QUIZ 7 ANSWERS

1) The demand facing a perfectly competitive firm
A) depends on the firm's costs of production.
B) is horizontal at the market price.
C) is the same as the industry or market demand.
D) depends on the market supply.

2) Under perfect competition the market demand curve is typically
A) upward sloping.
B) downward sloping.
C) infinitely elastic.
D) identical to the competitive firm's demand curve.

3) All firms contend with four concepts of revenue: total revenue, average revenue, marginal revenue, and price. For a perfectly competitive firm which statement below is true?
A) Total revenue, average revenue, marginal revenue, and price are all equal.
B) Only average revenue and price are all equal.
C) Only marginal revenue and price are all equal.
D) Only average revenue, marginal revenue, and price are all equal.

4) A price-taking firm's supply curve in the short run coincides with
A) the entire marginal-cost curve.
B) the rising portion of the average-variable-cost curve.
C) the marginal-cost curve above the average-variable-cost curve.
D) the marginal-cost curve above the average-total-cost curve.

Assume the following total cost schedule for a perfectly competitive firm.

Output	*TVC*	*TFC*
0	100	
1	40	100
2	70	100
3	120	100
4	180	100
5	250	100
6	330	100

TABLE 9-1

5) Using the data in Table 9-1, if the firm was producing at an output level of 2 units, the *ATC* would be ________ and the *AVC* would be ________.
A) $140; $40 B) $100; $70 C) $85; $35 D) $70; $35

6) The firm depicted in Table 9-1 would shut down in the short run if the market price of its output dropped below
A) $35. B) $40. C) $70. D) $90.

7) The break-even price for the firm depicted in Table 9-1 is
A) $40. B) $70. C) $145. D) $220.

8) Suppose a typical competitive firm has the following data in the short run: price = $10; output = 100 units; *ATC* = $8; *AVC* = $7. What will likely happen?
A) In the long run the industry will expand because of economic profits.
B) In the long run the industry will contract because firms are suffering losses.
C) the typical firm would shut down, until the last firms left have a higher price.
D) The size of the industry will remain the same in the long run.

9) A firm in perfect competition has, at its long-run profit-maximizing position,
A) a strong profit incentive to expand capacity.
B) P = MC = minimum short-run AVC = minimum long-run AVC
C) successfully established barriers to entry.
D) *P* = *MC* = minimum short-run *ATC* = minimum long-run *AC*.

10) Market demand is Qd = 100 - p. Market supply is Qs = 4p. A competitive firm has MC = 2Q. How many units of output will the firm produce?
A) 10 B) 20 C) 33.3 D) 15

11) Market demand is Qd = 100 - p. Market supply is Qs = 4p. A competitive firm has MC = 2Q. How many firms are currently in the industry?
A) 10 B) 4 C) 2 D) 8

12) Market demand is Qd = 100 - p. Market supply is Qs = 4p. A typical competitive firm has ATC = 10. Is this market in long-run equilibrium?
A) no, firms will exit the industry
B) yes
C) no, firms will enter the industry
D) not enough information to determine the answer

13) Market demand is Qd = 100 - p. Market supply is Qs = 4p. A competitive firm has ATC = 10. There are currently 10 firms in the industry. What is the firm's profit or loss?
A) $100 B) -$20 C) $80 D) $0

14) Consider a perfectly competitive firm in the following position: output = 4000 units, market price = $1, fixed costs = $2000, variable costs = $2000, and marginal cost = $1. To maximize profits (minimize losses) the firm should
A) not change output. B) expand output.
C) shut down. D) reduce output.

15) In the long run it is not possible for a competitive firm to
A) set the product price.
B) alter its plant size.
C) replace its antiquated equipment.
D) adopt new technology.

QUIZ 7 VERSION 1 KEY

1) B
2) B
3) D
4) C
5) C
6) A
7) B
8) A
9) D
10) A
11) D
12) C
13) C
14) A
15) A