



BUEC 311: Business Economics, Organization and Management

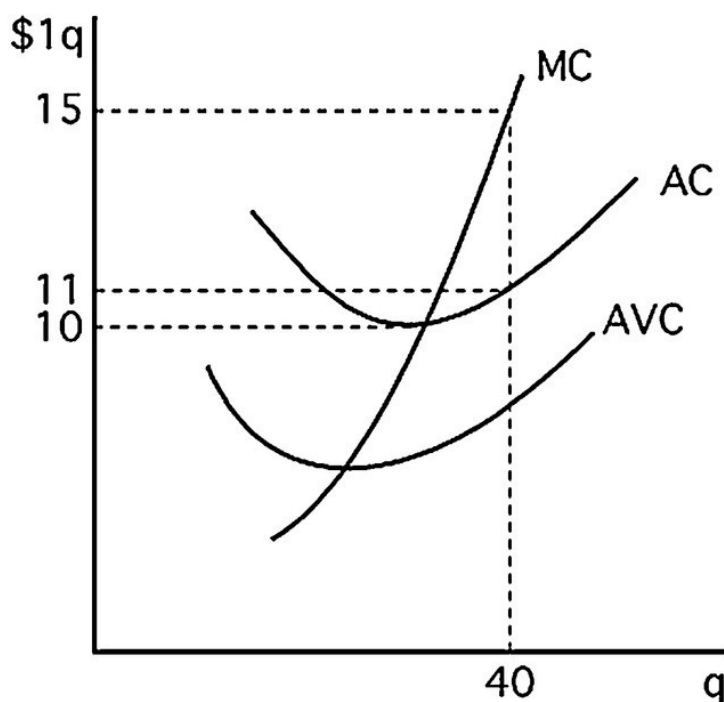
Problem Set #7

Firm Theory and Perfect Competition

November 16, 2020

Single Answer

- 1) A _____ is a governance structure where owners are not personally liable.
 - A) sole proprietorship
 - B) partnership
 - C) mixed enterprise
 - D) corporation
- 2) Economists typically assume that the owners of firms wish to
 - A) produce efficiently.
 - B) maximize sales revenues.
 - C) maximize profits.
 - D) All of the above.
- 3) A small business owner earns \$50,000 in revenue annually. The explicit annual costs equal \$30,000. The owner could work for someone else and earn \$25,000 annually. The owner's accountant would likely measure profit as _____ but an economic assessment would estimate a profit of _____.
 - A) \$20,000, \$20,000
 - B) \$20,000, -\$5,000
 - C) \$25,000, -\$5,000
 - D) \$25,000, \$20,000
- 4) A firm optimally sets its output where
 - A) marginal profit is zero.
 - B) marginal revenue is maximized.
 - C) marginal profit equals marginal revenue.
 - D) marginal profit is maximized.
- 5) If marginal revenue equals marginal cost, the firm is maximizing profits as long as
 - A) the resulting profits are positive.
 - B) marginal cost exceeds marginal revenue for greater levels of output.
 - C) the average cost curve lies above the demand curve.
 - D) All of the above are required.



- 6) The above figure shows the cost curves for a competitive firm. If the firm is to earn economic profit, price must exceed
- A) \$0.
 - B) \$5.
 - C) \$10.
 - D) \$11.
- 7) Using the above figure which shows the cost curves for a competitive firm, you can conclude that the firm should shut down in the short run if the price is equal to any number below:
- A) \$15.
 - B) \$10.
 - C) \$11
 - D) None of the above
- 8) If a competitive firm maximizes short-run profits by producing some quantity of output, which of the following must be TRUE at that level of output?
- A) $p = MC$
 - B) $MR = MC$
 - C) $p \geq AVC$
 - D) All of the above.
- 9) If a profit-maximizing firm finds that, at its current level of production, $MR < MC$, it will
- A) decrease output.
 - B) increase output.
 - C) shut down.

- D) operate at a loss.
- 10) True or false: If a firm sets marginal revenue equal to marginal cost it will make an economic profit.
- 11) Economists define a market to be competitive when the firms
- A) spend large amounts of money on advertising to lure customers away from the competition.
 - B) watch each other's behavior closely.
 - C) are price takers.
 - D) All of the above.
- 12) Firms that exhibit price-taking behavior
- A) wait for other firms to set price, take it as given, and charge a higher price.
 - B) have outputs that are too small to influence market price and thus take it as given.
 - C) take pricing behavior in their own hands.
 - D) are independently capable of setting price.
- 13) In a perfectly competitive market
- A) firms can freely enter and exit.
 - B) firms sell a differentiated product.
 - C) transaction costs are high.
 - D) All of the above.
- 14) In a perfectly competitive market
- A) buyers are price-takers.
 - B) buyers view products from different firms as differentiated.
 - C) individual buyers have horizontal demand curves.
 - D) firms' demand curves are vertical.
- 15) The economist's definition of the short run is
- A) usually 3-6 months.
 - B) when at least one of the firm's input choices are fixed
 - C) when a firm has to decide whether or not to exit.
 - D) identical to the long run for most firms.
 - E) All of the above
- 16) In the short run
- A) firms will shut down if operating at a loss.
 - B) profit maximizing firms have identical short run supply curves.
 - C) firms may choose to operate at a loss.
 - D) most firms have short run supply curves that are the same as their long run supply curves.
- 16) In the long run
- A) firms will shut down if operating at a loss.
 - B) profit maximizing firms have identical supply curves.
 - C) firms may choose to operate at a loss.
 - D) most firms have supply curves that are the same as their long run average cost curves.
 - E) all of the above

- 17) If a competitive firm finds that it maximizes short-run profits by shutting down, which of the following must be TRUE?
- A) $p < AVC$ for all levels of output.
 - B) $p < AVC$ only for the level of output at which $p = MC$.
 - C) $p < AVC$ only if the firm has no fixed costs.
 - D) The firm will earn zero profit.
- 18) The competitive firm's supply curve is equal to
- A) its marginal cost curve.
 - B) the portion of its marginal cost curve that lies above AC.
 - C) the portion of its marginal cost curve that lies above AVC.
 - D) the portion of its marginal cost curve that lies above AFC.
- 19) In the long run, profits will equal zero in a competitive market because of
- A) constant returns to scale.
 - B) identical products being produced by all firms.
 - C) the availability of information.
 - D) free entry and exit.
- 20) A firm will enter a competitive market when
- A) it can gather market share at the expense of incumbent firms.
 - B) it would not be the last firm entering.
 - C) it can earn a positive long-run profit.
 - D) the long-run supply curve is upward sloping.