MPP 801 Perfect Competition
K. Wainwright Study Questions

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

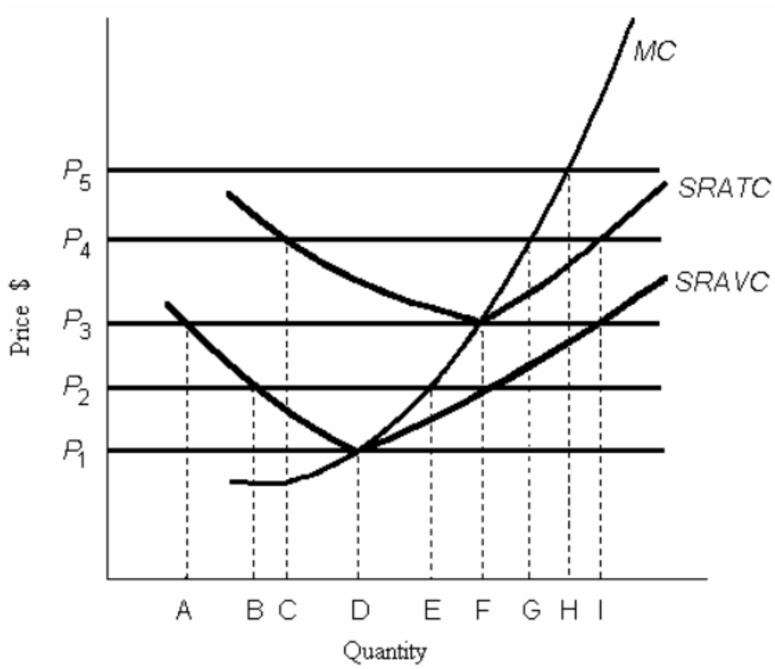

FIGURE 9-1

1) Refer to Figure 9–1. If the price a perfectly competitive firm is facing in the market is P_2, then the profit–maximizing firm in the short run should produce output 1) ________

A) B. B) C. C) D. D) E. E) F.

2) Suppose a perfectly competitive firm is producing where its average revenue is less than its lowest average variable cost. The firm should 2) ________

A) shut down.

B) increase the market price.

C) reduce its output.

D) expand its output.

E) not change its output.

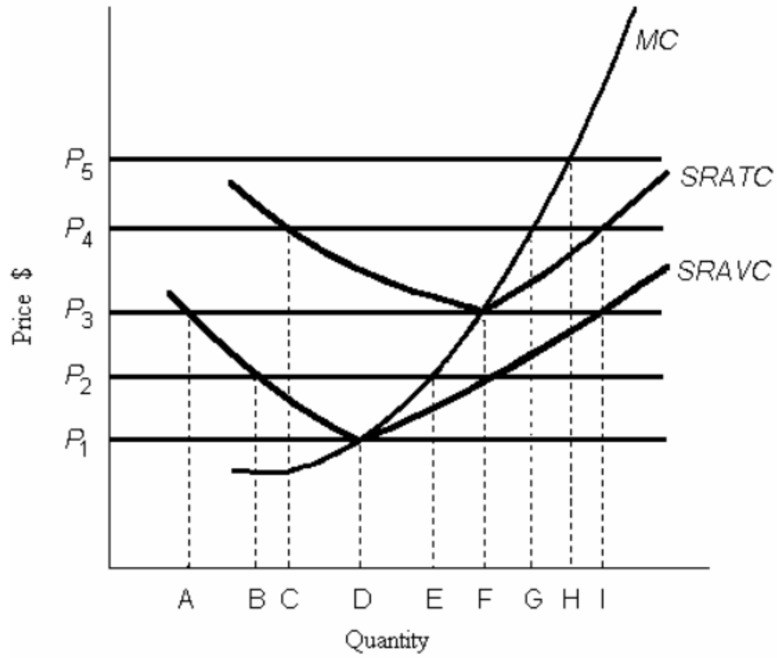

FIGURE 9-1

3) Refer to Figure 9–1. If the price a perfectly competitive firm is facing in the market is P_5, then the profit–maximizing firm in the short run should produce output 3) ________

A) D. B) E. C) F. D) G. E) H.

4) In long–run equilibrium a perfectly competitive industry 4) ________

A) losses are tolerable because of the high fixed cost.

B) in order to stay in the industry each firm is making an economic profit.

C) each firm is producing at the minimum point on its *LRAC* curve.

D) individual firms will have no incentive for technological improvement.

E) must exhibit economies of scale.

5) When a perfectly competitive firm is at its profit–maximizing level of output, we can say that it 5) ________

A) is producing where $MC = AC$.

B) is producing where price exceeds marginal cost.

C) is doing as well as it can and is making a profit.

D) may be making a profit or incurring a loss.

E) is producing where $P = AVC$.

6) The demand curve facing a perfectly competitive firm depends on 6) ________

A) the marginal cost of the firm.

B) market supply alone.

C) market demand and the market supply curve.

D) market demand and the firm's supply curve.

E) market demand alone.

Consider the following cost curves for a perfectly competitive firm.

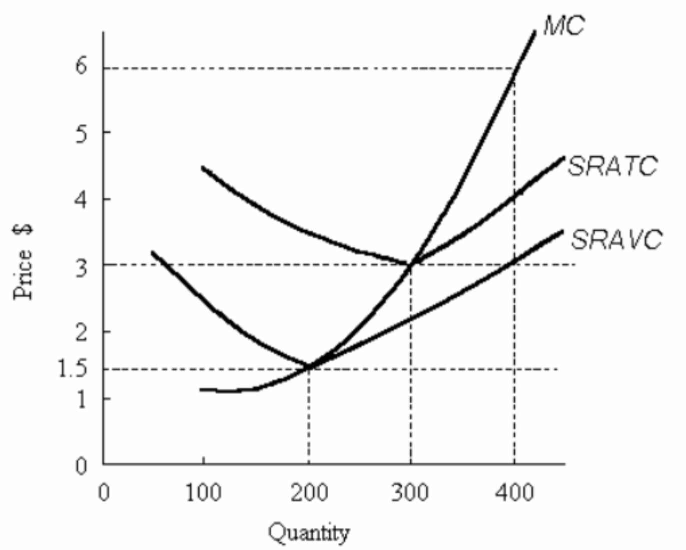

FIGURE 9-2

7) In Figure 9–2, if the current market price is $6, the profit–maximizing output of this firm is 7) ________

A) 100 units. B) 200 units. C) 300 units. D) 400 units. E) 500 units.

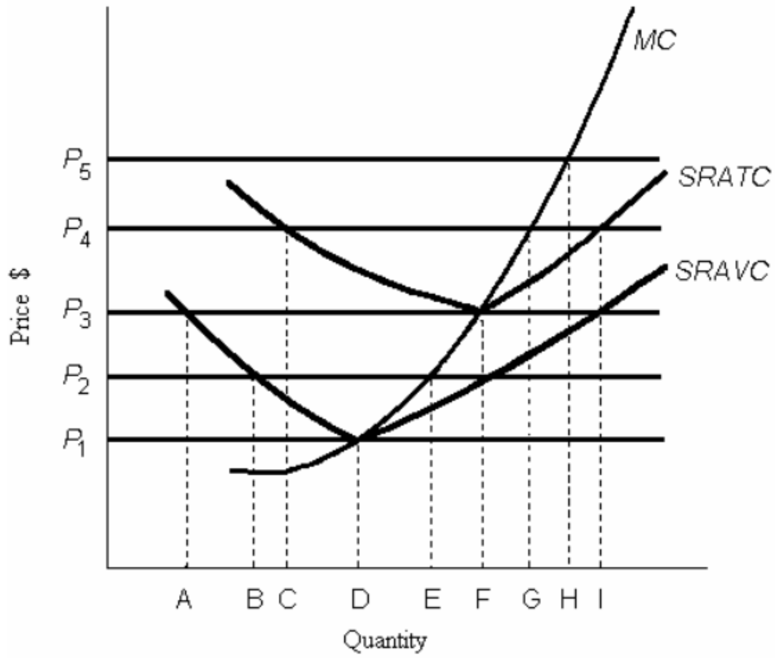

FIGURE 9-1

8) Refer to Figure 9–1. The short–run shut down price for a perfectly competitive firm is 8) ________

A) P_3. B) P_1. C) P_2. D) P_4. E) P_5.

9) If the output level required to achieve the minimum long–run average cost is so great that it will take up an appreciable share of the market, then 9) ________

A) the firm is guaranteed to earn economic profits.

B) its supply curve will slope upward to the right because of increasing returns to scale.

C) the firm will no longer be a price taker.

D) the market demand curve will be horizontal.

E) the firm will remain competitive because it will still be a quantity adjuster.

10) Comparing the short–run and long–run profit–maximizing positions of a perfectly competitive firm, which statement is true? 10) ________

A) The firm may have unexploited economies of scale in both the short run and the long run.

B) Price will equal marginal cost in the short run, but not necessarily in the long run.

C) Price should equal average cost in the long run, but not necessarily in the short run.

D) The firm will produce at minimum average cost in both the short and long run.

E) Economic profit may exist in the short run and in the long run.

11) Which of the following terms would best describe the elasticity facing a competitive firm? 11) ________

A) unit

B) inelastic

C) perfectly inelastic

D) perfectly elastic

E) elastic

12) If a perfectly competitive firm in the short run is producing where $P = ATC = MC$, we can say that this firm is 12) ________

A) earning economic profits.

B) at its profit–maximizing output level.

C) obliged to shut down.

D) on the downward–sloping portion of the demand curve.

E) incurring losses.

13) All of the following pertain to a perfectly competitive market except which one? 13) ________

A) All firms have realized the possible economies of scale.

B) Consumers can shop for the lowest available price.

C) There is freedom of entry and exit of firms in the industry.

D) Consumers prefer certain brands over others.

E) All firms in the industry are price takers.

14) If the demand curve that the firm faces is downward sloping, we can reasonably believe that the 14) ________

A) firm has no control over the price of the product it sells but can vary the output.

B) firm can influence the price of the product it sells.

C) firm's contributions to total output of the product is insignificant.

D) firm will have no effect on the price of the product it sells.

E) firm must lower prices if it hopes to increase its profits.

15) If firms in a competitive industry are suffering losses, then one would expect that in the long run 15) ________

A) each firm would raise its price until it was breaking even.

B) the demand curve for the product will shift to the left, causing equilibrium output and price to decline.

C) the supply curve for the product will shift to the left as firms leave the industry, causing industry output to fall and price to rise.

D) there would be no change in the number of firms in the industry as long as firms are covering their average variable costs.

E) the supply curve for the product will shift to the right as individual firms lower their prices to increase their sales.

16) A long–run competitive equilibrium is impossible if 16) _______

A) the industry's long–run supply curve slopes downward continuously.

B) the industry supply curve slopes upward.

C) all firms have downward–sloping *LRAC* curves at all levels of output.

D) all firms have U–shaped *LRAC* curves.

E) all firms are producing where $P = ATC$.

17) Suppose that in a perfectly competitive industry, the market price of the product is $6. Firm A is producing the output level at which average total cost equals marginal cost, both of which are $8. Average variable cost is $5. To achieve its optimum output, firm A should 17) _______

A) change the price of the product.

B) increase its advertising.

C) expand output.

D) leave output unchanged.

E) reduce output.

Assume the following total cost schedule for a perfectly competitive firm.

Output	TVC	TFC
0	0	100
1	40	100
2	70	100
3	120	100
4	180	100
5	250	100
6	330	100

TABLE 9–1

18) The break–even price for the firm depicted in Table 9–1 is 18) _______

A) $40. B) $70. C) $145. D) $220. E) $430.

19) The best description of what the term market structure refers to is 19) _______

A) the degree of competition in the industry.

B) the number of firms in an industry.

C) the type of product produced.

D) the ability of a firm to control price.

E) all of the features that affect behaviour and performance of the firm in a market.

20) Consider a perfectly competitive firm in the following position: output = 4000 units, market price = $1, fixed costs = $2000, variable costs = $2000, and marginal cost = $1. To maximize profits the firm should 20) _______

A) not change output.

B) expand output.

C) reduce output.

D) increase the market price.

E) shut down.

Consider the following cost curves for a perfectly competitive firm.

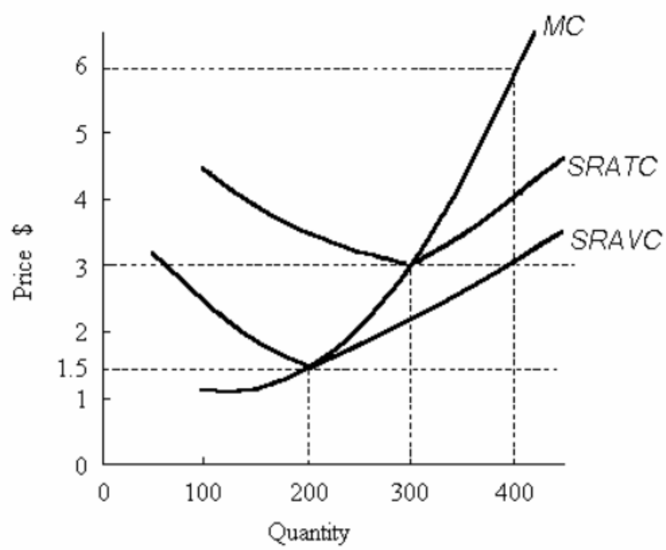

FIGURE 9-2

21) In Figure 9-2, if the market price is $2, the firm will 21) _______

A) shut down and suffer a loss equal to fixed cost.

B) produce 200 units and make a loss equal to its total fixed cost.

C) continue operating in the short run and suffer a loss that is less than its fixed cost.

D) produce 300 units and make a loss equal to total variable cost.

E) shut down and make zero profit.

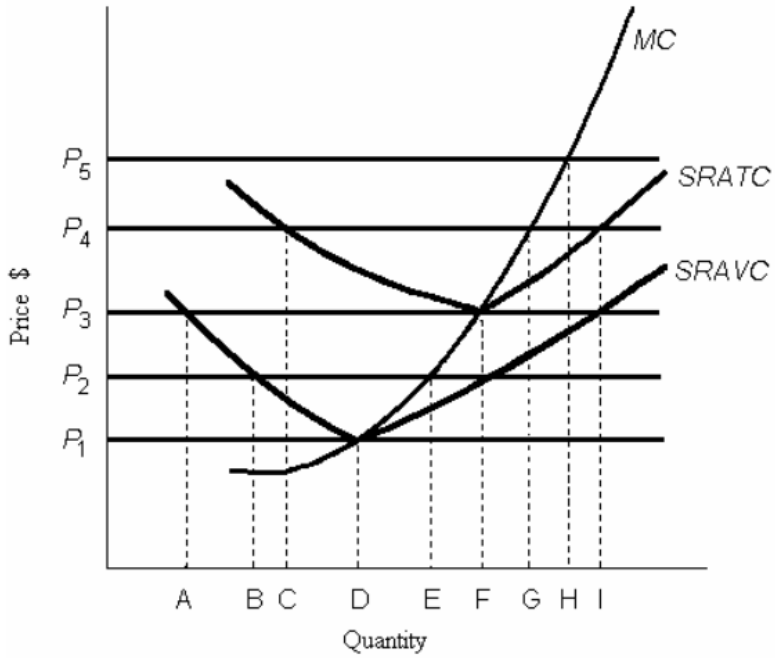

FIGURE 9-1

22) Refer to Figure 9-1. A perfectly competitive firm would incur economic losses prices including which one of the below? 22) _______

A) P_1 B) P_2 C) P_3 D) P_4 E) P_5

23) When price is constant the competitive firm's marginal-revenue curve 23) _______

A) is a positively sloped straight line, starting from the origin.

B) moves upward to the right and then declines when $MC = MR$.

C) is the same as the firm's TR curve.

D) is a straight line that coincides with the market demand curve.

E) is the same as the firm's demand curve.

Consider the following cost curves for a perfectly competitive firm.

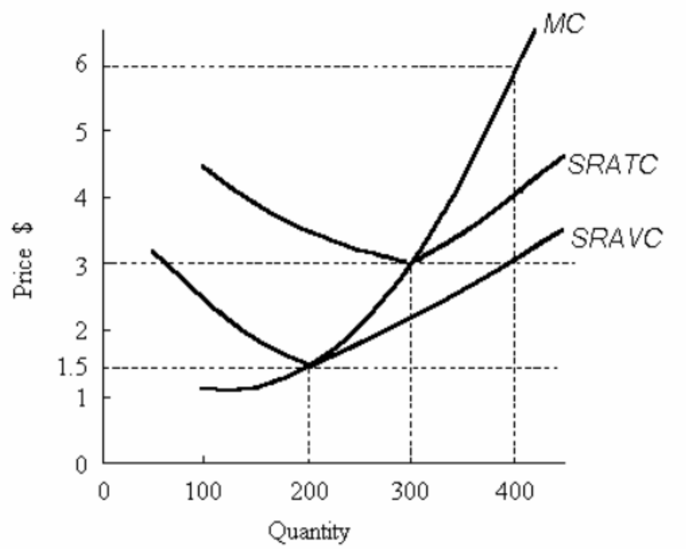

FIGURE 9-2

24) In Figure 9–2, the short–run supply curve for this firm is its 24) ________

A) marginal cost curve.
B) *SRATC* curve at or above \$3.
C) marginal cost curve at or above \$1.50.
D) marginal cost curve at or above \$3.
E) *SRAVC* curve at or above \$1.50.

25) Suppose your competitive trucking firm is just making normal profits in the short run. The federal government imposes a new safety regulation that affects all firms, thus shifting the marginal cost curve leftward. As a result your firm's profit maximizing short–run output will 25) ________

A) decrease because the new *MC* curve will intersect the horizontal demand curve at a lower rate of output.
B) increase as price rises in the long run.
C) remain the same since the new regulation does not affect *ATC*.
D) increase as firms will leave the industry at the higher costs, if your firm survives.
E) remain the same because you will pass on the extra costs to the consumers.

26) Long–run industry supply in a perfectly competitive market is 26) ________

A) necessarily horizontal.
B) necessarily negatively sloped.
C) necessarily vertical.
D) necessarily positively sloped.
E) may be horizontal, vertical, positively sloped, or negatively sloped

27) On the graph of a firm's total–cost and total–revenue curves, the profit–maximizing level of output is found where 27) ________

A) *TR* lies above *TC* by the greatest amount.

B) *TR* is at a maximum

C) *TR* and *TC* intersect.

D) *TR* becomes vertical.

E) *TC* intersects the vertical axis.

28) When we say that the firm is a price taker we mean essentially that 28) ________

A) the demand curve that the firm faces is perfectly inelastic.

B) the firm can alter its rate of production and sales without affecting the market price of the product.

C) the firm initially takes price as given and tries to influence it through advertising.

D) the firm can alter the market price as it changes its rate of production.

E) at the price ruling on the market, the firm will be willing to sell an infinite quantity.

29) A firm in a perfectly competitive industry will maximize profits by adjusting 29) ________

A) output until marginal revenue equals marginal cost.

B) output until average revenue equals short–run average total cost.

C) price until average revenue equals average total cost.

D) price until marginal revenue equals marginal cost.

E) average total cost until it equals price.

30) If, in reaction to an increase in demand for a good produced by some perfectly competitive industry, the effect of the induced entry of firms to the industry is to leave the long–run competitive equilibrium price unchanged, then 30) ________

A) the industry is subject to external economies of scale.

B) the industry's long–run supply curve is horizontal.

C) the industry is subject to falling costs.

D) the industry's long–run supply curve is perfectly inelastic.

E) the industry's long–run supply curve is vertical.

Answer Key
Testname: MPP-PERF-COMP

1) D
2) A
3) E
4) C
5) D
6) C
7) D
8) B
9) C
10) C
11) D
12) B
13) D
14) B
15) C
16) C
17) E
18) B
19) E
20) A
21) C
22) C
23) E
24) C
25) A
26) B
27) A
28) B
29) A
30) B