Homework 4

1.Profit maximization requires a firm to do which of the following:

A) manage internal operations efficiently.
B) prevent waste.
C) encourage worker morale.
D) choose efficient production processes.
E) all of the above.

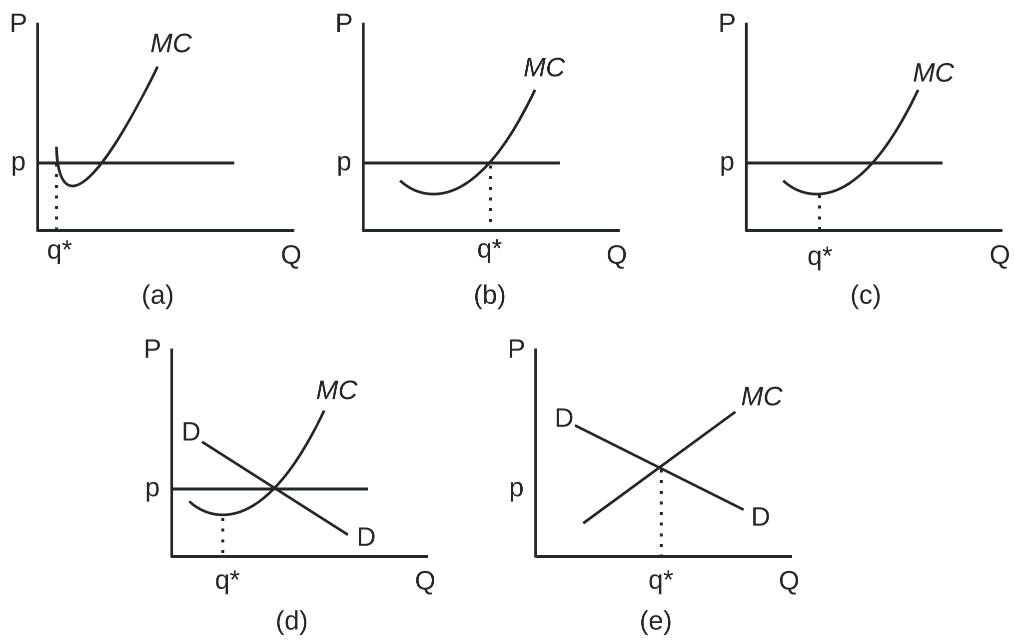
2. In a market economy, the short-run reaction to a shortage of a commodity after an increase in demand will be that:

A) price will fall, but profits will increase.
B) price will rise, but profits decrease.
C) price will rise, but profits remain unchanged.
D) price and profits will both rise.
E) output will fall, but price rises.

3. The long-run supply curve of an individual firm in perfect competition is the same thing as:

A) the rising segment of its marginal cost curve, above average cost.
B) the rising segment of its average cost curve.
C) its entire average cost curve.
D) that entire part of its total cost curve in which total cost rises or remains constant as output increases.
E) none of the above.

4.Which panel in the figure below most accurately indicates by q* the level of output which a single supplier in a perfectly competitive industry will produce, given it produces a positive amount?



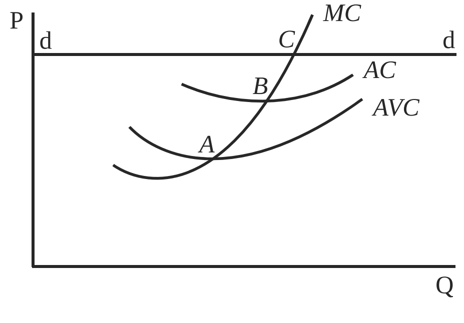
A) a
B) b
C) c
D) d
E) e

5. If four firms constituting a competitive industry have the supply schedules given below, then their combined market supply may be stated as:

$Q_1{}^s = 16 + 4P$ $Q_3{}^s = 32 + 8P$
$Q_2{}^s = 5 + 5P$ $Q_4{}^s = 60 + 10P$

A) Q = 113 - 27P.
B) Q = 113 + 27P.
C) Q = 51 + 4P.
D) Q = 92 + 18P.
E) none of the above.

6. Which of the following statements is correct in reference to the figure below?



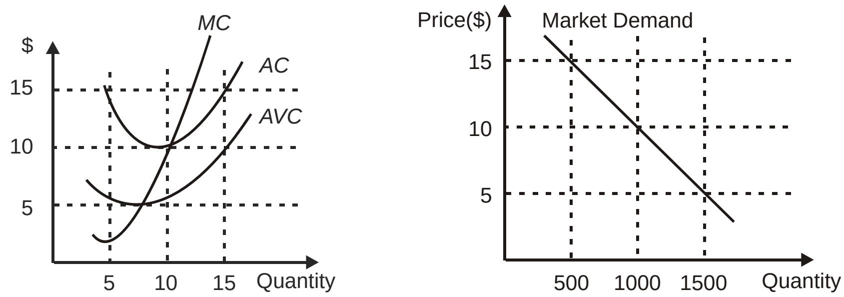
A) B is the shutdown point.
B) B is the profit-maximizing point.
C) C is the zero-profit point.
D) A is the shutdown point.
E) C is the shutdown point.

7. If you are losing money on your wheat farm, you should consider changing to another crop when which of the following is true:
A) when the price falls below average variable costs.
B) when the price equals costs.
C) when the price is above costs.
D) when the price equals zero profits.
E) none of the above.

8. In long-run equilibrium, a firm in a perfectly competitive industry will produce at the point where:
A) marginal cost equals average total cost.
B) total revenue is maximized.
C) marginal cost equals average variable cost.
D) its opportunity cost is lowest.
E) price equals average fixed cost.

9. An individual firm in a perfectly competitive industry faces a demand curve which is:
A) downward sloping.
B) relatively inelastic.
C) perfectly elastic.
D) specific to each firm.
E) upward sloping.

10. Suppose that all the firms in a given market can be characterized by the cost structure illustrated in the figure on the left. If market demand is as indicated in the figure on the right, the number of firms required to support long run equilibrium is:



A) 90.
B) 100.
C) 110.
D) 120.

E) some number greater than 50 that cannot be determined with the information provided.

11. Imperfect competition prevails in an industry when what condition exists:
    A) individual sellers cannot affect price.
    B) individual sellers can affect price.
    C) price is set by the consumer.
    D) price is set by the government.
    E) none of the above are correct.

12. If a firm's demand curve is horizontal, then the firm's marginal revenue is:
    A) less than the price of the product.
    B) equal to the price of the product.
    C) greater than the price of the product.
    D) greater than, equal to, or less than the price of the product, depending on the particular circumstances.
    E) not determinable from the above information.

13. In the situation of imperfect competition, the relation between market price P and marginal revenue MR for each supplying firm is that:
    A) P is less than MR at all or most output levels.
    B) P is greater than MR at all or most output levels.
    C) P is the same as MR at all output levels.
    D) P is either less than MR at particular output levels or the same as MR.
    E) none of the above, since P is not related to MR.

14. If a monopoly is attempting to maximize profits, which of the following, if any, should it attempt to do?
    A) Maximize revenues.
    B) Maximize profit per unit.
    C) Select that output at which average total cost is at a minimum.
    D) Select that output at which average fixed cost is at a minimum.
    E) None of the above.

15. If an imperfectly competitive firm is at present producing at a point where average revenue exceeds marginal cost, which of the following policies should management adopt in order to maximize profit?
    A) Expand output and lower price.
    B) Contract output and raise price.
    C) Contract output and leave price unchanged.
    D) Expand output and leave price unchanged.
    E) Not necessarily do any of the above, since it already may be maximizing its profit.

Use the following to answer questions 16-18:

P	Q
$5	8
$4	12
$3	17
$2	22
$1	27

16. Consider the demand curve given in Table 9-1. If the imperfectly competitive firm is able to produce at any output level, then the price and quantity which maximize total revenue are:
    A) P = 5; q = 8
    B) P = 4; q = 12.
    C) P = 3; q = 17.
    D) P = 2; q = 22.
    E) P = 1; q = 27.

17. Suppose an imperfect competitor faces the demand curve defined in Table 9-1, and its MC is constant at $2.00. If the firm is able to produce at any output level, then it maximizes profits at:
    A) P = 5; q = 8
    B) P = 4; q = 12.
    C) P = 3; q = 17.
    D) P = 2; q = 22.
    E) none of the above if fixed costs are less than $1.00.

18. If the firm described in the previous question has no fixed costs, its profits are:
    A) $48.
    B) $54.
    C) $24.
    D) $4.
    E) -$12

19. A natural monopoly is:
    A) a market in which the industry's output can be efficiently produced only by a single firm.
    B) a market in which the industry's output is produced by a single firm.
    C) a market where many sellers can produce the output.
    D) not a real option.
    E) none of the above.

20. MR becomes negative when:
   A) the demand price becomes negative.
   B) the demand elasticity drops from elastic to inelastic.
   C) total revenue becomes negative.
   D) the loss on previous units is at its maximum.
   E) both b and c.

21. If marginal revenue is 0:
   A) total revenue is increasing.
   B) total revenue is maximized.
   C) the demand curve is unit elastic.
   D) B and C only.
   E) A and C only.

Chapter 8, Questions for discussion, page 167-168
Q4, Q8, Q10

Chapter 9, Questions for discussion, page 186
Q1, Q7, Q8