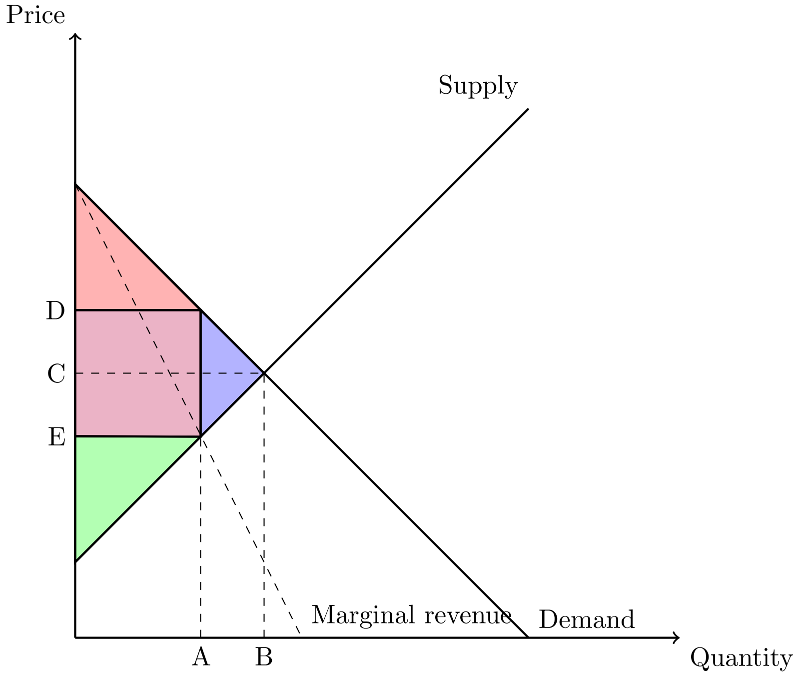
Introductory economics multiple choice

1. What happens to the price, the equilibrium quantity, and the producer surplus when a monopolist company maximizes its profits?
   (a) The price is lower, the quantity is higher and the producer surplus is greater compared to perfect competition.
   (b) The price is higher, the quantity is lower and the producer surplus is greater compared to perfect competition.
   (c) The price and quantity are the same as in the case of perfect competition, but the producer surplus is lower.
   (d) The price is higher, the quantity is lower and the producer surplus is lower compared to perfect competition.
2. Which of the following is a distinctive feature of a price-taker firm in a competitive market?
   (a) The firm can influence the price of the good.
   (b) The firm faces a perfectly inelastic demand.
   (c) The firm faces a perfectly elastic demand.
   (d) The firm is a monopoly.
   (e) The firm has strictly positive profits.
3. In the short run, a firm in a competitive market...
   (a) Always earns strictly positive profits.
   (b) May suffer losses or earn profits depending on the market price.
   (c) Always earns profits equal to 0.
   (d) Always has negative profits.
4. In a perfectly competitive market in long-run equilibrium with zero profits, the price of the product is equal to...
   (a) The firm's marginal cost and the minimum average total cost.
   (b) The firm's total revenue and the minimum average total cost.
   (c) The firm's total revenue and the minimum average variable cost.
   (d) The minimum average variable cost.
   (e) The firm's average revenue.
5. In a perfectly competitive market, if some firms are making economic profits in the short run, then in the long run
   (a) New firms will enter the market.
   (b) All firms will have negative profits.
   (c) The market price will increase.
   (d) The market price decreases.
   (e) Existing firms will exit the market.

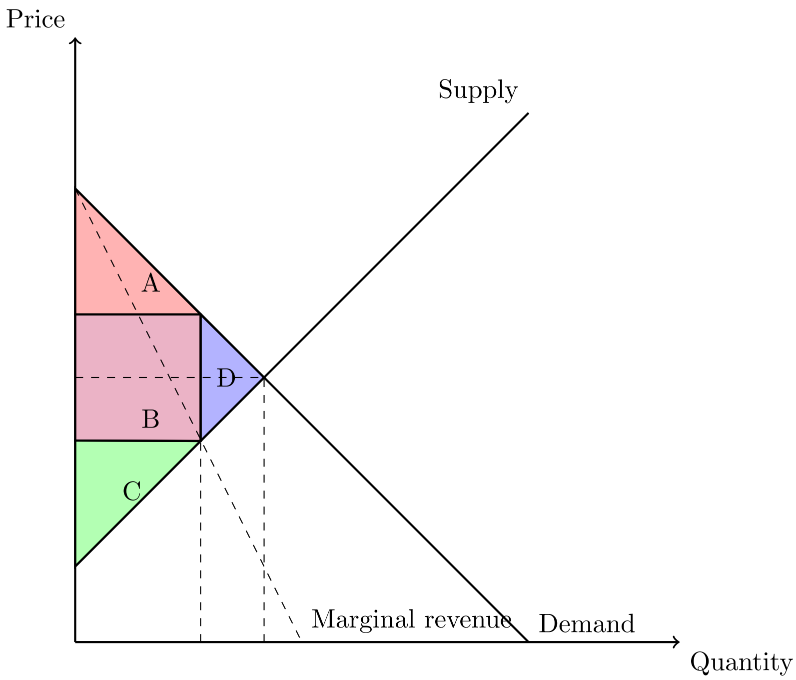
6. What happens to a firm if it tries to enter a perfectly competitive market and the market price is lower than the minimum average variable cost?
    (a) The firm will continue to produce and try to adjust its fixed costs for the long term.
    (b) The firm will not produce anything.
    (c) The firm will modify the price so that it is above the minimum average variable cost.
    (d) The firm will produce earning zero profits.
7. In a perfectly competitive market, if the market price is lower than the average total cost of the firms, but higher than the average variable cost in the short run, then...
    a. Firms will modify the price to be higher than the minimum average total cost.
    b. Firms obtain positive profits in the short run.
    c. No firm will produce anything.
    d. Firms will continue producing, but will suffer losses.
8. In a perfectly competitive market, if the market price is higher than a firm's marginal cost, then the firm should
    (a) Increase production.
    (b) Reduce production.
    (c) Maintain the same level of production.
    (d) Exit the market.
    (e) Alter the price.
9. Which of the following statements is true for a firm in a perfectly competitive market?
    (a) It faces a horizontal (perfectly elastic) demand curve.
    (b) It faces a horizontal (perfectly inelastic) demand curve.
    (c) It faces a vertical (perfectly inelastic) demand curve.
    (d) It faces a vertical (perfectly elastic) demand curve.
10. What happens in a perfectly competitive market if an individual firm decides to double its production?
    (a) The price of the product in the market will decrease.
    (b) The price of the product in the market will increase.
    (c) There will be no effect on the price of the product in the market.
    (d) The effect on the price of the product in the market cannot be determined.

1. Based on the following graph, mark the correct option:
    (a) D: monopoly price, C: perfect competition price, B: perfect competition quantity, A: monopoly quantity
    (b) E: monopoly price, C: perfect competition price, B: perfect competition quantity, A: monopoly quantity
    (c) E: monopoly price, C: perfect competition price, B: monopoly quantity, A: perfect competition quantity
    (d) E: perfect competition price, D: monopoly price, B: perfect competition quantity, A: monopoly quantity



2. Based on the following graph, mark the correct option about which letter corresponds to each area:

   (a) A: consumer surplus, B: producer surplus, C: consumer surplus, D: deadweight loss
   (b) A: consumer surplus, B: deadweight loss, C: producer surplus, D: deadweight loss
   (c) A: consumer surplus, B: producer surplus, C: producer surplus, D: producer surplus
   (d) A: consumer surplus, B: producer surplus, C: producer surplus, D: deadweight loss



3. The Coase theorem requires

   (a) There to be no property rights
   (b) Property rights to be well-defined

(c) There to be no monopolies
(d) For externalities to be positive
(e) Perfect competition

4. An externality is:
   (a) A cost or benefit that affects someone who did not choose to be involved in a particular economic activity.
   (b) A good that is neither rivalrous nor excludable in consumption.
   (c) A tax on the consumption of a good.
   (d) A subsidy to the production of a good.
   (e) A pollution tax.

5. A public good is:
   (a) A good that everyone has the right to consume.
   (b) A good that is produced by the government.
   (c) A good that is non-rivalrous and non-excludable in its consumption.
   (d) A good that is rivalrous and excludable in its consumption.
   (e) A good whose provider is a monopoly.

6. A difference between perfect competition and monopolistic competition is:
   (a) In perfect competition, the profit is zero and in monopolistic competition it is not.
   (b) In monopolistic competition, there is only one producer and in perfect competition there is more than one.
   (c) In perfect competition, quantities are lower than in monopolistic competition.
   (d) In monopolistic competition, firms can affect the market price and in perfect competition they cannot.

Answers

1. b)
2. c)
3. b)
4. a)
5. a)
6. b)
7. d)
8. a)
9. a)
10. c)
11. a)
12. d)
13. b)
14. a)
15. c)
16. d)