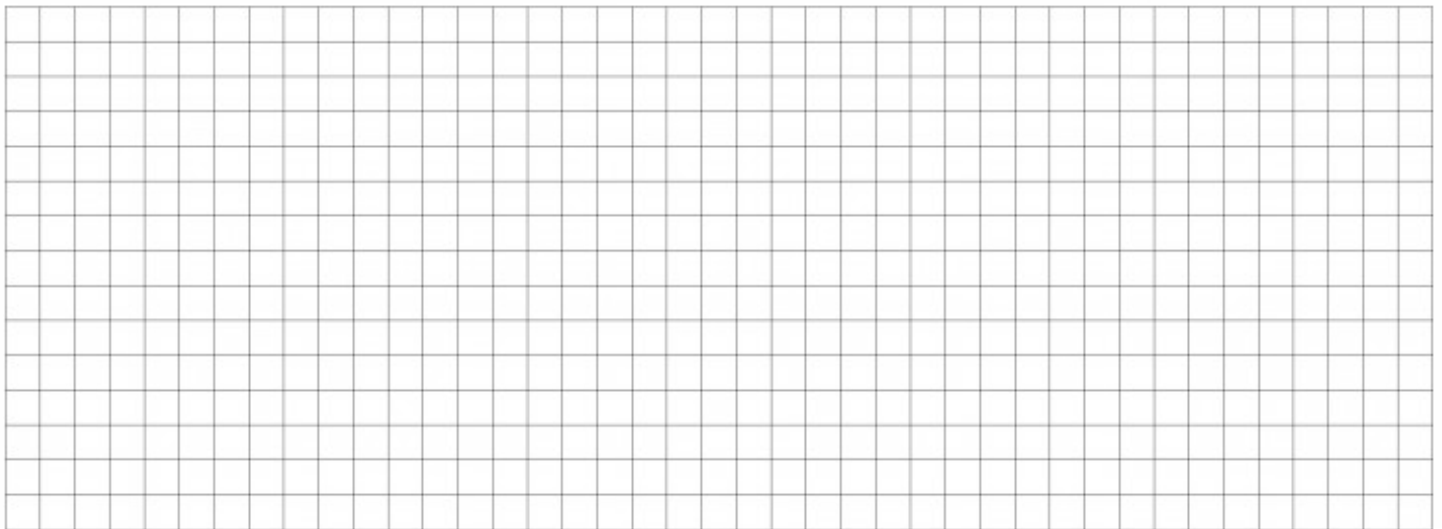
As an economics student at Hogwarts, the Ministry of Magic has tasked you with analyzing the impact of policy proposals on three firms in the cauldron-making industry. The industry has become concentrated, dominated by a few large firms. Your job is to assess how different policies affect these firms, given their distinct cost structures:

1. **The Cauldron Co.:** Large, established firm producing high-quality cauldrons with traditional methods. High fixed costs but low, constant marginal costs due to economies of scale.
2. **The Witching Hour:** Smaller firm specializing in novelty cauldrons. Some fixed costs but increasing marginal costs due to specialized production.
3. **Nimbus Cauldron Works:** New entrant producing low-cost, mass-produced cauldrons with advanced automation. No meaningful fixed costs, low and constant marginal costs.

Analyze the impact of various policy proposals on these firms.

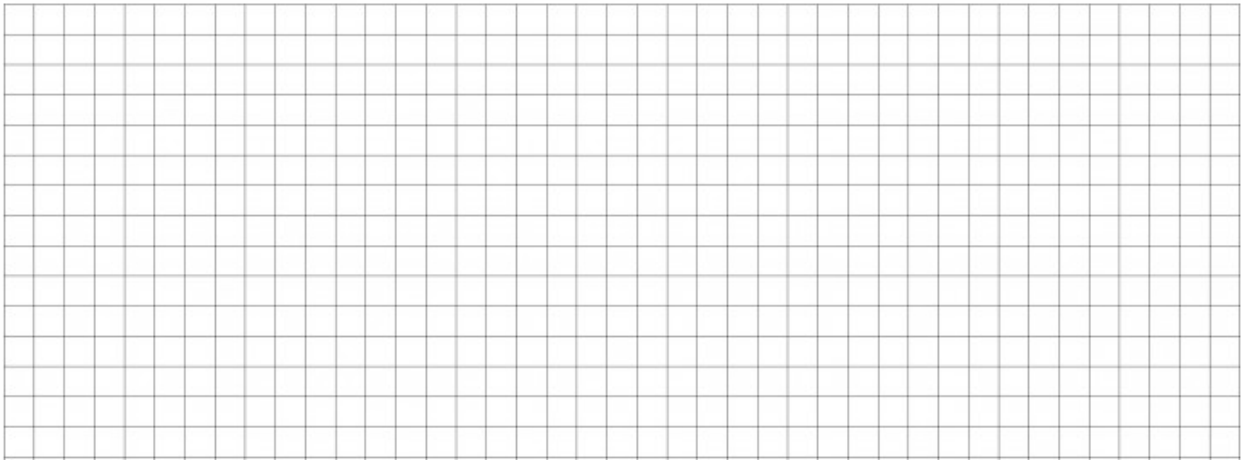
Question 1 (of 4) | Cost Curves

Graph all three firms' average total cost and marginal cost curves.



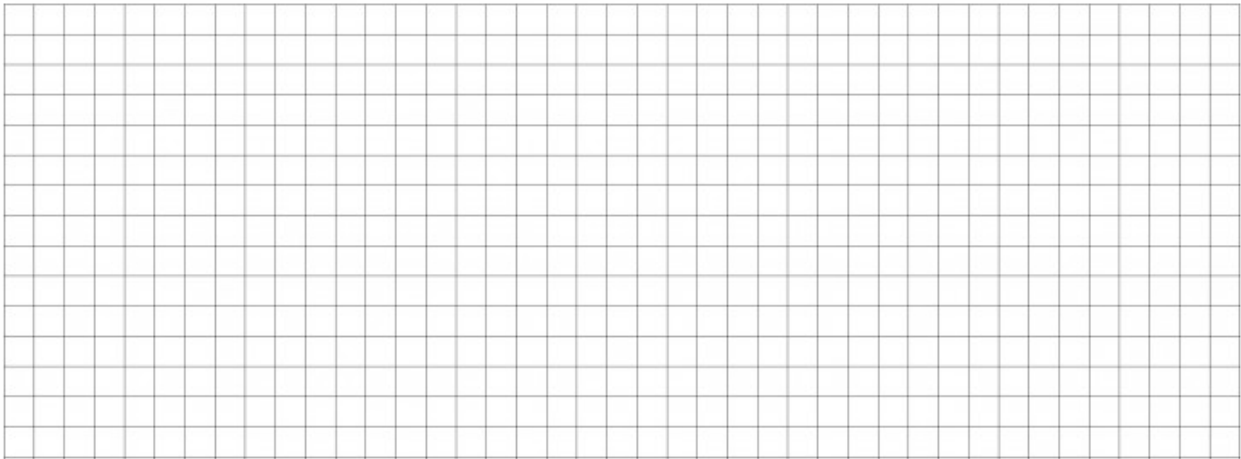
Question 2 (of 4) | Lump Sum Tax

Model a lump sum tax on each of the three firms.



Question 3 (of 4) | Per Unit Tax

Model a per unit (*called specific*) tax on each of the three firms.



Question 4 (of 4) | Per Unit Subsidy

Model a per unit (*called specific*) subsidy on each of the three firms.

