

Name:

### **Five Minute Exercise**

*A Two-Period Oil Market with Decreasing Extraction Costs*

**Given:**

Total oil available: 300 bbl

Two periods, each with demand:  $W2P_1 = 300 - Q_i$

MEC<sub>1</sub>: \$100 per bbl

MEC<sub>2</sub>: \$50 per bbl

Oil in the reservoir is NOT common property.

Interest rate is 100%

**Determine:**

The equilibrium price of oil in period 1.

Answer: