QUIZ 7 VERSION 1

1) The conditions for a perfectly competitive market include which one of the following?
A) Firms can control prices.
B) Firms must employ the newest technologies to remain competitive.
C) Profits are zero in the short run.
D) New entrants cannot threaten existing firms.
E) Firms behave as price takers.

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

3) A firm's average revenue is defined as
A) the change in total revenue resulting from the sale of an additional unit of the product.
B) price times quantity of the product sold.
C) total revenue divided by the number of units sold.
D) the change in price resulting from the sale of an additional unit of the product.
E) the total amount received by the seller from the sale of a product.

4) A firm in a perfectly competitive industry will maximize profits by adjusting
A) average total cost until it equals price.
B) price until marginal revenue equals marginal cost.
C) output until marginal revenue equals marginal cost.
D) price until average revenue equals average total cost.
E) output until average revenue equals short-run average total cost.

5) A price-taking firm in the short run should not produce
A) when marginal revenue equals average total cost.
B) if average revenue does not at least equal average variable cost.
C) when marginal revenue equals marginal cost.
D) if it is incurring a loss.
E) if average revenue does not at least equal average total cost.

6) Suppose that in a perfectly competitive industry, the market price of the product is $12. Firm A is producing the output level at which average total cost equals marginal cost, both of which are $10. To maximize its profits, firm A should
A) increase its advertising.
B) reduce output.
C) change the price of the product.
D) expand output.
E) leave output unchanged.

7) If a perfectly competitive market is in short-run equilibrium and each firm has $P > SRATC$, then
A) new firms will enter the market because existing firms are earning economic profits.
B) the market supply curve will become less elastic.
C) individual firms in the industry will increase their output.
D) existing firms will continue to earn economic profits in the long run.
E) price will fall in the short run as it is too high and firms are making economic profits.

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

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

TABLE 1

8) If the market price were $71, the competitive firm depicted in Table 1 would produce
A) 6 units of output.
B) would not produce because *P* < minimum of *ATC*.
C) 2 units of output.
D) would not produce because *P* < *TFC*.
E) 5 units of output.

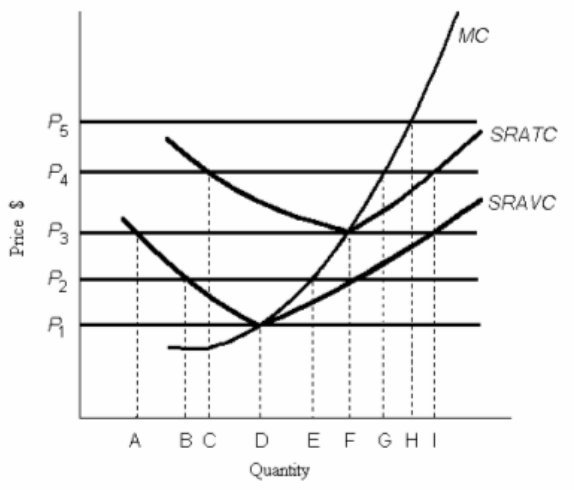

Figure 1

9) Refer to Figure 1. If the price a perfectly competitive firm is facing in the market is P_2, then the profit-maximizing firm in the short run should produce output
A) B. B) C. C) D. D) E. E) F.

10) When price is constant the competitive firm's average-revenue curve
A) is the same as the firm's *TR* curve.
B) moves upward to the right and then declines when *MC* = *MR*.
C) is a positively sloped straight line, starting from the origin.
D) is a straight line that coincides with the market demand curve.
E) is the same as the firm's demand curve.

QUIZ 7 VERSION 2

1) All of the following pertain to a perfectly competitive market except which one?
~~A) All firms have realized the possible economies of scale.~~
B) Consumers can shop for the lowest available price.
C) There is freedom of entry and exit of firms in the industry.
D) Consumers prefer certain brands over others.
E) All firms in the industry are price takers.

2) 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 firm's output.
E) depends on the market supply.

3) A firm's marginal revenue is defined as
A) total revenue divided by the number of units sold.
B) the change in total revenue resulting from the sale of an additional unit of the product.
C) the change in price resulting from the sale of an additional unit of the product.
D) price times quantity of the product sold.
E) the total amount received by the seller from the sale of a product.

4) A profit-maximizing firm, in the short run, will expand output
A) until marginal revenue equals average variable cost.
B) as long as marginal cost is greater than marginal revenue.
C) as long as marginal revenue is greater than marginal cost.
D) until marginal cost begins to rise.
E) until total revenue equals total cost.

5) If a perfectly competitive firm is faced with average revenue below average variable cost it will shut down so as to reduce its
A) losses to the amount of its variable costs.
B) costs to zero.
C) costs to below its revenue.
D) losses to the amount of its fixed costs.
E) losses to the amount of its marginal costs.

6) 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 the firm should
A) expand output.
B) increase the market price.
C) shut down.
D) not change output.
E) reduce output.

7) If firms in a competitive industry are earning economic profits, one would expect that in the long run
A) there would be no change in the industry as long as $P = MC$ for the individual firms.
B) the supply curve for the product will shift to the right as new firms enter the industry, causing industry output to increase and price to fall.
C) the government would intervene and force the firms to lower prices.
D) the demand curve for the product will shift to the left, so that the price of the product will fall.
E) the individual firms will lower their price to discourage new firms from entering the industry.

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

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

TABLE 1

8) The break-even price for the firm depicted in Table 1 is
A) $40.
B) $70.
C) $145.
D) $220.
E) $430.

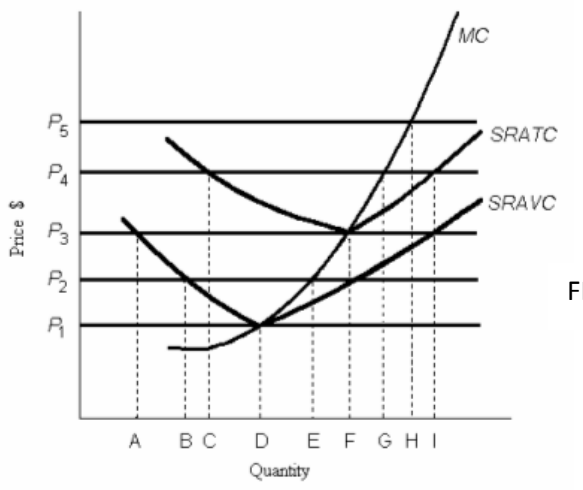

FIGURE 1

9) Refer to Figure 1. If the price a perfectly competitive firm is facing in the market is P_3, then the profit-maximizing firm in the short run should produce output
A) A. B) C. C) D. D) E. E) F.

10) When price is constant the competitive firm's marginal-revenue curve
A) is the same as the firm's demand curve.
B) is a positively sloped straight line, starting from the origin.
C) is a straight line that coincides with the market demand curve.
D) is the same as the firm's *TR* curve.
E) moves upward to the right and then declines when *MC* = *MR*.

QUIZ 7 VERSION 3

1) The theory of perfect competition is built on critical assumptions, one of which is that
A) the individual firm can affect the price of the product it sells.
B) each firm must earn economic profits to remain in the industry.
C) there are few producers of an identical product.
D) any firm can easily enter or leave the industry.
E) the individual firm can influence demand by advertising.

2) Under perfect competition, the demand curve facing a firm is typically
A) upward sloping.
B) the same as the industy's demand curve.
C) a rectangular hyperbola.
D) downward sloping.
E) infinitely price elastic.

3) A competitive firm's total revenue is equal to all of the following except which one?
A) Average revenue multiplied by the number of units sold
B) Marginal revenue times quantity of the product sold
C) Price times market demand
D) Price times quantity of the product sold
E) The total amount received by the seller from the sale of a product

4) In the short run the profit-maximizing behaviour for a price-taking firm requires it to operate where
A) $P = MC$, given that P is greater than or equal to AVC.
B) $P = MC$, given that P is greater than or equal to ATC.
C) $P = TR = TC$.
D) $AVC = AR$.
E) $P > MR > MC$.

5) The shut-down point is the price at which a firm can just cover its
A) fixed costs.
B) variable costs.
C) non-economic costs.
D) marginal costs.
E) unstated costs.

6) A perfectly competitive firm is currently producing an output level where price is $10, average variable cost is $8, average total cost is $12, and marginal cost is $10. In order to maximize profits, this firm should
A) decrease output.
B) increase the market price.
C) not change output. This firm is at its profit-maximizing position.
D) increase output.
E) shut down.

7) If firms in a competitive industry are suffering losses, then one would expect that in the long run
A) the demand curve for the product will shift to the left, causing equilibrium output and price to decline.
B) there would be no change in the number of firms in the industry as long as firms are covering their average variable costs.
C) each firm would raise its price until it was breaking even.
D) the supply curve for the product will shift to the left as firms leave the industry, causing industry output to fall and price to rise.
E) the supply curve for the product will shift to the right as individual firms lower their prices to increase their sales.

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

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

TABLE 1

8) The firm depicted in Table 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.
E) $100.

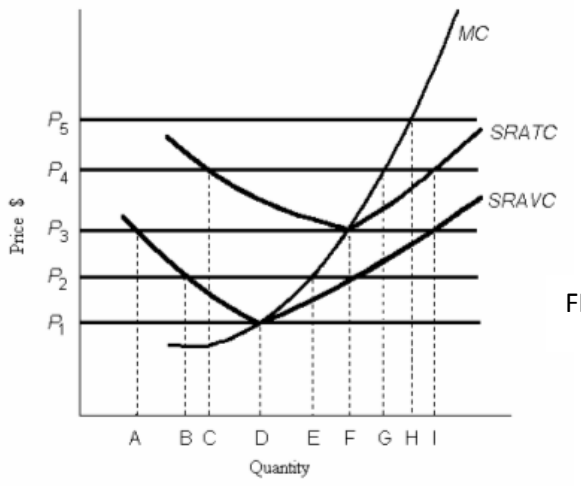

FIGURE 1

9) Refer to Figure 1. If the price a perfectly competitive firm is facing in the market is P_4, then the profit-maximizing firm in the short run should produce output
A) C. B) F. C) G. D) H. E) I.

10) 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 marginal revenue and price are all equal.
C) Only average revenue and price are all equal.
D) Only average revenue, marginal revenue, and price are all equal.
E) None of these revenues are equal.

QUIZ 7 VERSION 4

1) An example of a product that could most closely satisfy the homogeneous product assumption of perfect competition is
A) barley.
B) shampoo.
C) cars.
D) pizza.
E) personal computers.

2) In order to decide the appropriate output to produce the perfectly competitive firm needs to know
A) what other firms in the industry are producing.
B) the industry or market demand.
C) the market price of its output.
D) the industry or market supply.
E) its competitors' market strategies.

3) The perfectly competitive firm's demand curve is the same as
A) its average-revenue curve and total-revenue curve.
B) both its marginal and average-revenue curves.
C) both its marginal and total-revenue curves.
D) its total-revenue curve.
E) the market demand curve.

4) If a perfectly competitive firm in the short run is producing where $P = ATC = MC$, we can say that this firm is
A) at its profit-maximizing output level.
B) earning economic profits.
C) incurring losses.
D) obliged to shut down.
E) on the downward-sloping portion of the demand curve.

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

6) Consider a perfectly competitive firm in the following position: output = 4000 units, market price = $1, fixed costs = $2000, variable costs = $1000, and marginal cost = $1.10. To maximize profits the firm should
A) reduce output.
B) increase the market price.
C) not change output.
D) shut down.
E) expand output.

7) A firm in perfect competition has, at its long-run profit-maximizing position,
A) $P = MC$ = minimum short-run ATC = minimum long-run AC.
B) will make large economic profits.
C) successfully established barriers to entry.
D) a strong profit incentive to expand capacity.
E) a highly differentiated product.

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

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

TABLE 9-1

8) 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) $50; $50
B) $140; $40
C) $100; $70
D) $70; $35
E) $85; $35

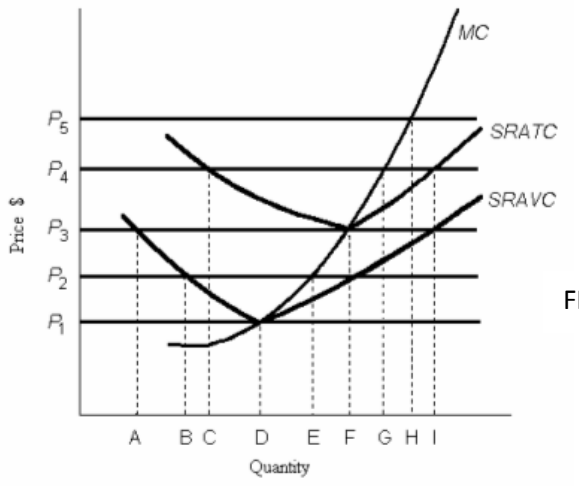

FIGURE 1

9) Refer to Figure 1. If the price a perfectly competitive firm is facing in the market is P_5, then the profit-maximizing firm in the short run should produce output
A) D. B) E. C) F. D) G. E) H.

10) A perfectly competitive firm's demand curve
A) is identical to the market demand curve.
B) is one horizontal line where *AR* = *MR*.
C) is downward sloping.
D) yields constant total revenues.
E) has unit elasticity.

QUIZ 7 VERSION 1
Answer Section

1) E

2) B

3) C

4) C

5) B

6) D

7) A

8) E

9) D

10) E

QUIZ 7 VERSION 2
Answer Section

1) D

2) B

3) B

4) C

5) D

6) D

7) B

8) B

9) E

10) A

QUIZ 7 VERSION 3
Answer Section

1) D

2) E

3) C

4) A

5) B

6) C

7) D

8) A

9) C

10) D

QUIZ 7 VERSION 4
Answer Section

1) A

2) C

3) B

4) A

5) B

6) A

7) A

8) E

9) E

10) B