## Review Questions

11.

A single firm in a perfectly competitive market is relatively small compared to the rest of the market. What does this mean? How “small” is “small”?

12.

What are the four basic assumptions of perfect competition? Explain in words what they imply for a perfectly competitive firm.

13.

What is a “price taker” firm?

14.

How does a perfectly competitive firm decide what price to charge?

15.

What prevents a perfectly competitive firm from seeking higher profits by increasing the price that it charges?

16.

How does a perfectly competitive firm calculate total revenue?

17.

Briefly explain the reason for the shape of a marginal revenue curve for a perfectly competitive firm.

18.

What two rules does a perfectly competitive firm apply to determine its profit-maximizing quantity of output?

19.

How does the average cost curve help to show whether a firm is making profits or losses?

20.

What two lines on a cost curve diagram intersect at the zero-profit point?

21.

Should a firm shut down immediately if it is making losses?

22.

How does the average variable cost curve help a firm know whether it should shut down immediately?

23.

What two lines on a cost curve diagram intersect at the shutdown point?

24.

Why does entry occur?

25.

Why does exit occur?

26.

Do entry and exit occur in the short run, the long run, both, or neither?

27.

What price will a perfectly competitive firm end up charging in the long run? Why?

28.

Will a perfectly competitive market display productive efficiency? Why or why not?

29.

Will a perfectly competitive market display allocative efficiency? Why or why not?