

5. Correct. The answer is true. The marginal revenue product of natural gas is price of electricity times the marginal product of gas. One MMBtu of gas at 30% efficiency produces, $0.30 * 1000000 = 300,000$ Btu. Since 1 kWh of electricity = 3412 Btu, then 300,000 equals $300,000 / 3412 = 87.925$. Then the marginal revenue product of a MMBtu of natural gas $= 0.087 * 87.925 = \$ 7.649$, which is larger than its cost of \$4.53.