CH-310-A Microeconomics - Theory and Policy

Chapter 12 of Krugman and Wells

Market demand and perfect competition

In a perfectly competitive industry, the market demand curve is usually:

(a) perfectly inelastic.

(b) perfectly elastic.

(c) downward sloping.

(d) relatively elastic.

Assumptions of perfect competition

Perfect competition is a model of the market that assumes all of the following *except*:

(a) a large number of firms.

(b) an individual firm faces a downward-sloping demand curve.

(c) firms produce identical goods.

(d) many buyers.

Perfect competition in the short run

Consider a perfectly competitive firm in the short run. Assume that it is sustaining economic losses but continues to produce. At the profit-maximizing (loss-minimizing) output, all of the following statements are correct *except*:

(a) marginal cost is less than average total cost.

(b) marginal cost is equal to marginal revenue.

(c) price is equal to marginal cost.

(d) marginal cost is less than average variable cost.

Wheat

A wheat farmer operating in the short run produces 100 bushels of wheat. Her average total cost per bushel is \$1.75, total revenue is \$450, and (total) fixed costs are equal to \$100. Then:

(a) average fixed cost is equal to \$1.50.

(b) economic profit per bushel is equal to \$2.75.

(c) average variable cost is equal to \$1.25.

(d) economic profit is equal to \$250.

Perfect competition: ATC, AFC, MC

A perfectly competitive firm operating in the short run producing 100 units of output has ATC = \$6 and AFC = \$2. The market price is \$3 and is equal to MC. In order to maximize profits (or minimize losses), this firm should:

(a) increase output.

(b) reduce output, but continue to produce a positive amount of output.

(c) shut down.

(d) do nothing; the firm is already maximizing profits.