

Name:

### **Five Minute Exercise**

#### *Quantity of a Backstop Resource*

**Given:**

Total oil available: 700 units

Two periods, each with demand:  $W2P_1 = 420 - (1/2)*Q_i$

MEC<sub>i</sub>: \$20 per unit

Backstop available at MC<sub>b</sub> = \$220 per unit

Oil is NOT common property.

Interest rate is 100%

Without the backstop, P<sub>2</sub> would be \$320

**Determine:**

The quantity of the backstop resource that will be produced.

Answer: