

Old Exam Questions Which Cover Chapter 12 Topics

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Perfect competition is characterized by all of the following *except* 1) _____
A) homogeneous products.
B) sellers are price takers.
C) a horizontal demand curve for individual sellers.
D) heavy advertising by individual sellers.
- 2) Both individual buyers and sellers in perfect competition 2) _____
A) have to take the market price as a given.
B) have the market price dictated to them by government.
C) can influence the market price by their own individual actions.
D) can influence the market price by joining with a few of their competitors.
- 3) Jason, a high-school student, mows lawns for families in his neighborhood. The going rate is \$12 for each lawn-mowing service. Jason would like to charge \$20 because he believes he has more experience mowing lawns than the many other teenagers who also offer the same service. If the market for lawn mowing services is perfectly competitive, what would happen if Jason raised his price? 3) _____
A) If Jason raises his price, then all others supplying the same service will also raise their prices.
B) If Jason raises his price he would lose all his customers.
C) He would lose some but not all his customers.
D) Initially, his customers might complain but over time they will come to accept the new rate.
- 4) Which of the following is *not* true for a firm in perfect competition? 4) _____
A) Profit equals total revenue minus total cost.
B) Average revenue is greater than marginal revenue.
C) Price equals average revenue.
D) Marginal revenue equals the change in total revenue from selling one more unit.

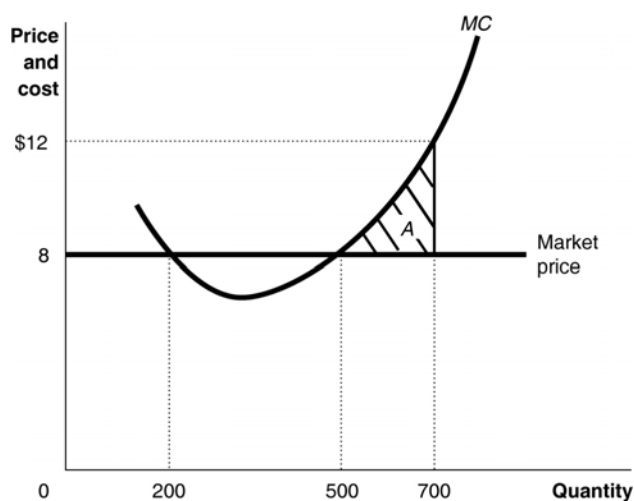
Table 11-1

Quantity	Total Cost (dollars)	Variable Cost (dollars)
0	\$1,000	\$0
100	1,360	360
200	1,560	560
300	1,960	960
400	2,760	1,760
500	4,000	3,000
600	5,800	4,800

Table 11-1 shows the short-run cost data of a perfectly competitive firm that produces plastic camera cases. Assume that output can only be increased in batches of 100 units.

- 5) *Refer to Table 11-1.* If the market price of each camera case is \$8, what is the profit-maximizing quantity? 5) _____
A) 300 units B) 400 units C) 500 units D) 600 units

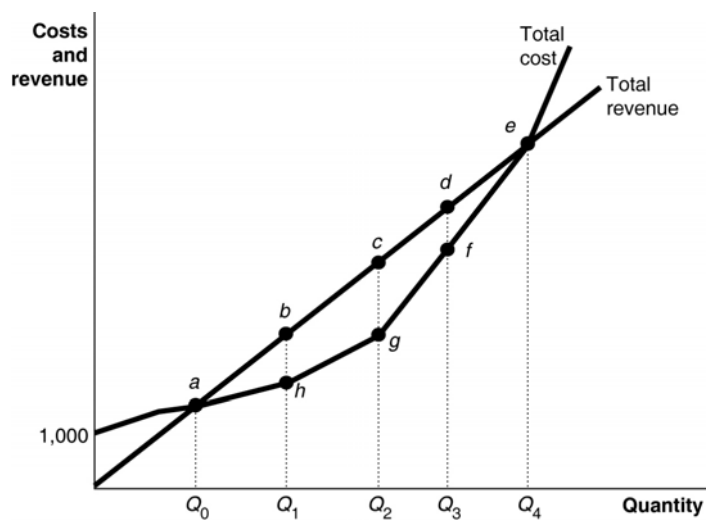
Figure 11-1



- 6) Refer to Figure 11-1. If the firm is producing 700 units,
- A) it should increase its output to maximize profit.
 - B) it is making a profit.
 - C) it should cut back its output to maximize profit.
 - D) it is making a loss.

6) _____

Figure 11-2



- 7) Refer to Figure 11-2. Suppose the firm is currently producing Q_2 units. What happens if it expands output to Q_3 units?
- A) It makes less profit.
 - B) It will be moving toward its profit maximizing output.
 - C) It incurs a loss.
 - D) Its profit increases by the size of the vertical distance df .

7) _____

8) Refer to Figure 11-2. What happens if the firm produces more than Q_4 units?

8) _____

- A) Its profit increases.
- B) It makes a loss.
- C) It could make a profit or a loss depending on what happens to demand.
- D) Its total revenue is increasing faster than its total cost.

9) Assume that price is greater than average variable cost. If a perfectly competitive seller is producing at an output where price is \$11 and the marginal cost is \$14.54, then to maximize profits the firm should

9) _____

- A) continue producing at the current output.
- B) There is not enough information given to answer the question.
- C) produce a smaller level of output.
- D) produce a larger level of output.

Figure 11-4

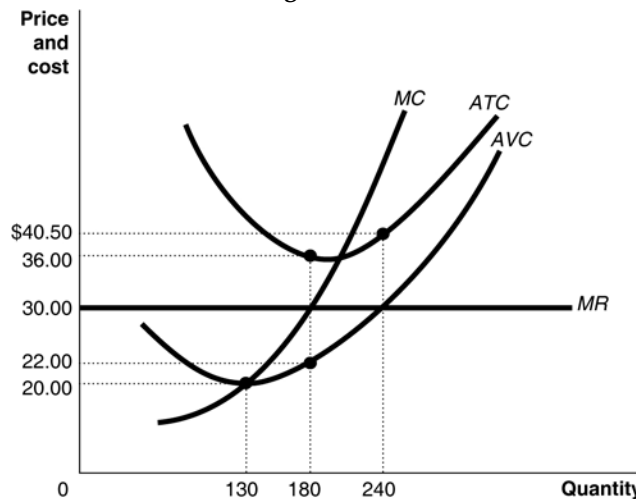


Figure 11-4 shows the cost and demand curves for a profit-maximizing firm in a perfectly competitive market.

10) Refer to Figure 11-4. If the market price is \$30, the firm's profit-maximizing output level is

10) _____

- A) 0.
- B) 130.
- C) 180.
- D) 240.

11) Refer to Figure 11-4. If the market price is \$30 and if the firm is producing output, what is the amount of its total variable cost?

11) _____

- A) \$7,200
- B) \$6,480
- C) \$5,400
- D) \$3,960

12) Refer to Figure 11-4. What is the amount of its total fixed cost?

12) _____

- A) \$1,080
- B) \$1,440
- C) \$2,520
- D) It cannot be determined.

13) Refer to Figure 11-4. If the market price is \$30 and the firm is producing output, what is the amount of the firm's profit or loss?

13) _____

- A) loss of \$1,080
- B) profit of \$1,300
- C) loss of \$2,520
- D) profit of \$1,440

- 14) Refer to Figure 11-4. In the long run, there will be _____ this industry, which will cause the price of the product to _____. 14) _____
- A) exit out of ; rise
B) exit out of ; fall
C) entry into ; rise
D) entry into ; fall
- 15) Refer to Figure 11-4. If the market price is \$30, should the firm represented in the diagram continue to stay in business in the short run? 15) _____
- A) Yes, because it is covering part of its fixed cost.
B) No, it should shut down because it is making a loss.
C) No, it should shut down because it cannot cover its variable cost.
D) Yes, because it is making a profit.

Figure 11-6

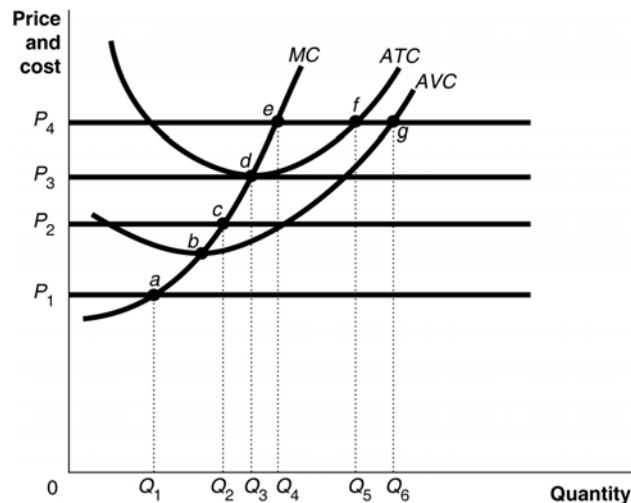


Figure 11-6 shows cost and demand curves facing a profit-maximizing, perfectly competitive firm.

- 16) Refer to Figure 11-6. At price P_2 , the firm would produce 16) _____
- A) Q_2 units. B) Q_3 units. C) Q_4 units. D) zero units.
- 17) Refer to Figure 11-6. Identify the firm's short-run supply curve. 17) _____
- A) the marginal cost curve
B) the marginal cost curve from a and above
C) the marginal cost curve from b and above
D) the marginal cost curve from d and above
- 18) Refer to Figure 11-6. At price P_2 , the firm would 18) _____
- A) lose an amount less than fixed cost. B) lose an amount more than fixed cost.
C) break even. D) lose an amount equal to its fixed cost.
- 19) Which of the following statements is correct? 19) _____
- A) Economic profit always exceeds accounting profit.
B) Economic profit takes into account all costs involved in producing a product.
C) Accounting profit is not relevant in preparing the firm's financial statement.
D) Accounting profit is the same as economic profit.

- 20) If a typical firm in a perfectly competitive industry is earning profits, then 20) _____
- A) the number of firms in the industry will remain constant in the long run.
 - B) new firms will enter in the long run causing market supply to decrease, market price to rise and profits to increase.
 - C) new firms will enter in the long run causing market supply to increase, market price to fall and profits to decrease.
 - D) all firms will continue to earn profits.
- 21) In long-run perfectly competitive equilibrium, which of the following is *false*? 21) _____
- A) There is efficient, low-cost production at the minimum efficient scale.
 - B) Economies of scale are exhausted.
 - C) Firms earn economic profit.
 - D) Economic surplus is maximized.
- 22) The long-run perfectly competitive equilibrium ____ productively efficient and ____ allocatively efficient. 22) _____
- A) is ; is
 - B) is ; is not
 - C) is not ; is
 - D) is not ; is not
- 23) The price of a seller's product in perfect competition is determined by 23) _____
- A) market demand and market supply.
 - B) the individual seller.
 - C) the individual demander.
 - D) a few of the sellers.

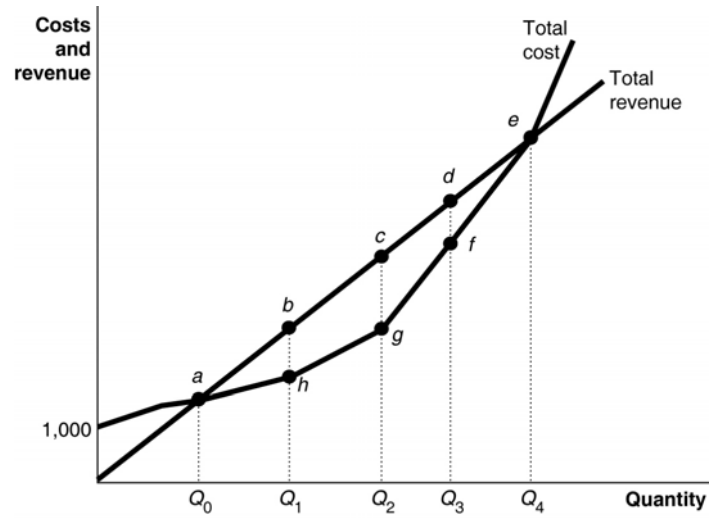
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Table 11-1 shows the short-run cost data of a perfectly competitive firm that produces plastic camera cases. Assume that output can only be increased in batches of 100 units.

- 24) *Refer to Table 11-1.* If the market price of each camera case is \$8 and the firm maximizes profit, what is the amount of the firm's profit or loss? 24) _____
- A) \$0 (it breaks even)
 - B) profit of \$440
 - C) loss of \$1,000
 - D) profit of \$1,000
 - E) loss of \$440

Figure 11-2



- 25) Refer to Figure 11-2. Suppose this firm is trying to maximize its profit. It should produce _____ units of output. 25) _____
- A) Q_1
 - B) Q_2
 - C) Q_3
 - D) Q_4
 - E) more than Q_4

Figure 11-5

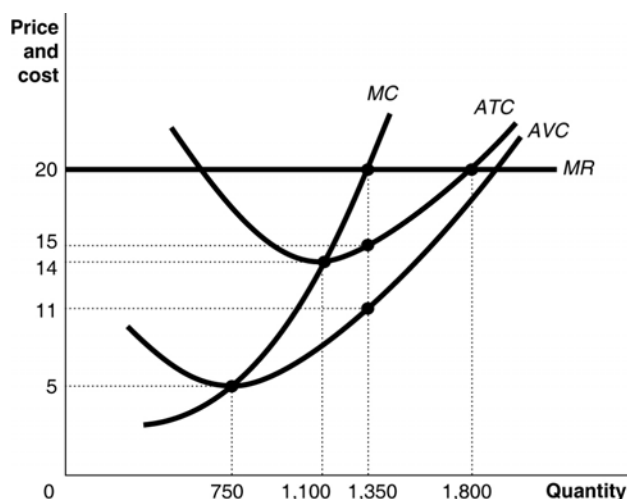


Figure 11-5 shows cost and demand curves facing a typical firm in a constant-cost, perfectly competitive industry.

- 26) Refer to Figure 11-5. If the market price is \$20, what is the firm's profit-maximizing output? 26) _____
- A) 750 units
B) 1,350 units
C) 1,800 units
D) 1,100 units
E) Not enough information to answer this question.
- 27) Refer to Figure 11-5. If the market price is \$20, what is the amount of the firm's profit? 27) _____
- A) \$16,200 B) \$8,100 C) -\$5,400 D) \$5,400 E) \$6,750
- 28) Refer to Figure 11-5. In the long run, we should expect to see _____ this industry, which causes the _____. 28) _____
- A) entry into ; MR curve to shift downward
B) exit out of ; MC curve to shift upward
C) exit out of ; MR curve to shift downward
D) exit out of ; ATC curve to shift upward
E) entry into ; ATC curve to shift upward
- 29) Refer to Figure 11-5. In the long run, after entry/exit has occurred, the price will be _____. 29) _____
- A) \$14
B) \$5
C) between \$15 and \$20
D) \$20
E) \$15

Figure 11-6

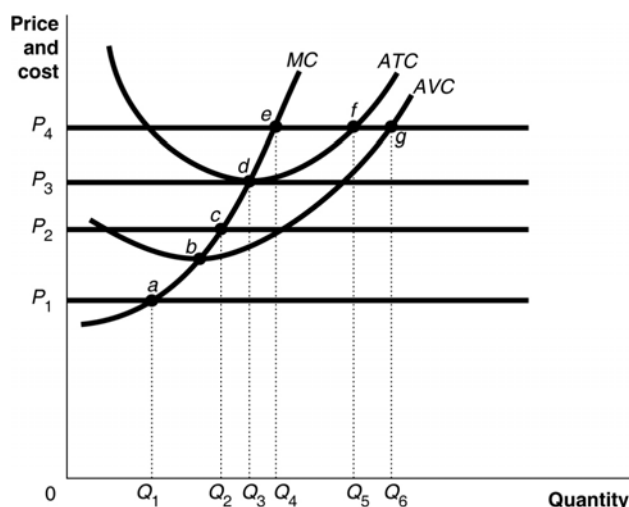


Figure 11-6 shows cost and demand curves facing a profit-maximizing, perfectly competitive firm.

30) Refer to Figure 11-6. At price P_1 , the firm would

30) _____

- A) produce zero units of output and suffer losses equal to its variable costs
- B) produce Q_1 units of output and break even
- C) produce zero units of output and suffer losses equal to its fixed costs
- D) produce Q_1 units of output and suffer losses equal to its variable costs
- E) produce Q_1 units of output and suffer losses equal to its fixed costs

31) In long-run equilibrium in perfect competition,

31) _____

- A) firms earn profits in an economic sense, which means that they are earning a "normal rate of return" in an accounting sense.
- B) firms "break even" in an economic sense, which means that they are only covering their accounting costs and have no money left over.
- C) firms earn profits in an economic sense, which means that they are "breaking even" in an accounting sense.
- D) firms "break even" in an economic sense, which means that they are earning a "normal rate of return" in an accounting sense.

Answer Key

Testname: 201 CHAPTER 12 OLD EXAM QUESTIONS

- 1) D
- 2) A
- 3) B
- 4) B
- 5) B
- 6) C
- 7) A
- 8) B
- 9) C
- 10) C
- 11) D
- 12) C
- 13) A
- 14) A
- 15) A
- 16) A
- 17) C
- 18) A
- 19) B
- 20) C
- 21) C
- 22) A
- 23) A
- 24) B
- 25) B
- 26) B
- 27) E
- 28) A
- 29) A
- 30) C
- 31) D