University of Lethbridge – Department of Economics
ECON 1010 – Introduction to Microeconomics
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Lab #11

Chapter 11 — Perfect Competition

1) Perfect competition occurs in a market where there are many firms, each selling a(n)
   A) identical product.
   B) similar product.
   C) unique product.
   D) capital-intensive product.
   E) competitive product.

Answer: A
User1:

2) A price taker is a firm that
   A) must lower its price if it wants to sell more output.
   B) must accept the price set by a monopoly.
   C) cannot influence the price of its product.
   D) is experiencing economic losses.
   E) can raise its price if it lowers output.

Answer: C
User1:

3) The perfectly competitive firm's demand curve is *not*
   A) perfectly elastic at the market price.
   B) the same as the firm's average revenue curve.
   C) the same as the firm's marginal revenue curve.
   D) downward sloping to the right.
   E) horizontal.

Answer: D
User1:

4) In a perfectly competitive industry of 100 firms, the demand curve facing the individual firm
   A) has unitary elasticity.
   B) is identical to the industry demand curve.
   C) is 1/100 of the industry demand curve.
   D) is one where $P = MR = AR$.
   E) is upward sloping.

Answer: D
User1:

5) In a perfect competitive market, the market demand for good X in the industry is

A) a downward sloping curve.

B) a vertical line.

C) an upward sloping curve.

D) a straight line.

E) determined when the supply curve is known.

Answer: A

User1:

6) Complete the following sentence. Marginal revenue is the

A) change in total quantity resulting from a 1-unit increase in the price of the product sold.

B) change in total revenue resulting from a 1-unit increase in the quantity sold.

C) total revenue divided by a 1-unit increase in the quantity sold.

D) increase in profit divided by a 1-unit increase in the quantity sold.

E) change in price resulting from a 1-unit increase in the quantity sold.

Answer: B

User1:

7) Suppose a firm that produces in a perfect competitive market wants to raise the price of its product above the market price. What impact might this decision have on the firm?

A) The firm's total revenue increases.

B) The firm's total revenue decreases.

C) Whether the firm's total revenue increases or decreases depends on the elasticity of demand for the firm's product.

D) The firm's total revenue drops to zero.

E) The firm's total profit is maximized.

Answer: D

User1:

Use the table below to answer the following question(s).

Table 11.1

Quantity Sold	Price
5	15
6	15
7	15

8) Refer to Table 11.1 which represents the revenue schedule for a perfectly competitive firm. If the firm sells 5 units of output, total revenue is

A) $15.
B) $30.
C) $75.
D) $90.
E) $105.

Answer: C
User1:

9) Refer to Table 11.1 which represents the revenue schedule for a perfectly competitive firm. If the firm sells 6 units of output, average revenue is

A) $15.
B) $30.
C) $75.
D) $90.
E) $105.

Answer: A
User1:

10) For perfect competition to arise, it is necessary that industry demand be

A) inelastic.
B) elastic.
C) perfectly elastic.
D) large relative to the output of a firm.
E) small relative to the minimum efficient scale of a firm.

Answer: D
User1: Study Guide

Use the table below to answer the following question(s).

Table 11.2

Output	Total Revenue ($)	Total Cost ($)
0	0	25
1	30	49
2	60	69
3	90	86
4	120	100
5	150	114
6	180	128
7	210	170

11) Refer to Table 11.2, which represents the total revenue and cost schedule of a perfectly competitive firm. The short–run equilibrium price of the product is

A) $3.
B) $10.
C) $15.
D) $25.
E) $30.

Answer: E
User1:

12) Refer to Table 11.2, which represents the total revenue and cost schedule of a perfectly competitive firm. The marginal revenue received from the sale of the 4th unit of output is

A) $3.
B) $15.
C) $10.
D) $120.
E) $30.

Answer: E
User1:

13) Refer to Table 11.2, which represents the total revenue and cost schedule of a perfectly competitive firm. The marginal cost of the production of the 5th unit of output is

A) $14.
B) $128.
C) $100.
D) $25.
E) $30.

Answer: A
User1:

14) Refer to Table 11.2, which represents the total revenue and cost schedule of a perfectly competitive firm. If the firm produces 2 units of output, it will make an economic

A) profit of $9.

B) profit of $60.

C) loss of $9.

D) loss of $60.

E) loss of $69.

Answer: C

User1:

15) Refer to Table 11.2, which represents the total revenue and cost schedule of a perfectly competitive firm. Profits are maximized at ________ units of output.

A) zero

B) 7

C) 3

D) 6

E) 5

Answer: D

User1:

16) It pays a firm to shut down production if price is

A) above minimum average variable cost.

B) below minimum average variable cost.

C) above minimum average fixed cost.

D) below minimum average revenue.

E) below average total cost.

Answer: B

User1:

17) When a perfectly competitive firm makes zero economic profit, its owner,

A) is taking a loss.

B) will shut down in the short run.

C) is making a sufficient income to compensate him for the time and capital that he supplies.

D) is suffering economic hardship.

E) will exit in the long run.

Answer: C

User1:

18) The costs incurred, even at a zero output, are called
A) fixed costs.
B) variable costs.
C) decreasing costs.
D) marginal costs.
E) total costs.

Answer: A
User1:

19) A firm that temporarily shuts down and produces no output incurs a loss equal to its
A) fixed costs.
B) variable costs.
C) marginal costs.
D) marginal revenue.
E) average costs.

Answer: A
User1:

20) The shutdown point occurs at the point of minimum
A) marginal cost.
B) average variable cost.
C) average fixed cost.
D) total cost.
E) average total cost.

Answer: B
User1:

21) A firm maximizes profit by producing the output at which marginal cost equals
A) marginal revenue.
B) average total cost.
C) average variable cost.
D) average fixed cost.
E) none of the above.

Answer: A
User1:

22) If price falls below the minimum of average variable cost, the best a firm can do is
A) step up production and make a loss equal to its total variable cost.
B) step up production and make a loss equal to its total fixed cost.
C) stop production and make a loss equal to its total fixed cost.
D) stop production and make a loss equal to its total variable cost.
E) stay at the same production level and make a loss equal to the difference between total cost and total revenue.

Answer: C
User1:

23) The firm's supply curve is the upward-sloping part of its

A) average variable curve, at all points above the point of minimum average variable cost.

B) marginal cost curve, at all points above the point of minimum average fixed cost.

C) marginal revenue curve, at all points above the point of minimum average revenue.

D) marginal revenue curve, at all points above the point of minimum average total cost.

E) marginal cost curve, at all points above the point of minimum average variable cost.

Answer: E

User1:

24) Assume that the leather industry is a perfectly competitive industry. The market demand curve for leather is ________ and each individual leather producer's demand curve is ________.

A) vertical; downward sloping

B) downward sloping; horizontal

C) downward sloping; vertical

D) horizontal; horizontal

E) horizontal; downward sloping

Answer: B

User1:

25) The fast food industry cannot be considered a perfectly competitive market because

A) fast foods differ from each other.

B) a large number of firms produce foods in the industry.

C) entry and exit are not easy.

D) advertising expenditures play an important role in the industry.

E) producers do not have control of the market price.

Answer: A

User1:

26) .If a profit-maximizing firm's marginal revenue is less than its marginal cost, the firm

A) must be experiencing economic losses.

B) must be making an economic profit.

C) should decrease its output.

D) should increase its output.

E) must have its average revenue less than its marginal revenue.

Answer: C

User1:

27) In the price range above minimum average variable cost, a perfectly competitive firm's supply curve is

A) horizontal at the market price.

B) vertical at zero output.

C) the same as its marginal cost curve.

D) the same as its average variable cost curve.

E) none of the above.

Answer: C

User1:

28) If a competitive firm is producing in the short run at an output where price is less than average total cost, the firm

A) will shut down.

B) is breaking even.

C) is still making a positive economic profit.

D) is experiencing economic losses but will continue to operate as long as price is above minimum average fixed cost.

E) is experiencing economic losses but will continue to operate as long as price is above minimum average variable cost.

Answer: E

User1:

29) In a perfectly competitive industry, the market price is $10. An individual firm is producing the output at which $MC = ATC =$ $15. AVC at that output is $10. What should the firm do to maximize its short-run profits?

A) shut down

B) expand output

C) contract output

D) leave output unchanged

E) insufficient information to answer

Answer: C

User1: Study Guide

30) In a perfectly competitive industry, the market price is $8. An individual firm is producing the output at which $MC =$ $8. AVC at that output is $10. What should the firm do to maximize its short-run profits?

A) shut down

B) expand output

C) contract output

D) leave output unchanged

E) insufficient information to answer

Answer: A

User1:

31) In which one of the following situations will a perfectly competitive firm earn positive economic profits?

A) $MR > AVC$

B) $MR > ATC$

C) $ATC > MC$

D) $ATC > AR$

E) $AR > AVC$

Answer: B

User1: Study Guide

32) If a profit-maximizing firm in a perfectly competitive market is incurring economic losses, then it must be producing a level of output where

A) price is greater than marginal cost.
B) price is greater than marginal revenue.
C) marginal cost is greater than marginal revenue.
D) average total cost is greater than marginal cost.
E) average total cost is less than marginal cost.

Answer: D
User1:

33) If a perfectly competitive firm in the short run is not able to pay all of its variable costs, then it is operating in the range on its marginal cost curve that is

A) above the break-even point.
B) below the break-even point.
C) above the shutdown point.
D) below the shutdown point.
E) between the shutdown and break-even points.

Answer: D
User1:

34) In a perfectly competitive industry, the market price is $5. An individual firm is producing the level of output where marginal cost is $5 and is increasing, and average total cost is $25. What should the firm do to maximize its short-run profits?

A) shut down
B) expand output
C) contract output
D) leave output unchanged
E) insufficient information to answer

Answer: E
User1:

35) Which one of the following is *not* one of the perfectly competitive firm's decisions?

A) whether to produce or temporarily shutdown
B) how much to produce, if it produces
C) whether or not to raise or lower the plant size
D) whether to stay in the industry or exit
E) whether to raise or lower its price

Answer: E
User1:

36) Industry supply is the sum of the

A) marginal costs of all the individual firms.

B) average variable costs of all the individual firms.

C) average total costs of all the firms.

D) average fixed costs of all the firms.

E) supplies of all the individual firms.

Answer: E

User1:

37) The supply curve for an individual firm in a perfectly competitive industry is $P = 1 + 2Q_S$. If the industry consists of 100 identical firms, what is industry supply when $P = 7$?

A) 300 units

B) 400 units

C) 600 units

D) 800 units

E) none of the above

Answer: A

User1: Study Guide

Use the figure below to answer the following question(s).

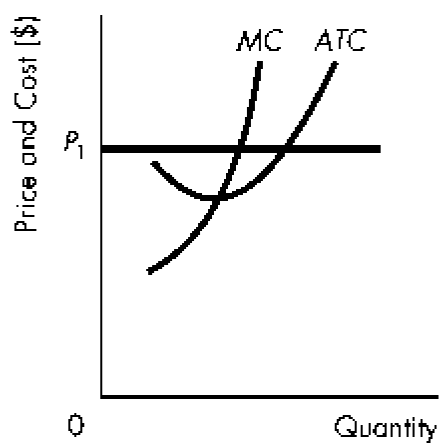

Figure 11.5

38) Refer to Figure 11.5, which represents the short-run production decision of a perfectly competitive firm. The firm is

A) making an economic profit.

B) taking a loss.

C) breaking even.

D) failing to cover its opportunity costs.

E) going to close down temporarily.

Answer: A

User1:

39) Refer to Figure 11.5, which represents the short-run production decision of a perfectly competitive firm. In the long run, market

A) demand will increase.

B) demand will decrease.

C) supply will increase.

D) supply will decrease.

E) both supply and demand will decrease.

Answer: C

User1:

40) Refer to Figure 11.5, which represents the short-run production decision of a perfectly competitive firm. In the long run,

A) firms that remain in the market will expand production.

B) market demand will increase.

C) market supply will decrease.

D) firms will exit the market.

E) firms that remain in the market will reduce production.

Answer: E

User1:

41) If firms exit an industry, the

A) industry supply curve shifts leftward.

B) price of the product falls.

C) profits of the remaining firms decrease.

D) output of the industry increases.

E) profits of the remaining firms stay the same.

Answer: A

User1:

42) In the long run,

A) at least one firm earns positive economic profits.

B) no firms can earn more than zero economic profits.

C) firms do not have sufficient time to change their plant size.

D) firms have some limitations in making proper decisions about their production process.

E) firms' total costs consist of both fixed and variable costs.

Answer: B

User1:

43) If positive economic profits are being made by firms in a competitive industry, new firms will enter. This will shift the industry

A) demand curve leftward, causing market price to fall.

B) demand curve rightward, causing market price to rise.

C) supply curve leftward, causing market price to rise.

D) supply curve rightward, causing market price to fall.

E) none of the above.

Answer: D

User1:

44) **O P T I O N A L**

Answer: True False

User1:

Use the figure below to answer the following question(s).

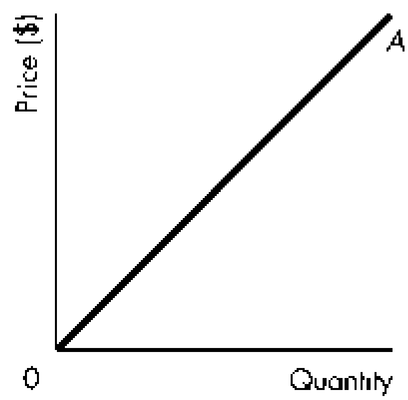

Figure 11.1

45) Refer to Figure 11.1 which represents a cost or revenue curve for a perfectly competitive firm. Curve *A* represents the firm's

A) total fixed cost.

B) average fixed cost.

C) average variable cost.

D) total revenue.

E) marginal revenue.

Answer: D

User1:

46) Refer to Figure 11.1 which represents a cost or revenue curve for a perfectly competitive firm. Curve *A* is straight because the firm

A) is a price taker.

B) faces constant returns to scale.

C) wants to maximize profits.

D) has perfect information.

E) has constant marginal cost.

Answer: A

User1:

47) The closest example of a perfectly competitive industry is the

A) airlines industry.

B) beer industry.

C) gasoline stations.

D) fast foods industry.

E) wheat industry.

Answer: E

User1:

Use the figure below to answer the following question(s).

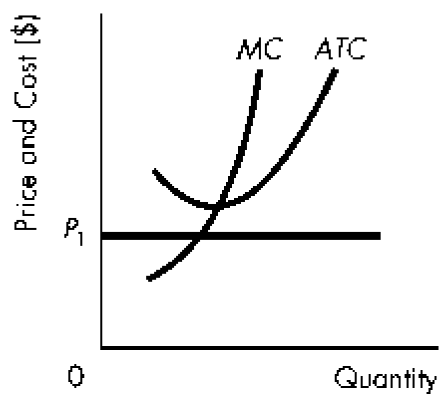

Figure 11.6

48) Refer to Figure 11.6, which represents the short-run production decision of a perfectly competitive firm. The firm is

A) making an economic profit.

B) taking a loss.

C) breaking even.

D) meeting all opportunity costs.

E) going to close down.

Answer: B

User1:

49) Refer to Figure 11.6, which represents the short-run production decision of a perfectly competitive firm. In the long run, market

A) demand will increase.
B) demand will decrease.
C) supply will increase.
D) supply will decrease.
E) demand and supply will both increase.

Answer: D
User1:

50) Refer to Figure 11.6 which represents the short-run production decision of a perfectly competitive firm. In the long run,

A) firms that remain in the market will expand production.
B) market demand will increase.
C) firms will adopt labour-saving technology.
D) industry output will remain constant.
E) firms will enter the market.

Answer: A
User1:

51) In the long run,

A) all costs are fixed.
B) at least one factor of production is fixed.
C) a firm can not exit the industry.
D) all costs are variable because there are no fixed factors of production.
E) all firms earn positive economic profits.

Answer: D
User1:

52) Firms will stop exiting an industry only when

A) marginal revenue equals average revenue.
B) marginal revenue equals marginal cost.
C) economic profits are present once more.
D) zero economic profits are being made.
E) marginal revenue equals average fixed cost.

Answer: D
User1:

53) The maximum loss for a firm in long-run equilibrium is

A) zero.

B) its total cost.

C) its total variable cost.

D) its average total cost.

E) none of the above.

Answer: A

User1: Study Guide

54) An industry will *not* be in long-run competitive equilibrium if

A) each firm maximizes its short-run profit.

B) economic profit is zero, so there is no entry or exit.

C) each firm produces at the point of minimum long-run average cost, and has no incentive to change its plant size.

D) positive economic profits exist.

E) there are external economies or diseconomies.

Answer: D

User1: