## Critical Thinking Questions

30.

Finding a life partner is a complicated process that may take many years. It is hard to think of this process as being part of a very complex market, with a demand and a supply for partners. Think about how this market works and some of its characteristics, such as search costs. Would you consider it a perfectly competitive market?

31.

Can you name five examples of perfectly competitive markets? Why or why not?

32.

Your company operates in a perfectly competitive market. You have been told that advertising can help you increase your sales in the short run. Would you create an aggressive advertising campaign for your product?

33.

Since a perfectly competitive firm can sell as much as it wishes at the market price, why can the firm not simply increase its profits by selling an extremely high quantity?

34.

Many firms in the United States file for bankruptcy every year, yet they still continue operating. Why would they do this instead of completely shutting down?

35.

Why will profits for firms in a perfectly competitive industry tend to vanish in the long run?

36.

Why will losses for firms in a perfectly competitive industry tend to vanish in the long run?

37.

Assuming that the market for cigarettes is in perfect competition, what does allocative and productive efficiency imply in this case? What does it not imply?

38.

In the argument for why perfect competition is allocatively efficient, the price that people are willing to pay represents the gains to society and the marginal cost to the firm represents the costs to society. Can you think of some social costs or issues that are not included in the marginal cost to the firm? Or some social gains that are not included in what people pay for a good?