CHAPTER 7

Perfect Competition

Chapter 7 Perfect Competition

1. In which of the following industry structures is the entry of new firms the most difficult?
   A) monopoly
   B) oligopoly
   C) monopolistic competition
   D) perfect competition

   Ans: A Level: Easy Main Topic: 7.1 Four market structures Page: 163
   Subtopic: Four market structures Type: Application

2. A one-firm industry is known as:
   A) monopolistic competition
   B) oligopoly
   C) monopoly
   D) perfect competition

   Ans: C Level: Easy Main Topic: 7.1 Four market structures Page: 163
   Subtopic: Four market structures Type: Definition

3. Local telephone, electric, or gas utilities would best be described by which market model?
   A) monopolistic competition
   B) perfect competition
   C) monopoly
   D) oligopoly

   Ans: C Level: Moderate Main Topic: 7.1 Four market structures Page: 163
   Subtopic: Four market structures Type: Application

4. An industry comprised of a small number of firms, each of which considers the potential reactions of its rivals in making price-output decisions is called:
   A) monopolistic competition
   B) oligopoly
   C) monopoly
   D) perfect competition

   Ans: B Level: Easy Main Topic: 7.1 Four market structures Page: 164
   Subtopic: Four market structures Type: Application

5. Mutual interdependence would tend to limit control over price in which market model?
   A) monopolistic competition
   B) perfect competition
   C) monopoly
   D) oligopoly

   Ans: D Level: Easy Main Topic: 7.1 Four market structures Page:164
   Subtopic: Four market structures Type: Application

6. Economists use the term "imperfect competition" to describe:
   A) all industries which produce standardized products.
   B) any industry in which there is no nonprice competition.
   C) a monopoly only.
   D) those markets which are not perfectly competitive.

   Ans: D Level: Easy Main Topic: 7.1 Four market structures Page: 164
   Subtopic: Four market structures Type: Definition

7. In which two market models would advertising be used most often?
   A) perfect competition and monopolistic competition
   B) perfect competition and monopoly
   C) monopolistic competition and oligopoly
   D) monopoly and oligopoly

   Ans: C Level: Moderate Main Topic: 7.1 Four market structures Page: 164
   Subtopic: Four market structures Type: Application

8. The North American automobile industry would be described by the economist as:
   A) perfectly competitive.
   B) an oligopoly.
   C) monopolistically competitive.
   D) a monopoly.

   Ans: B Level: Easy Main Topic: 7.1 Four market structures Page: 164
   Subtopic: Four market structures Type: Application

9. In which of the following market structures is there clear-cut mutual interdependence with respect to price-output policies?
   A) monopoly
   B) oligopoly
   C) monopolistic competition
   D) perfect competition

   Ans: B Level: Easy Main Topic: 7.1 Four market structures Page: 164
   Subtopic: Four market structures Type: Application

10. The market model with the largest number of firms is:
    A) oligopoly.
    B) monopoly.
    C) perfect competition.
    D) monopolistic competition.

    Ans: C Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Characteristics of perfect competition Type: Application

11. An industry comprised of a very large number of sellers producing a standardized product is known as:
    A) monopolistic competition
    B) oligopoly
    C) monopoly
    D) perfect competition

    Ans: D Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Characteristics of perfect competition Type: Application

12. Which of the following industries most closely approximates perfect competition?
    A) agriculture
    B) farm implements
    C) clothing
    D) steel

    Ans: A Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Characteristics of perfect competition Type: Application

13. The production of agricultural products such as wheat or corn would best be described by:
    A) monopolistic competition
    B) perfect competition
    C) monopoly
    D) oligopoly

    Ans: B Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Characteristics of perfect competition Type: Application

14. Which is a reason why there is no advertising by individual firms under perfect competition?
    A) Firms produce a homogeneous product.
    B) The quantity of the product demanded is very large.
    C) The market demand curve cannot be increased.
    D) Firms do not make long-run profits.

    Ans: A Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165
    Subtopic: Characteristics of perfect competition Type: Application

15. Which idea is inconsistent with perfect competition?
    A) short-run losses
    B) product differentiation
    C) freedom of entry or exit for firms
    D) a large number of buyers and sellers

    Ans: B Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165
    Subtopic: Characteristics of perfect competition Type: Definition

16. A perfectly competitive firm does not try to sell more of its product by lowering its price below the market price because:
    A) its competitors would not permit it.
    B) it can sell all it wants to at the market price.
    C) this would be considered unethical.
    D) its demand curve is inelastic, so total revenue will decline.

    Ans: B Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Characteristics of perfect competition Type: Application

17. Which characteristic would best be associated with perfect competition?
    A) few sellers
    B) price taker
    C) nonprice competition
    D) product differentiation

    Ans: B Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Characteristics of perfect competition Type: Definition

18. Which of the following statements applies to a perfectly competitive producer?
    A) It will not advertise its product.
    B) In long-run equilibrium it will earn an economic profit.
    C) Its product will have a brand name.
    D) Its product is slightly different from those of its competitors.

    Ans: A Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165
    Subtopic: Characteristics of perfect competition Type: Application

19. A perfectly competitive seller is:
    A) both a "price maker" and a "price taker."
    B) neither a "price maker" nor a "price taker."
    C) a "price taker."
    D) a "price maker."

    Ans: C Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Characteristics of perfect competition Type: Application

20. Which of the following is not characteristic of perfect competition?
    A) price strategies by firms
    B) a standardized product
    C) no barriers to entry
    D) a larger number of sellers

    Ans: A Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Characteristics of perfect competition Type: Application

21. Which of the following is not a basic characteristic of perfect competition?
    A) considerable nonprice competition
    B) no barriers to the entry or exodus of firms
    C) a standardized or homogeneous product
    D) a large number of buyers and sellers

    Ans: A Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165
    Subtopic: Characteristics of perfect competition Type: Application

22. A perfectly competitive firm does not try to sell more of its product by lowering its price below the market price because:
    A) its competitors would not permit it.
    B) it can sell all it wants to at the market price.
    C) this would be considered unethical price setting.
    D) its demand curve is inelastic, so total revenue will decline.

    Ans: B Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165
    Subtopic: Characteristics of perfect competition Type: Application

23. Price is constant or "given" to the individual firm selling in a perfectly competitive market because:
    A) the firm's demand curve is downward sloping.
    B) there are no good substitutes for the firm's product.
    C) each seller supplies a negligible fraction of total supply.
    D) product differentiation is reinforced by extensive advertising.

    Ans: C Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165
    Subtopic: Characteristics of perfect competition Type: Application

24. Sam owns a firm that produces tomatoes in a perfectly competitive market. The firm's demand curve is:
    A) a vertical line.
    B) a horizontal line.
    C) upward sloping to the right.
    D) downward sloping to the right.

    Ans: B Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Demand for a firm in perfect competition Type: Application

25. The demand schedule or curve confronted by the individual perfectly competitive firm is:
    A) relatively elastic, that is, the elasticity coefficient is greater than unity.
    B) perfectly elastic.
    C) relatively inelastic, that is, the elasticity coefficient is less than unity.
    D) perfectly inelastic.

    Ans: B Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Demand for a firm in perfect competition Type: Application

26. In perfect competition, the demand for the product of a single firm is perfectly:
    A) elastic because the firm produces a unique product.
    B) inelastic because the firm produces a unique product.
    C) elastic because many other firms produce the same product.
    D) inelastic because many other firms produce the same product.

    Ans: C Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Demand for a firm in perfect competition Type: Application

27. In perfect competition, the demand for the product of a single firm is:
    A) between zero and one.
    B) perfectly inelastic.
    C) perfectly elastic.
    D) greater than one.

    Ans: C Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Demand for a firm in perfect competition Type: Application

28. A perfectly elastic demand curve implies that the firm:
    A) must lower price to sell more output.
    B) can sell as much output as it chooses at the existing price.
    C) realizes an increase in total revenue which is less than product price when it sells an extra unit.
    D) is selling a differentiated (heterogeneous) product.

    Ans: B Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Demand for a firm in perfect competition Type: Application

29. If the demand curve facing a firm is perfectly elastic, then:
    A) its marginal revenue will equal price.
    B) its marginal revenue schedule will decrease at an increasing rate.
    C) its marginal revenue schedule decreases twice as fast as the demand curve.
    D) it can increase its total revenue by lowering the price of its product.

    Ans: A Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Demand for a firm in perfect competition Type: Application

30. A single firm in perfect competition in the short run has a:
    A) vertical supply curve.
    B) vertical demand curve.
    C) horizontal supply curve.
    D) horizontal demand curve.

    Ans: D Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Demand for a firm in perfect competition Type: Application

31. The demand curve of a perfectly competitive firm is:
    A) perfectly elastic.
    B) perfectly inelastic.
    C) elastic but not perfectly elastic.
    D) inelastic but not perfectly inelastic.

    Ans: A Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Demand for a firm in perfect competition Type: Application

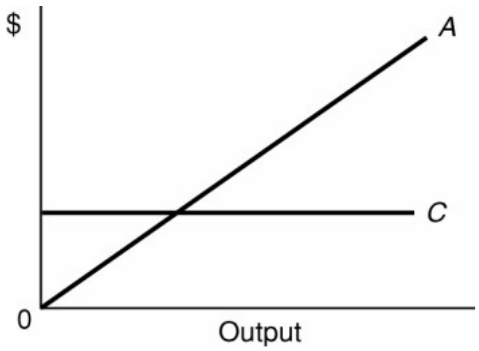
32. For a perfectly competitive firm total revenue:
    A) is price times quantity sold.
    B) increases by a constant absolute amount as output expands.
    C) graphs as a straight upward sloping line from the origin.
    D) has all of the above characteristics.

    Ans: D Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165
    Subtopic: Average, total, and marginal revenue Type: Application

33. The vertical distance between the horizontal axis and any point on a perfectly competitive firm's demand curve measures:
    A) total revenue.
    B) total cost.
    C) product price, marginal revenue, and average revenue.
    D) the quantity demanded.

    Ans: C Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Subtopic: Average, total, and marginal revenue Type: Application

Use the following to answer questions 34-35:



34. Refer to the diagram above which pertains to a perfectly competitive firm. Curve A represents:
    A) total revenue and marginal revenue.
    B) marginal revenue only.
    C) total revenue and average revenue.
    D) total revenue only.

    Ans: D Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Graphic

35. Refer to the diagram above which pertains to a perfectly competitive firm. Curve C represents:
    A) total revenue and marginal revenue.
    B) marginal revenue only.
    C) total revenue and average revenue.
    D) average revenue and marginal revenue.

    Ans: D Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Graphic

36. Which of the following is characteristic of a perfectly competitive seller's demand curve?
    A) Price and marginal revenue are equal at all levels of output.
    B) Average revenue is less than price.
    C) Its elasticity is "1" at all levels of output.
    D) It is the same as the market demand curve.

    Ans: A Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

37. Total revenue for producing 8 units of output is $48. Total revenue for producing 9 units of output is $63. Given this information, the:
    A) average revenue for producing 9 units is $1.
    B) average revenue for producing 9 units is $15.
    C) marginal revenue for producing the ninth unit is $1.
    D) marginal revenue for producing the ninth unit is $15.

    Ans: D Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

38. A perfectly competitive seller's average revenue curve coincides with:
    A) its marginal revenue curve only.
    B) its demand curve only.
    C) both its demand and marginal revenue curves.
    D) neither its demand nor its marginal revenue curve.

    Ans: C Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

39. Average revenue is:
    A) total revenue minus total cost.
    B) marginal revenue minus marginal cost.
    C) marginal revenue divided by the quantity of output.
    D) total revenue divided by the quantity of output.

    Ans: D Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

40. In perfect competition, the average revenue of a firm always equals:
    A) marginal cost.
    B) average total cost.
    C) marginal revenue.
    D) total revenue.

    Ans: C Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

    Use the following to answer questions 41-43:

    Assume a graph in which dollars are measured on the vertical axis and output on the horizontal axis.

41. Refer to the information provided. For a perfectly competitive firm total revenue:
    A) graphs as a straight, upward sloping line.
    B) is a straight line, parallel to the vertical axis.
    C) is a straight line, parallel to the horizontal axis.
    D) graphs as a straight, downward sloping line.

    Ans: A Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Graphic

42. Refer to the information provided. For a perfectly competitive firm marginal revenue:
    A) graphs as a straight, upward sloping line.
    B) is a straight line, parallel to the vertical axis.
    C) is a straight line, parallel to the horizontal axis.
    D) graphs as a straight, downward sloping line.

    Ans: C Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Graphic

43. Refer to the information provided. For a perfectly competitive firm:
    A) marginal revenue will graph as an upward sloping line.
    B) the demand curve will lie above the marginal revenue curve.
    C) the marginal revenue curve will lie above the demand curve.
    D) the demand and marginal revenue curves will coincide.

    Ans: D Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Graphic

44. If a firm in a perfectly competitive industry is confronted with an equilibrium price of $5, its marginal revenue:
    A) may be either greater or less than $5.
    B) will also be $5.
    C) will be less than $5.
    D) will be greater than $5.

    Ans: B Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

45. For a perfectly competitive seller, price equals:
    A) average revenue.
    B) marginal revenue.
    C) total revenue divided by output.
    D) all of the above.

    Ans: D Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

46. The marginal revenue curve of a perfectly competitive firm:
    A) lies below the firm's demand curve.
    B) increases at an increasing rate as output expands.
    C) is horizontal at the market price.
    D) is downward sloping because price must be reduced to sell more output.

    Ans: C Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

47. The fact that a perfectly competitive firm's total revenue curve is linear and upward sloping to the right implies that:
    A) product price increases as output increases.
    B) product price decreases as output increases.
    C) product price is constant at all levels of output.
    D) marginal revenue declines as more output is produced.

    Ans: C Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

48. Marginal revenue is the:
    A) change in product price associated with the sale of one more unit of output.
    B) change in average revenue associated with the sale of one more unit of output.
    C) difference between product price and average total cost.
    D) change in total revenue associated with the sale of one more unit of output.

    Ans: D Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Definition

49. Marginal revenue for a perfectly competitive firm:
    A) is greater than price.
    B) is less than price.
    C) is equal to price.
    D) may be either greater or less than price.

    Ans: C Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

50. Refer to the data. This firm is selling its output in a(n):

Marginal Output	Marginal revenue	cost
0	--	--
1	$16	$10
2	16	9
3	16	13
4	16	17
5	16	21

    A) imperfectly competitive market.
    B) monopolistic market.
    C) perfectly competitive market.
    D) oligopolistic market.

    Ans: C Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

51. In perfect competition, the marginal revenue of a firm always equals:
    A) product price.
    B) total revenue.
    C) average total cost.
    D) marginal cost.

    Ans: A Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

52. In perfect competition, marginal revenue is:
    A) equal to total revenue.
    B) equal to product price.
    C) less than product price.
    D) greater than product price.

    Ans: B Level: Moderate Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166
    Subtopic: Average, total, and marginal revenue Type: Application

53. Firms seek to maximize:
    A) per unit profit.
    B) total revenue.
    C) total profit.
    D) market share.

    Ans: C Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 167 Subtopic: Total-Revenue-Total-Cost-approach Type: Application

54. When a firm is maximizing profit it will necessarily be:
    A) maximizing profit per unit of output.
    B) maximizing the difference between total revenue and total cost.
    C) minimizing total cost.
    D) maximizing total revenue.

    Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Application

55. A firm reaches a break-even point (firm makes normal profit) where:
    A) marginal revenue cuts the horizontal axis.
    B) marginal cost intersects the average variable cost curve.
    C) total revenue equals total variable cost.
    D) total revenue and total cost are equal.

    Ans: D Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Definition

56. In the short run a perfectly competitive firm which seeks to maximize profit will produce:
    A) where the demand and the ATC curves intersect.
    B) where total revenue exceeds total cost by the maximum amount.
    C) that output where economic profits are zero.
    D) at any point where the total revenue and total cost curves intersect.

    Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Application

57. In a typical graph for a perfectly competitive firm, the intersection of the total cost and total revenue curves would be:
    A) a point of maximum economic profit.
    B) a point of minimum economic loss.
    C) a point where MR = MC.
    D) a break-even point.

    Ans: D Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

58. A competitive firm will maximize profits at that output at which:
    A) total revenue exceeds total cost by the greatest amount.
    B) total revenue and total cost are equal.
    C) price exceeds average total cost by the largest amount.
    D) the difference between marginal revenue and price is at a maximum.

    Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Application

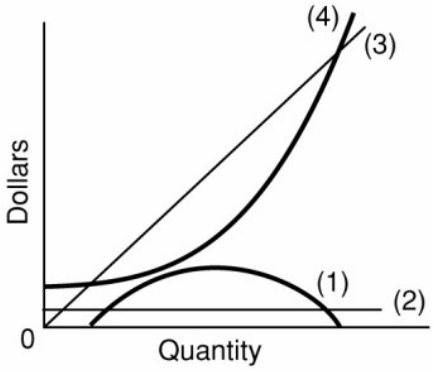
59. In the short run a perfectly competitive firm will maximize profit by producing that output at which:
    A) total revenue exceeds total cost by a maximum amount.
    B) total revenue exceeds total cost by a minimum amount.
    C) total revenue and total cost are equal.
    D) total fixed cost equals total variable cost.

    Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Application

60. The principle that a firm should produce up to the point where the marginal revenue from the sale of an extra unit of output is equal to the marginal cost of producing it is known as the:
    A) output-maximizing rule.
    B) profit-maximizing rule.
    C) shut-down rule.
    D) break-even rule.

    Ans: B Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Definition

Use the following to answer questions 61-62:



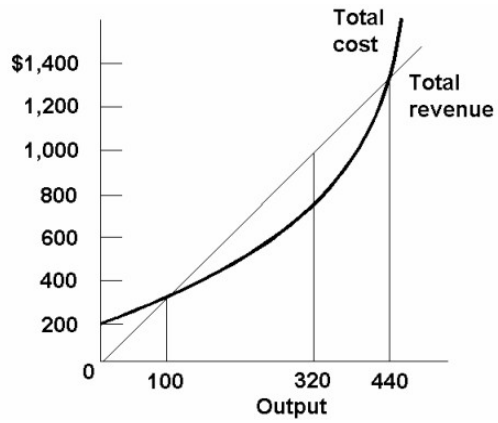
61. Refer to the diagram above. Other things equal, an increase of product price would be shown as:
    A) an increase in the steepness of curves (3), an upward shift in curve (2), and upward shift in curve (1).
    B) a decrease in the steepness of curve (3), a downward shift in curve (2), and an upward shift in curve (1).
    C) an downward shift in curve (4) and an upward shift in curve (1), with no changes in lines (2) and (3).
    D) an upward shift in line (2) only.

    Ans: A Level: Difficult Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

62. The firm represented by the diagram above would maximize its profit where:
    A) curves (2) and (1) intersect.
    B) curve (1) touches the horizontal axis for the second time.
    C) the vertical distance between curves (3) and (4) is the greatest.
    D) curves (3) and (4) intersect.

    Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

Use the following to answer questions 63-66:



63. Refer to the short-run data above. Total fixed cost for this firm:
    A) is about $67.
    B) is $300.
    C) is $200.
    D) is $100.

    Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

64. Refer to the short-run data above. The shape of the total cost curve reflects:
    A) diminishing opportunity costs.
    B) the law of rising fixed costs.
    C) increasing and diminishing returns.
    D) economies and diseconomies of scale.

    Ans: C Level: Difficult Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

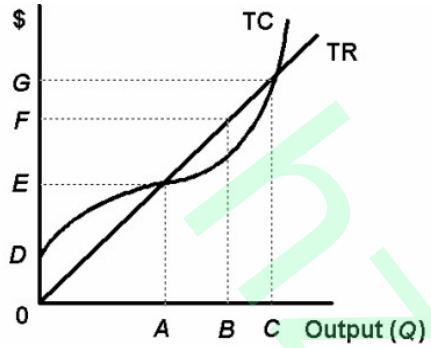
65. Refer to the short-run data above. The profit-maximizing output for this firm is:
    A) above 440 units.
    B) 440 units.
    C) 320 units.
    D) 100 units.

    Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

66. Refer to the short-run data above. Which of the following is correct?
    A) This firm will maximize its profit at 440 units of output.
    B) Any level of output between 100 and 440 units will yield an economic profit.
    C) This firm's marginal revenue rises with output.
    D) Any level of output less than 100 units or greater than 440 units is profitable.

    Ans: B Level: Difficult Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

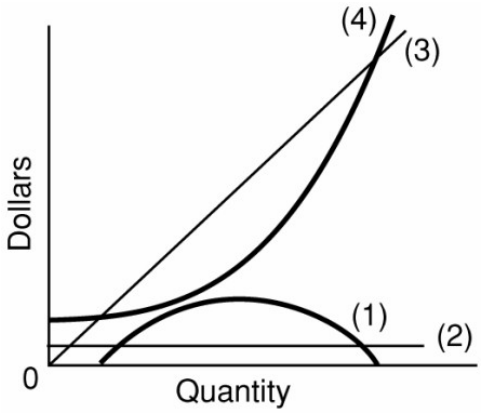
67. Refer to the graph for a perfectly competitive firm in short-run equilibrium. The price being charged by the firm is given by:



    A) 0F/0C.
    B) 0G/0C.
    C) 0F/0B.
    D) 0E/0A.

    Ans: C Level: Difficult Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

    Use the following to answer questions 68-71:



68. Curve (1) in the diagram above is a perfectly competitive firm's:
    A) total cost curve.
    B) total revenue curve.
    C) marginal revenue curve
    D) total economic profit curve.

    Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

69. Curve (2) in the diagram above is a perfectly competitive firm's
    A) total cost curve.
    B) total revenue curve.
    C) marginal revenue curve
    D) total economic profit curve.

    Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

70. Curve (3) in the diagram above is a perfectly competitive firm's
    A) total cost curve.
    B) total revenue curve.
    C) marginal revenue curve.
    D) total economic profit curve.

    Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

71. Curve (4) in the diagram above is a perfectly competitive firm's:
    A) total cost curve.
    B) total revenue curve.
    C) marginal revenue curve.
    D) total profit curve.

    Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

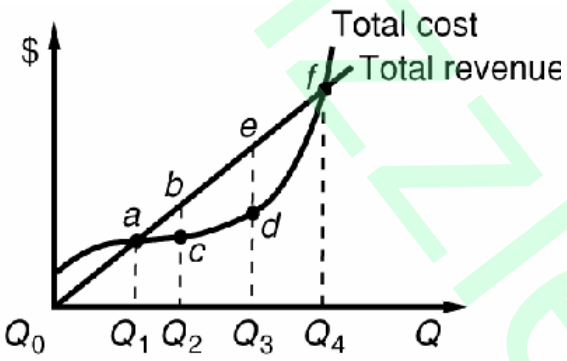
72. Answer the question based on the table below.

Price	Quantity	TFC	TVC
$5	5	$25	$10
5	10	25	20
5	15	25	50
5	20	25	60

At what point on the table would a perfectly competitive firm just cover all of its costs?
A) Q = 5
B) Q = 10
C) Q = 15
D) Q = 20

Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Calculation

Use the following to answer questions 73-74:



73. Refer to the graph above. Which of the output levels is the profit-maximizing output level for this firm?
A) Q_1
B) Q_2
C) Q_3
D) Q_4

Ans: C Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

74. Refer to the graph above. The amount of profit is measured by the difference between:
    A) a and c
    B) b and c
    C) c and a
    D) dand e

    Ans: D Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

75. In a typical graph for a perfectly competitive firm, where the total cost and total revenue curves intersect there is a(n):
    A) economic profit.
    B) normal profit.
    C) economic loss.
    D) zero level of output.

    Ans: B Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Graphic

76. In the short run, fixed costs for a profitable firm are:
    A) zero.
    B) negative.
    C) important determinants of the output level.
    D) irrelevant in determining the optimal level of output.

    Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Application

    Use the following to answer questions 77-80:

    The following cost data is for a perfectly competitive seller:

Total product	Total fixed cost	Total variable cost	Total cost
0	$50	$ 0	$ 50
1	50	70	120
2	50	120	170
3	50	150	200
4	50	220	270
5	50	300	350
6	50	390	440

77. The data above are for:
    A) the long run.
    B) the short run.
    C) both the short run and the long run.
    D) the intermediate market period only.

    Ans: B Level: Easy Main Topic: 7.3 Profit maximization in the short run Page: 167-168 Subtopic: Total-Revenue-Total-Cost-approach Type: Application

78. Refer to the data above. The marginal cost of the fifth unit of output:
    A) is $80.
    B) is $90.
    C) is $50.
    D) is $20.

    Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run Page: 168 Subtopic: Marginal-Revenue-Marginal-Cost approach Type: Calculation

79. Refer to the data above. If product price is $75, the firm will:
    A) produce 3 units of output.
    B) produce 4 units of output.
    C) produce 5 units of output.
    D) produce 6 units of output.

    Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run Page: 168 Subtopic: Marginal-Revenue-Marginal-Cost approach Type: Calculation

80. Refer to the data above. Given the $75 product price, at its optimal output the firm will:
    A) realize a $25 economic profit.
    B) realize a $30 economic profit.
    C) realize a $25 loss.
    D) realize a $30 loss.

    Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run Page: 168 Subtopic: Marginal-Revenue-Marginal-Cost approach Type: Calculation

81. In the short run, a perfectly competitive firm will earn a normal profit when:
    A) P = AVC.
    B) P > MC.
    C) that firm's MR = market equilibrium price.
    D) P = ATC.

    Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 168 Subtopic: Marginal-Revenue-Marginal-Cost approach Type: Formula

82. A firm should increase the quantity of output as long as its:
    A) marginal revenue is greater than its marginal cost.
    B) marginal cost is greater than its marginal revenue.
    C) average revenue is greater than its average total cost.
    D) average revenue is greater than its average variable cost.

    Ans: A Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 168 Subtopic: Marginal-Revenue-Marginal-Cost approach
    Type: Application

83. A competitive firm in the short run can determine the profit-maximizing (or loss-minimizing) output by equating:
    A) price and average total cost.
    B) price and average fixed cost.
    C) marginal revenue and marginal cost.
    D) price and marginal revenue.

    Ans: C Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 168 Subtopic: Marginal-Revenue-Marginal-Cost approach
    Type: Application

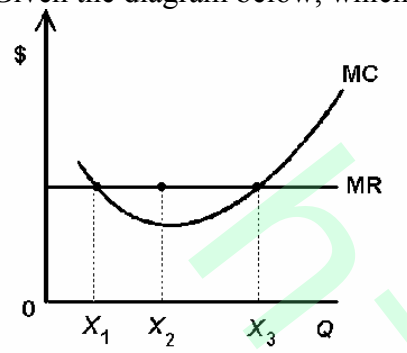
84. The MR = MC rule applies:
    A) to firms in all types of industries.
    B) only when the firm is a "price taker."
    C) only to monopolies.
    D) only to perfectly competitive firms.

    Ans: A Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 168 Subtopic: Marginal-Revenue-Marginal-Cost approach
    Type: Application

85. The MR = MC rule applies:
    A) in the short run, but not in the long run.
    B) in the long run, but not in the short run.
    C) in both the short run and the long run.
    D) only to a perfectly competitive firm.

    Ans: C Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 168 Subtopic: Marginal-Revenue-Marginal-Cost approach
    Type: Application

86. Given the diagram below, which level of output should the entrepreneur choose?



    A) either X_1 or X_3 since the profit level will be the same
    B) X_3 since any increase in output will reduce profits
    C) X_1 since any decrease in output will reduce profits
    D) X_2 since at this level the difference between MR and MC is maximized

    Ans: B Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 170 Subtopic: Marginal-Revenue-Marginal-Cost approach Type: Graphic

87. The MR = MC rule can be restated for a perfectly competitive seller as P = MC because:
    A) each additional unit of output adds exactly its price to total revenue.
    B) the firm's average revenue curve is downward sloping.
    C) the market demand curve is downward sloping.
    D) the firm's marginal revenue and total revenue curves will coincide.

    Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 170 Subtopic: Marginal-Revenue-Marginal-Cost approach
    Type: Application

88. Refer to the data below. At 5 units of output average fixed cost, average variable cost, and average total cost are:

The following cost data is for a perfectly competitive seller:

Total product	Total fixed cost	Total variable cost	Total cost
0	$50	$ 0	$ 50
1	50	70	120
2	50	120	170
3	50	150	200
4	50	220	270
5	50	300	350
6	50	390	440

A) $10, $60, and $70 respectively.
B) $50, $40, and $90 respectively.
C) $10, $70, and $80 respectively.
D) $5, $25, and $30 respectively.

Ans: A Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

89. Assume the XYZ Corporation is producing 20 units of output. It is selling this output in a perfectly competitive market at $10 per unit. Its total fixed costs are $100 and its average variable cost is $3 at 20 units of output. This corporation:
A) should close down in the short run.
B) is maximizing its profits.
C) is realizing a loss of $60.
D) is realizing an economic profit of $40.

Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

90. Refer to the table. If the product sells for $1,200 a unit, the firm's profit-maximizing output is:

The table shows the total costs for a perfectly competitive firm.

Output	Total cost
0	$2,500
1	2,700
2	3,100
3	3,700
4	4,500
5	6,000

A) 4.
B) 3.
C) 2.
D) 5.

Ans: A Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

91. Refer to the data. At the profit-maximizing output the firm's total revenue is:

Output	Marginal revenue	Marginal cost
0	--	--
1	$16	$10
2	16	9
3	16	13
4	16	17
5	16	21

A) $48.
B) $32.
C) $80.
D) $64.

Ans: A Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

92. Refer to the table. The market price of the product is:

The table below is for a perfectly competitive firm.

Output	Total revenue	Total cost
0	$ 0	$ 50
1	40	74
2	80	94
3	120	117
4	160	142
5	200	172

A) $40.
B) $80.
C) $120.
D) $160.

Ans: A Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

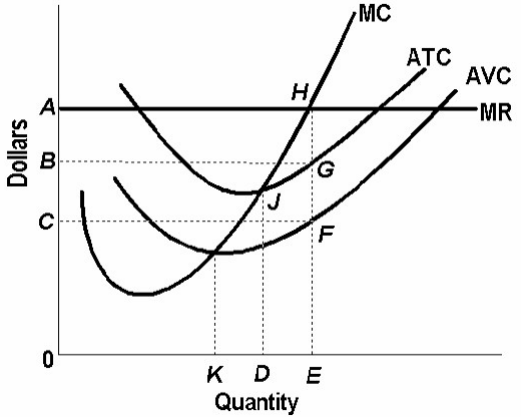
93. On a per unit basis economic profit can be determined as the difference between:
A) marginal revenue and product price.
B) product price and average total cost.
C) marginal revenue and marginal cost.
D) average fixed cost and product price.

Ans: B Level: Easy Main Topic: 7.3 Profit maximization in the short run Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach Type: Application

94. Assume a perfectly competitive firm is selling 200 units of output at $3 each. At this output its total fixed cost is $100 and its total variable cost is $350. This firm:
A) is maximizing its profit.
B) is making a profit, but not necessarily the maximum profit.
C) is incurring losses.
D) should shut down in the short run.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

95. Refer to the diagram. To maximize profit or minimize losses this firm will produce:



A) K units at price C.
B) D units at price J.
C) E units at price B.
D) E units at price A.

Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

96. A perfectly competitive seller should produce (rather than shut down) in the short run:
A) only if total revenue exceeds total cost.
B) only if total cost exceeds total revenue.
C) if total revenue exceeds total cost or if total cost exceeds total revenue by some amount less than total fixed cost.
D) if total cost exceeds total revenue by some amount greater than total fixed cost.

Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

97. Assume the price of a product sold by a perfectly competitive firm is $5. Given the data in the accompanying table, at what output is total profit highest in the short run?

Output	Total cost
20	$ 70
25	75
30	85
35	100
40	125
45	155
50	190

A) 40
B) 30
C) 20
D) 50

Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

98. Given the table below, what is the short-run profit-maximizing level of output for the firm?

Output	Total revenue	Total cost
1	$ 4	$ 2
2	8	3
3	12	6
4	16	9
5	20	14

A) 2 units
B) 4 units
C) 3 units
D) 1 unit

Ans: B Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

Use the following to answer questions 99-100:

Output	Marginal revenue	Marginal cost
0	--	--
1	$16	$10
2	16	9
3	16	13
4	16	17
5	16	21

99. Refer to the data above. At the profit-maximizing output the firm's total cost is:
A) $48.
B) $32.
C) $80.
D) $64.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach

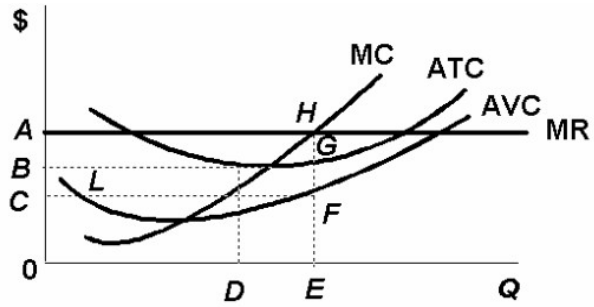
100. Refer to the data above. The firm's:
A) economic profit is $12.
B) economic profit is $16.
C) loss is $14.
D) economic profit is $3.

Ans: B Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

101. In the short run a perfectly competitive firm will always make an economic profit if:
A) P = ATC.
B) P > AVC.
C) P = MC.
D) P > ATC.

Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Formula

102. Using the diagram below, in order to maximize profits, this firm would produce _____ which would result in _____.



A) 0D units, a loss equal to ABGH
B) 0E units, a loss equal to ALFH
C) 0D units, economic profits equal to BCFG
D) 0E units, economic profits equal to ABGH

Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

103. A perfectly competitive firm is in short-run equilibrium and its MC exceeds its ATC. It can be concluded that:
A) firms will leave the industry in the long run.
B) the firm is realizing an economic profit.
C) the firm is realizing a loss.
D) this is an increasing-cost industry.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

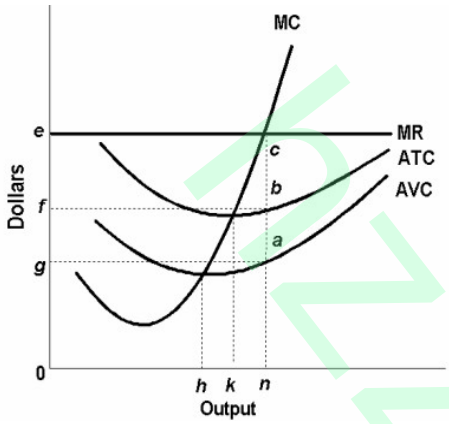
104. The Campus Crustacean Company receives $2 per box for its crawfish and is selling 1,600 boxes to maximize its profits. What is the per unit profit on a box of crawfish at the profit-maximizing level of output if the variable cost is $1 per box and fixed costs are $1,200?
A) $.25.
B) $.50.
C) $1.00.
D) $1.25.

Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

105. If a perfectly competitive firm is producing at some level less than the profit-maximizing output, then:
A) price is necessarily greater than average total cost.
B) fixed costs are large relative to variable costs.
C) price exceeds marginal revenue.
D) marginal revenue exceeds marginal cost.

Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach Type: Application

Use the following to answer questions 106-109:



106. Refer to the diagram above. The profit-maximizing output:
A) is n.
B) is k.
C) is h.
D) cannot be determined from the information given.

Ans: A Level: Easy Main Topic: 7.3 Profit maximization in the short run Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach Type: Graphic

107. Refer to the diagram above. At the profit-maximizing output, average variable cost is:
A) ef.
B) fg.
C) na.
D) ac.

Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach Type: Graphic

108. Refer to the diagram above. At the profit-maximizing output, total profit is:
A) efbc.
B) fgab.
C) egac.
D) 0fbn.

Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

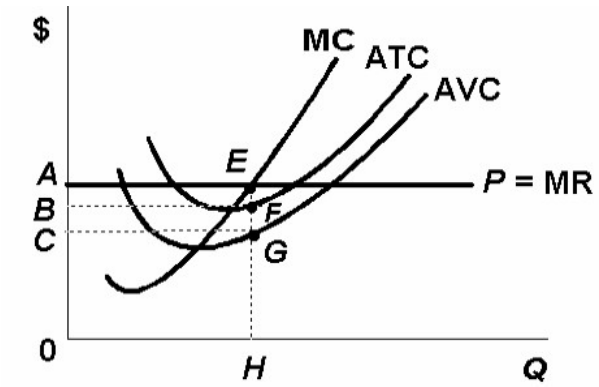
109. Refer to the diagram above. For any level of output, total fixed cost:
A) is fgab.
B) is 0gan.
C) is ba.
D) is efbc.

Ans: A Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

110. If a perfectly competitive firm is producing at the P = MC output and realizing an economic profit, at that output:
A) marginal revenue is less than price.
B) marginal revenue exceeds ATC.
C) ATC is being minimized.
D) total revenue equals total cost.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

111. In the graph below, the area:



A) 0CGH represents the firm's total cost.
B) ACGE represents the firm's total profit.
C) 0AEH represents the firm's total profit.
D) BCGF represents the firm's fixed costs of production.

Ans: D Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

Use the following to answer questions 112-113:

The following cost data is for a perfectly competitive seller:

Output	Total cost
0	$ 50
1	90
2	120
3	140
4	170
5	210
6	260
7	330

112. Refer to the data above. If product price is $60, the firm will:
A) shut down.
B) produce 6 units and realize a $100 economic profit.
C) produce 4 units and realize a $120 economic profit.
D) produce 3 units and realize a $40 loss.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

113. Refer to the data above. If product price is $45, the firm will:
A) shut down.
B) produce 4 units and realize a $120 economic profit.
C) produce 5 units and realize a $15 economic profit.
D) produce 6 units and realize a $100 economic profit.

Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

114. Which of the following is not a valid generalization concerning the relationship between price and costs for a perfectly competitive seller in the short run?
A) Price must be at least equal to average total cost.
B) Price times quantity produced must be equal to or greater than total variable cost for some level of output or the firm will close down in the short run.
C) Price may be equal to, greater than, or less than average total cost.
D) Price must be equal to or greater than minimum average variable cost for the firm to continue producing.

Ans: A Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

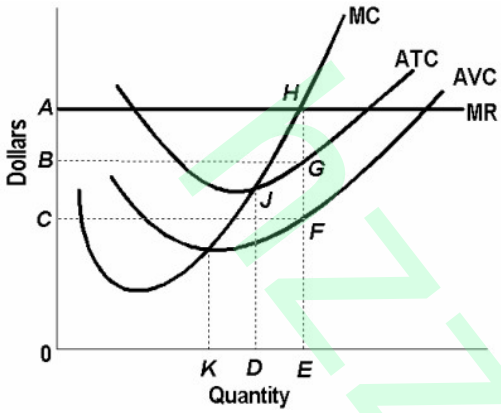
115. When a firm produces less output, it can reduce:
A) its fixed costs but not its variable costs.
B) its variable costs but not its fixed costs.
C) average fixed cost.
D) marginal revenue.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

116. A perfectly competitive firm is producing at the point where its marginal cost equals the price of its product. If the firm increases its output, then total revenue will:
A) increase and profits will increase.
B) decrease and profits will increase.
C) increase and profits will decrease.
D) decrease and profits will decrease.

Ans: C Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

Use the following to answer questions 117-120:



117. Refer to the diagram above. At the profit-maximizing output, total revenue will be:
A) 0AHE.
B) 0BGE.
C) 0CFE.
D) ABGE.

Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

118. Refer to the diagram above. At the profit-maximizing output, total fixed cost is equal to:
A) 0AHE.
B) 0BGE.
C) 0CFE.
D) BCFG.

Ans: D Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

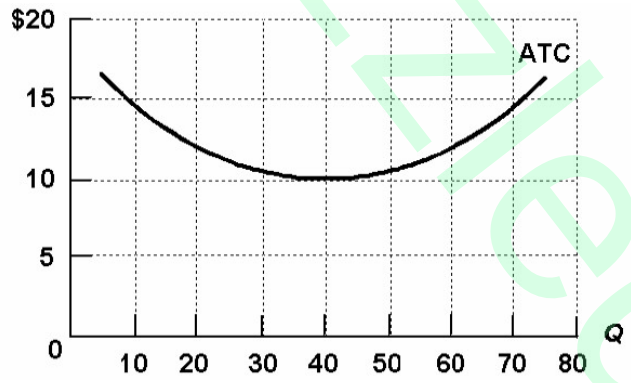
119. Refer to the diagram above. At the profit-maximizing output, total variable cost is equal to:
A) 0AHE.
B) 0CFE.
C) 0BGE.
D) ABGH.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Profit-maximizing case Type: Graphic

120. Refer to the diagram above. At the profit-maximizing output, the firm will realize:
A) a loss equal to BCFG.
B) a loss equal to ACFH.
C) an economic profit of ACFH.
D) an economic profit of ABGH.

Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

Use the following to answer questions 121-123:



121. Refer to the diagram above showing the average total cost curve for a perfectly competitive firm. Suppose this firm is maximizing its total profit and the market price is $15. The firm's per unit profit is:
A) $5.
B) $200.
C) a positive amount less than $5.
D) a positive amount more than $200.

Ans: C Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

122. Refer to the diagram above showing the average total cost curve for a perfectly competitive firm. Suppose that total variable cost is $300 at 40 units of output. At that level of output, average fixed cost:
A) is $2.50.
B) is $4.
C) is $100.
D) cannot be determined from the information provided.

Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

123. Refer to the diagram above showing the average total cost curve for a perfectly competitive firm. Suppose that average variable cost is $8 at 40 units of output. At that level of output, total fixed cost:
A) is $2.
B) is $40.
C) is $80.
D) cannot be determined from the information provided.

Ans: C Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

124. Suppose that when 3000 units of output are produced, the marginal cost of the 3001st unit is $2. This amount is equal to the minimum of average total cost, and marginal cost is rising. If the optimal level of output in the short run is 3300 units, then at this higher level of output marginal cost is:
A) equal to $2 and marginal cost is equal to average total cost.
B) less than $2 and marginal cost is greater than average total cost.
C) greater than $2 and marginal cost is less than average total cost.
D) greater than $2 and marginal cost is greater than average total cost.

Ans: D Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

125. Let us suppose Harry's, a local supplier of chili and beer, has the following revenue and cost structure:

Total revenue	$3,000 per week
Total variable cost	$2,000 per week
Total fixed costs	$2,000 per week

A) Harry's should stay open in the short run.
B) Harry's should shut down in the short run.
C) Harry's should stay open in the long run.
D) Harry's should shut down in the short run but reopen in the long run.

Ans: A Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 181 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

126. Refer to the data below. If the firm's minimum average variable cost is $10, the firm's profit-maximizing level of output would be:

Output	Marginal revenue	Marginal cost
0	--	--
1	$16	$10
2	16	9
3	16	13
4	16	17
5	16	21

A) 2.
B) 3.
C) 4.
D) 5.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

127. Suppose that at 500 units of output marginal revenue is equal to marginal cost. The firm is selling its output at $5 per unit and average total cost at 500 units of output is $6. On the basis of this information we:
A) can say that the firm should close down in the short run.
B) can say that the firm can produce and realize an economic profit in the short run.
C) cannot determine whether the firm should produce or shut down in the short run.
D) can assume the firm is not using the most efficient technology.

Ans: C Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

128. If a firm is confronted with economic losses in the short run, it will decide whether or not to produce by comparing:
A) marginal revenue and marginal cost.
B) price and minimum average variable cost.
C) total revenue and total cost.
D) total revenue and total fixed cost.

Ans: B Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

129. A firm finds that at its MR = MC output, its TC = $1000, TVC = $800, TFC = $200, and total revenue is $900. This firm should:
A) shut down in the short run.
B) produce because the resulting loss is less than its TFC.
C) produce because it will realize an economic profit.
D) liquidate its assets and go out of business.

Ans: B Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

130. A firm sells a product in a perfectly competitive market. The marginal cost of the product at the current output of 800 units is $3.50. The minimum possible average variable cost is $3.00. The market price of the product is $4.00. To maximize profit or minimize losses, the firm should:
A) continue producing 800 units.
B) produce more than 800 units.
C) produce less than 800 units.
D) shut down.

Ans: B Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

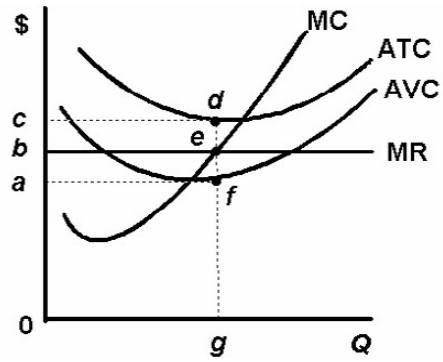
131. A firm sells a product in a perfectly competitive market. The marginal cost of the product at the current output of 500 units is $1.50. The minimum possible average variable cost is $1.00. The market price of the product is $1.25. To maximize profit or minimize losses, the firm should:
A) continue producing 500 units.
B) produce less than 500 units.
C) produce more than 500 units.
D) shut down.

Ans: B Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

132. DASH Airlines is considering the addition of a flight from Red Cloud to David City. The total cost of the flight would be $1100 of which fixed costs are $800. Expected revenues from the flight are $600. DASH should:
A) not add this flight because only flights which cover their full costs are profitable.
B) not add this flight because it is not profitable at the margin.
C) add this flight because the flight's expected revenue covers part of the fixed cost.
D) not add this flight because total costs exceed total revenue.

Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

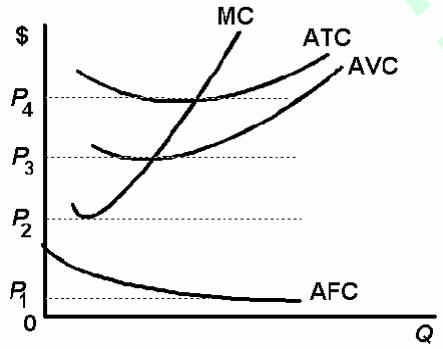
133. The graph below shows a profit-maximizing perfectly competitive firm operating in the short run. Which area in the graph represents the amount the firm can save by continuing to produce in the short run rather than closing down immediately?



A) 0beg
B) 0cdg
C) acdf
D) abef

Ans: D Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

134. Given the graph below showing short-run cost curves for a competitive firm, at what price would the firm face the same profit or loss whether it chooses to produce or not?



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

Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

135. Refer to the data below. If product price is $25, the firm will:

The following cost data is for a perfectly competitive seller:

Output	Total cost
0	$ 50
1	90
2	120
3	140
4	170
5	210
6	260
7	330

A) shut down and realize a $90 loss.
B) shut down and realize a $50 loss.
C) produce 3 units and realize a $65 loss.
D) produce 4 units and realize a $10 economic profit.

Ans: B Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

136. Assume for a competitive firm that MC = AVC at $12, MC = ATC at $20, and MC = MR at $16. This firm will:
A) realize a profit of $4 per unit of output.
B) maximize its profit by producing in the short run.
C) minimize its losses by producing in the short run.
D) shut down in the short run.

Ans: C Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

137. Candy Cane Corporation (CCC) produces 100,000 boxes of candy bars per year which sell for $3 a box. If variable costs are $2 per box, and it has $125,000 in fixed operating costs, in the short run the CCC should:
A) shut down as fixed costs are not being covered.
B) keep producing as profits are $25,000.
C) keep producing as all the variable costs and part of the fixed costs are paid.
D) reduce production until break-even point is reached.

Ans: C Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

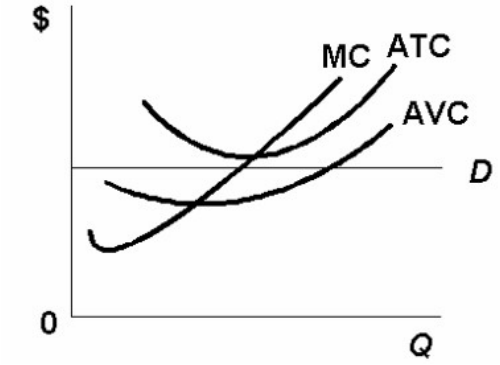
138. A firm should always continue to operate at a loss in the short run if:
A) the firm will show a profit.
B) the owner enjoys helping her customers.
C) the firm cannot produce any other products more profitably.
D) it can cover its variable costs and some of its fixed costs.

Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

139. A perfectly competitive firm will be willing to produce at a loss in the short run provided:
A) the loss is no greater than its total variable costs.
B) the loss is no greater than its total fixed costs.
C) the loss is no greater than its marginal cost.
D) price exceeds marginal costs.

Ans: B Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

140. The perfectly competitive firm below will:



A) shut down.
B) produce with short-run losses.
C) produce with long-run economic profits.
D) produce with short-run economic profits.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

141. If a perfectly competitive firm shut down in the short run:
A) its loss will be zero.
B) it will realize a loss equal to its total variable costs.
C) it will realize a loss equal to its total costs.
D) it will realize a loss equal to its total fixed costs.

Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

142. In the short run a perfectly competitive seller will shut down if:
A) it cannot produce at an economic profit.
B) price is less than average variable cost at all outputs.
C) price is less than average fixed cost at all outputs.
D) there is no point at which marginal revenue and marginal cost are equal.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

143. If at the MC = MR output, AVC exceeds price:
    A) new firms will enter this industry.
    B) the firm should shut down in the short run
    C) the firm should produce the MC = MR output and realize an economic profit.
    D) the firm should expand its plant.

    Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
    Type: Application

144. In the short run a perfectly competitive seller will close down if product price:
    A) equals average revenue.
    B) is greater than MC.
    C) is less than AVC.
    D) is less than ATC.

    Ans: C Level: Easy Main Topic: 7.3 Profit maximization in the short run
    Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
    Type: Application

145. The short-run shut-down point for a perfectly competitive firm occurs:
    A) at any point where price is less than the minimum AVC.
    B) between the two break-even points.
    C) at any point where total revenue is less than total cost.
    D) at any point where the firm is not making an economic profit.

    Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
    Type: Application

146. The loss of a perfectly competitive firm which shuts down in the short run:
    A) is equal to its total variable costs.
    B) is zero.
    C) is equal to its total fixed costs.
    D) cannot be determined.

    Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run
    Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
    Type: Application

147. If total revenue is less than total variable costs at the MR = MC output, a perfectly competitive firm should:
A) shut down.
B) produce, but will necessarily realize a loss.
C) produce and may or may not realize a profit.
D) increase its output.

Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

148. In the standard model of perfect competition, a profit-maximizing entrepreneur will shut down in the short run if:
A) marginal cost is greater than average revenue.
B) average cost is greater than average revenue.
C) average fixed cost is greater than average revenue.
D) total revenue is less than total variable costs.

Ans: D Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

149. Suppose you find that the price of your product is less than minimum AVC. You should:
A) minimize your losses by producing where P = MC.
B) maximize your profits by producing where P = MC.
C) close down because, by producing, your losses will exceed your total fixed costs.
D) close down because total revenue exceeds total variable cost.

Ans: C Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

150. A perfectly competitive firm should produce in the short run if its total revenue is sufficient to cover its:
A) total variable costs.
B) total costs.
C) total fixed costs.
D) marginal costs.

Ans: A Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

151. Refer to the table shown.

The table shows the total costs for a perfectly competitive firm.

Output	Total cost
0	$2,500
1	2,700
2	3,100
3	3,700
4	4,500
5	6,000

If the firm shuts down in the short run, the total cost will be:
A) $200.
B) $2,500.
C) $2,700.
D) $1,500.

Ans: B Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Calculation

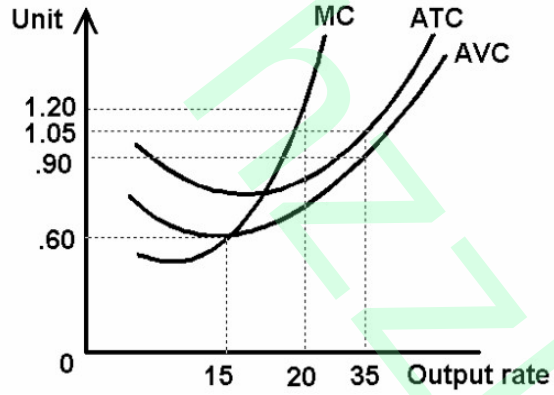
152. A firm sells a product in a perfectly competitive market. The marginal cost of the product at the current output of 200 units is $4.00. The minimum possible average variable cost is $3.50. The market price of the product is $3.00. To maximize profit or minimize losses, the firm should:
A) continue to produce 500 units.
B) produce less than 500 units.
C) produce more than 500 units.
D) shut down.

Ans: D Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

153. The Ajax Manufacturing Company is selling in a perfectly competitive market. Its output is 100 units which sell at $4 each. At this level of output total cost is $600, total fixed cost is $100, and marginal cost is $4. The firm should:
A) reduce output to about 80 units.
B) expand its production.
C) continue to produce 100 units.
D) produce zero units of output.

Ans: D Level: Diffcult Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Application

154. The diagram shows the cost curves for a competitive firm. If the market price falls to $.55, the optimal output is:



A) 0.
B) 15.
C) 20.
D) more than 20, but less than 35.

Ans: A Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 172-173 Subtopic: Marginal-Revenue-Marginal-Cost approach
Type: Graphic

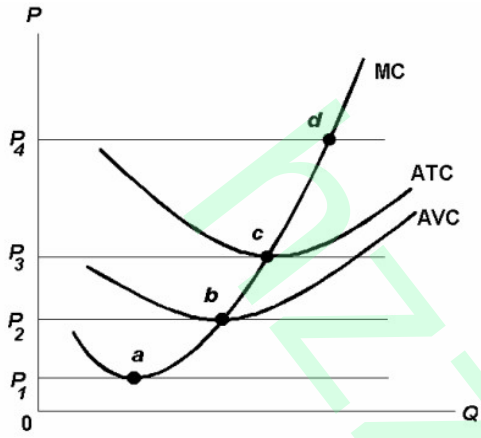
155. The individual firm's short-run supply curve is that part of its:
A) average total cost curve that is upward sloping.
B) average variable cost curve that is upward sloping.
C) marginal-cost curve lying above its average variable-cost curve.
D) marginal-cost curve lying above its average total-cost curve.

Ans: C Level: Easy Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Definition

156. In the short run the individual competitive firm's supply curve is that segment of the:
A) average variable cost curve lying below the marginal cost curve.
B) marginal cost curve lying above the average variable cost curve.
C) marginal revenue curve lying below the demand curve.
D) marginal cost curve lying between the average total cost and average variable cost curves.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Application

Use the following to answer questions 157-160:



157. Refer to the diagram above for a perfectly competitive producer. The firm will produce at a loss at all prices:
A) above P_1.
B) above P_3.
C) above P_4.
D) between P_2 and P_3.

Ans: D Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

158. Refer to the diagram above for a perfectly competitive producer. The firm's short-run supply curve is:
A) the abcd segment of the MC curve.
B) the bcd segment of the MC curve.
C) the cd segment of the MC curve.
D) not shown.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

159. Refer to the diagram above for a perfectly competitive producer. If product price is P_3:
A) the firm will maximize profit at point c.
B) the firm will cover the cost of production (explicit plus implicit costs).
C) economic profits will be zero.
D) all of the above are true.

Ans: D Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

160. Refer to the diagram above for a perfectly competitive producer. The lowest price at which the firm should produce (as opposed to shutting down):
A) is P_1.
B) is P_2.
C) is P_3.
D) is P_4.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

161. The short-run supply curve of a perfectly competitive producer is based on:
A) its AVC curve.
B) its ATC curve.
C) its AFC curve.
D) its MC curve.

Ans: D Level: Easy Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Application

162. A perfectly competitive firm's short-run supply curve is:
A) the upward sloping portion of its marginal cost curve.
B) the upward sloping portion of its average variable cost curve.
C) its marginal cost curve above minimum of its average variable cost.
D) its average total cost curve.

Ans: C Level: Easy Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Application

163. Consider the cost chart below for a perfectly competitive firm. The lowest output level on this firm's short-run supply curve is:

Output	Average variable cost	Average total cost	Marginal cost
10	5.00	15.00	3
12	4.00	13.00	4
14	4.75	11.50	6
16	5.75	9.00	9
20	9.00	12.00	14

A) 10.
B) 12.
C) 16.
D) 20.

Ans: B Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

164. A perfectly competitive firm's short-run supply curve is:
A) perfectly elastic at the minimum average total cost.
B) upward sloping and equal to the portion of the marginal cost curve which lies above the average variable cost curve.
C) upward sloping and equal to the portion of the marginal cost curve which lies above the average total cost curve.
D) upward sloping only when the industry has constant costs.

Ans: B Level: Easy Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Definition

165. The lowest point on a perfectly competitive firm's short-run supply curve corresponds to:
A) the minimum point on its ATC curve.
B) the minimum point on its AVC curve.
C) the minimum point on its AFC curve.
D) the minimum point on its MC curve.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Application

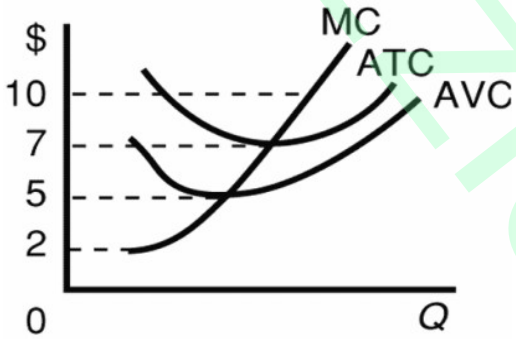
166. The short-run supply curve for a perfectly competitive industry can be found by:
   A) multiplying the AVC curve of the representative firm by the number of firms in the industry.
   B) adding horizontally the AVC curves of all firms.
   C) summing horizontally the segments of the MC curves lying above the AVC curve for all firms.
   D) adding horizontally the immediate market period supply curves of each firm.

   Ans: C Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
   Page: 175-176 Subtopic: Generalized depiction Type: Application

167. The short-run supply curve for a competitive firm is the:
   A) entire MC curve.
   B) segment of the MC curve lying above the AVC curve.
   C) segment of the MC curve lying below the AVC curve.
   D) segment of the AVC curve lying to the right of the MC curve.

   Ans: B Level: Easy Main Topic: 7.4 Marginal cost and short-run supply
   Page: 175-176 Subtopic: Generalized depiction Type: Definition

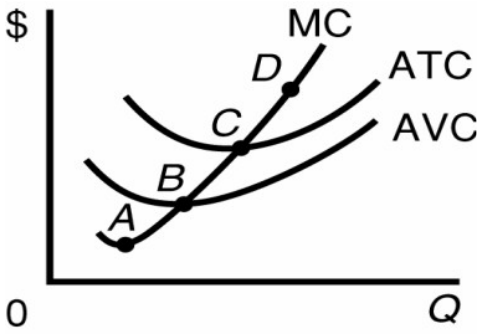
168. This competitive firm in the graph will not produce unless price at least equals to :



   A) $2.
   B) $5.
   C) $7.
   D) $10.

   Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
   Page: 175-176 Subtopic: Generalized depiction Type: Graphic

169. Which point is definitely not on a competitive firm's short-run supply curve?



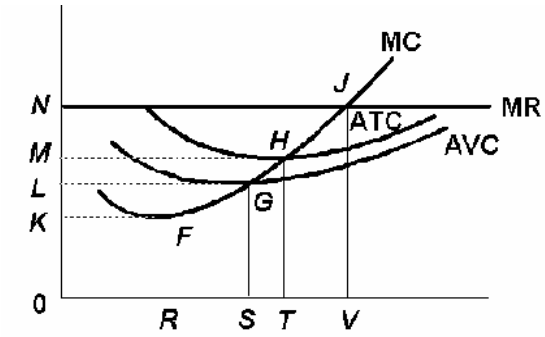
A) A
B) B
C) C
D) D

Ans: A Level: Easy Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

170. The profit-maximizing behaviour for a price-taking firm in short-run requires it to operate where:
A) P = TR = TC.
B) P = MC and at least = minimum of AVC.
C) P = MC = AFC.
D) P = MR = MC = AFC.

Ans: B Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Formula

171. Given the graph below, the competitive firm's supply curve is the:



A) MC curve above F.
B) MC curve above G.
C) MC curve above H.
D) MC curve above J.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

Use the following to answer questions 172-176:

The following cost data is for a firm which is selling in a perfectly competitive market:

Total product	Average fixed cost	Average variable cost	Average total cost	Marginal cost
1	$100.00	$17.00	$117.00	$17
2	50.00	16.00	66.00	15
3	33.33	15.00	47.33	13
4	25.00	14.25	39.25	12
5	20.00	14.00	34.00	13
6	16.67	14.00	30.67	14
7	14.29	15.71	30.00	26
8	12.50	17.50	30.00	30
9	11.11	19.44	30.55	35
10	10.00	21.60	31.60	41
11	9.09	24.00	33.09	48
12	7.33	26.67	35.00	56

172. Refer to the data above. If the market price for the firm's product is $12, the competitive firm will produce:
A) 4 units at a loss of $109.
B) 4 units at an economic profit of $31.75.
C) 8 units at a loss of $48.80.
D) zero units at a loss of $100.

Ans: D Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

173. Refer to the data above. If the market price for the firm's product is $32, the competitive firm will:
A) produce 8 units at an economic profit of $16.
B) produce 5 units at a loss of $10.
C) produce 8 units at a loss equal to the firm's total fixed cost.
D) produce 7 units at an economic profit of $41.50.

Ans: A Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

174. Refer to the data above. If the market price for the firm's product is $28, the competitive firm will:
A) produce 4 units at a loss of $17.40.
B) produce 7 units at a loss of $14.00.
C) close down in the short run.
D) produce 6 units at a loss of $23.80.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

175. Refer to the data above. Which of the following is the firm's short-run supply schedule?

(A)		(B)		(C)		(D)	
Price	Qs	Price	Qs	Price	Qs	Price	Qs
$50	12	$50	12	$50	11	$50	11
42	10	42	11	42	10	42	10
36	8	36	9	36	9	36	9
32	8	32	8	32	8	32	8
20	6	20	6	20	6	20	6
13	0	13	5	13	0	13	5

A) column (A)
B) column (B)
C) column (C)
D) column (D)

Ans: C Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Application

176. Refer to the data above. If there were 1,000 identical firms in this industry and total or market demand is as shown below, equilibrium price will be:

Price	Quantity demanded
$50	3,000
42	6,000
36	9,000
32	11,000
20	14,000
13	19,500

A) $32.
B) $42.
C) $13.
D) $36.

Ans: D Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

Use the following to answer questions 177-183:

Total product	Total fixed cost	Total variable cost
0	$150	$ 0
1	150	50
2	150	75
3	150	105
4	150	145
5	150	200
6	150	270
7	150	360
8	150	475
9	150	620
10	150	800

177. Refer to the table above. If a competitive firm faced with these costs finds that it can sell its product at $60 per unit, it will:
A) produce 5 units and incur a loss of $50.
B) produce 6 units and incur a loss of $30.
C) produce 7 units and realize a profit of $32.
D) close down in the short run.

Ans: A Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

178. Refer to the table above. If product price were $30 per unit, the firm will:
A) produce 5 units and incur a loss of $50.
B) produce 6 units and incur a loss of $30.
C) produce 7 units and realize a loss of $32.
D) shut down in the short run.

Ans: D Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

179. Refer to the table above. If product price were $35 per unit, the firm will:
A) produce 5 units and incur a loss of $50.
B) produce 6 units and incur a loss of $30.
C) produce 7 units and realize a loss of $32.
D) be indifferent as to shutting down or producing 3 units.

Ans: D Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

180. Refer to the table. Which of the following correctly represents the competitive firm's short-run supply schedule?

(A)		(B)		(C)		(D)	
P	QS	P	QS	P	QS	P	QS
$ 20	1	$ 20	0	$ 20	0	$ 20	3
30	2	30	0	30	0	30	4
45	3	45	4	45	0	45	5
60	4	60	5	60	0	60	6
75	5	75	6	75	5	75	7
95	6	95	7	95	6	95	8
120	7	120	8	120	7	120	9
150	8	150	9	150	8	150	10

A) A
B) B
C) C
D) D

Ans: B Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Application

181. Refer to the table. Now assume there are 600 identical firms in this industry, that is, there are 600 firms, each of which has the same cost data as the single firm discussed above. Suppose, too, that the demand curve for this industry is as follows:

Price	Quantity demanded
$ 20	6,800
30	5,975
45	5,500
60	5,125
75	4,500
95	4,200
120	3,600
150	2,400

Equilibrium price will be:
A) $60.
B) $95.
C) $120.
D) $75.

Ans: B Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

182. Refer to the table. Now assume there are 600 identical firms in this industry, that is, there are 600 firms, each of which has the same cost data as the single firm discussed above. Suppose, too, that the demand curve for this industry is as follows:

Price	Quantity demanded
$ 20	6,800
30	5,975
45	5,500
60	5,125
75	4,500
95	4,200
120	3,600
150	2,400

Equilibrium output for each of the firms will be:
A) 7 units.
B) 6 units.
C) 5 units.
D) 9 units.

Ans: A Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

183. Refer to the table. Now assume there are 600 identical firms in this industry, that is, there are 600 firms, each of which has the same cost data as the single firm discussed above. Suppose, too, that the demand curve for this industry is as follows:

Price	Quantity demanded
$ 20	6,800
30	5,975
45	5,500
60	5,125
75	4,500
95	4,200
120	3,600
150	2,400

In equilibrium each firm will realize:
A) an economic profit of $155.
B) an economic profit of $35.
C) a loss of $45.
D) a loss of $135.

Ans: A Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

Use the following to answer questions 184-188:

It shows cost data for a firm that is selling in a perfectly competitive market.

Output	AFC	AVC	ATC	MC
1	$300	$100	$400	$100
2	150	75	225	50
3	100	70	170	60
4	75	73	148	80
5	60	80	140	110
6	50	90	140	140
7	43	103	146	180
8	38	119	156	230
9	33	138	171	290
10	30	160	190	360

184. Refer to the table above. If the market price for the firm's product is $50, the competitive firm will:
A) produce 1 unit.
B) produce 2 units.
C) produce 3 units.
D) shut down.

Ans: D Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Application

185. Refer to the table above. If the market price for the firm's product is $70, the competitive firm will:
A) produce 1 unit.
B) produce 2 units.
C) produce 3 units.
D) shut down.

Ans: C Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Application

186. Refer to the table above. If the market price for the firm's product is $180, the competitive firm will produce:
A) 5 units at an economic profit of $100.
B) 6 units at an economic profit of $120.
C) 8 units at an economic profit of $278.
D) 7 units at an economic profit of $238.

Ans: D Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

187. Refer to the table above. If the product price is $290, the per-unit economic profit at the profit-maximizing output is:
A) $119.
B) $76.
C) $133.
D) $171.

Ans: A Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

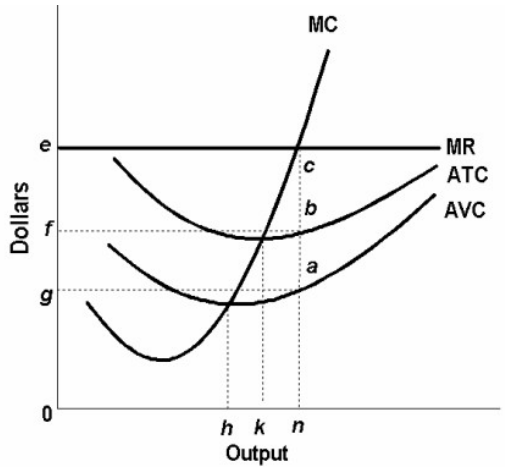
188. Refer to the table above. Now assume there are 100 identical firms in this industry, each of which has the same cost data as the single firm described above. Suppose too that the demand curve for this industry is as shown below:

Price	Quantity demanded
$360	400
290	500
230	600
180	700
140	800
110	900
80	1000

The equilibrium price will be:
A) $140.
B) $180.
C) $230.
D) $290.

Ans: B Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Calculation

Use the following to answer questions 189-190:



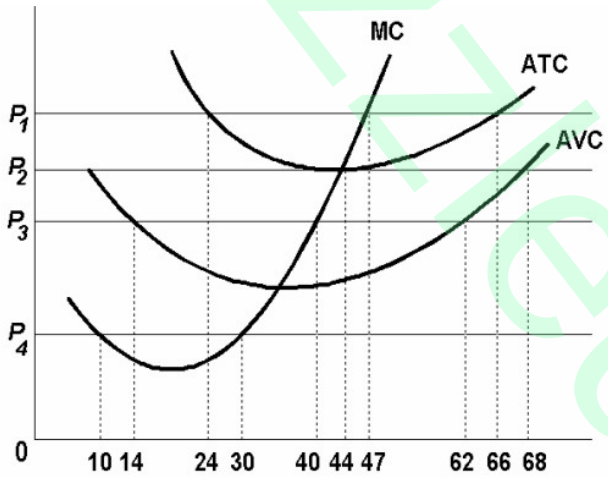
189. Refer to the diagram above. The short-run supply curve for this firm:
A) is the entire MC curve.
B) is the segment of the AVC curve lying to the right of the MC curve.
C) is the segment of the MC curve lying above the ATC curve.
D) is the segment of the MC curve lying above the AVC curve.

Ans: D Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

190. Refer to the diagram above. This firm is selling its product in a(n):
A) perfectly competitive market.
B) imperfectly competitive market.
C) monopsonistic market.
D) monopolistic market.

Ans: A Level: Easy Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

Use the following to answer questions 191-194:



191. Refer to the diagram above. At P_2, this firm will:
A) produce 44 units and realize an economic profit.
B) produce 44 units and earn only a normal profit.
C) produce 66 units and earn only a normal profit.
D) close down in the short run.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

192. Refer to the diagram above. At P_1, this firm will produce:
A) 47 units and break even.
B) 47 units and realize an economic profit.
C) 66 units and earn only a normal profit.
D) 24 units and earn only a normal profit.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

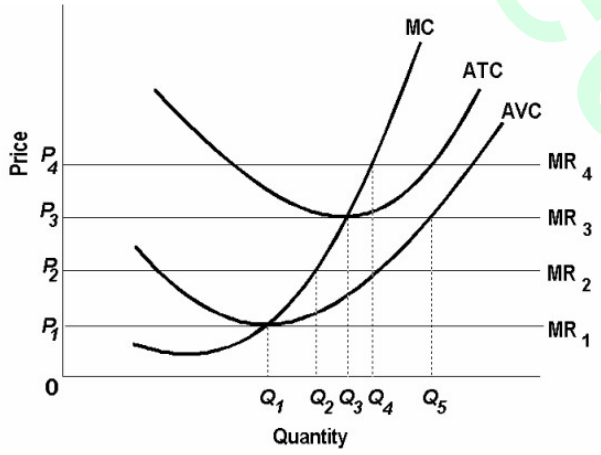
193. Refer to the diagram above. At P_4, this firm will:
A) shut down in the short run.
B) produce 30 units and realize a loss.
C) produce 30 units and earn only a normal profit.
D) produce 10 units and earn only a normal profit.

Ans: A Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

194. Refer to the diagram above. At P_3, this firm will:
A) produce 14 units and realize an economic profit.
B) produce 62 units and earn only a normal profit.
C) produce 40 units and realize a loss.
D) shut down in the short run.

Ans: C Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

Use the following to answer questions 195-198:



195. Refer to the diagram above. This firm will earn only a normal profit if product price is:
A) P_1.
B) P_2.
C) P_3.
D) P_4.

Ans: C Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

196. Refer to the diagram above. The firm will realize an economic profit if price is:
A) P_1.
B) P_2.
C) P_3.
D) P_4.

Ans: D Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

197. Refer to the diagram above. The firm will produce at a loss if price is:
A) P_1.
B) P_2.
C) P_3.
D) P_4.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

198. Refer to the diagram above. The firm will shut down at any price less than:
A) P_1.
B) P_2.
C) P_3.
D) P_4.

Ans: A Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Graphic

199. In short run, a firm should produce as long as:
A) P > = ATC
B) P > AVC
C) P = ATC
D) P > = minimum AVC

Ans: D Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 175-176 Subtopic: Generalized depiction Type: Formula

200. Refer to the table below. This firm apparently encounters diminishing marginal productivity when it produces the:

Total product	Total fixed cost	Total variable cost
0	$150	$ 0
1	150	50
2	150	75
3	150	105
4	150	145
5	150	200
6	150	270
7	150	360
8	150	475
9	150	620
10	150	800

A) second unit of output.
B) third unit of output.
C) fourth unit of output.
D) seventh unit of output.

Ans: B Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 177 Subtopic: Diminishing returns, production costs, and product supply
Type: Calculation

201. If a profit-seeking competitive firm is producing its profit-maximizing output and its total fixed costs fall by 25 percent, the firm should:
A) use more labour and less capital to produce a larger output.
B) not change its output.
C) reduce its output.
D) increase its output.

Ans: B Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 177 Subtopic: Diminishing returns, production costs, and product supply
Type: Application

202. Suppose the wage rate increases in a perfectly competitive industry. This change will result in a(n):
A) decrease in average total cost for a firm in the industry.
B) decrease in average variable cost for a firm in the industry.
C) increase in the marginal cost curve for a firm in the industry.
D) increase in short-run supply curve for a firm in the industry.

Ans: C Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 177 Subtopic: Diminishing returns, production costs, and product supply
Type: Application

203. Suppose the wage rates fall in a perfectly competitive industry. This change will result in a(n):
A) decrease in the marginal cost curve for a firm in the industry
B) increase in average variable cost for a firm in the industry.
C) increase in average total cost for a firm in the industry.
D) decrease in short-run supply curve for a firm in the industry.

Ans: A Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 177 Subtopic: Diminishing returns, production costs, and product supply
Type: Application

204. Assume that the average wage of workers increases in a perfectly competitive industry. This change will result in a(n):
A) increase in marginal cost for firms in the industry and an increase in the industry supply curve.
B) decrease in marginal cost for firms in the industry and a decrease in the industry supply curve.
C) decrease in marginal cost for firms in the industry and an increase in the industry supply curve.
D) increase in marginal cost for firms in the industry and a decrease in the industry supply curve.

Ans: D Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 177 Subtopic: Supply curve shifts Type: Application

205. Suppose the resource costs increase in a perfectly competitive industry. This change will result in a(n):
A) increase in average fixed cost for a firm in the industry.
B) decrease in average variable cost for a firm in the industry.
C) decrease in the marginal cost curve for a firm in the industry.
D) decrease in the short-run supply curve for a firm in the industry

Ans: D Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
Page: 177 Subtopic: Supply curve shifts Type: Application

206. Suppose the resource cost falls in a perfectly competitive industry. This change will result in a(n):
   A) increase in marginal cost for firms in the industry and an increase in the industry supply curve.
   B) decrease in marginal cost for firms in the industry and a decrease in the industry supply curve.
   C) decrease in marginal cost for firms in the industry and an increase in the industry supply curve.
   D) increase in marginal cost at each output level for firms in the industry and an increase in the industry supply curve.

   Ans: C Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
   Page: 177 Subtopic: Supply curve shifts Type: Application

207. Suppose the technological advance improves productivity in a perfectly competitive industry. This change will result in a(n):
   A) decrease in average fixed cost for a firm in the industry.
   B) increase in average variable cost for a firm in the industry.
   C) increase in the marginal cost curve for a firm in the industry.
   D) increase in the short-run supply curve for a firm in the industry

   Ans: D Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
   Page: 177 Subtopic: Supply curve shifts Type: Application

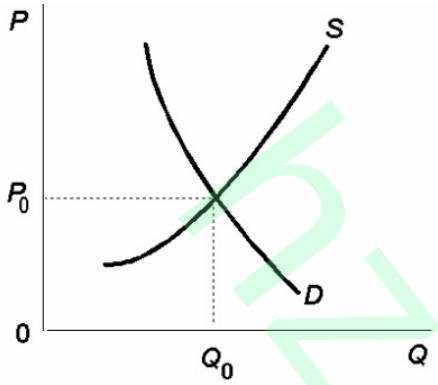
208. An industry experiences a technological advance that improves productivity. This change will result in a(n):
   A) increase in marginal cost for firms in the industry and a decrease in the industry supply curve.
   B) decrease in marginal cost for firms in the industry and a decrease in the industry supply curve.
   C) decrease in marginal cost for firms in the industry and an increase in the industry supply curve.
   D) increase in marginal cost for firms in the industry and an increase in the industry supply curve.

   Ans: C Level: Difficult Main Topic: 7.4 Marginal cost and short-run supply
   Page: 177 Subtopic: Supply curve shifts Type: Application

209. In perfect competition, price is determined where the industry's:
A) demand and supply curves intersect.
B) total cost is greater than total revenue.
C) demand intersects the firm's marginal cost curve.
D) average total cost equals total variable costs.

Ans: A Level: Easy Main Topic: 7.4 Marginal cost and short-run supply
Page: 177 Subtopic: Firm and industry: Equilibrium price Type: Application

210. If the supply and demand curves above represent the market supply and demand for a perfectly competitive industry, then the demand curve a firm in the industry faces:



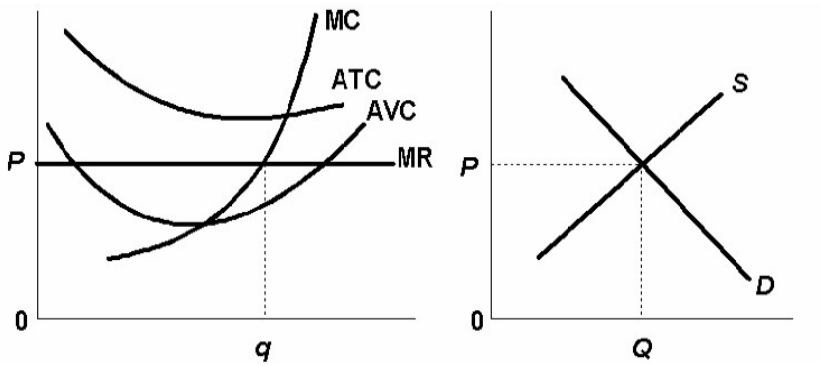
A) is identical to the market demand.
B) is equal to the marginal-revenue curve which is equal to P_0.
C) is more elastic than the market demand but has a marginal-revenue curve lying below it.
D) has the same slope as the market demand, but at P_0 its quantity demanded is only a fraction of Q_0.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 177-178 Subtopic: Firm and industry: Equilibrium price Type: Graphic

211. When demand increases, in the short run the perfectly competitive firm:
A) will spend more on advertising.
B) will earn higher profits or experience smaller losses.
C) will experience no change in costs as it steps up production.
D) can alter available inputs and output as well as the size of the plant.

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 177-178 Subtopic: Firm and industry: Equilibrium price Type: Application

212. Refer to the diagrams, which pertain to a perfectly competitive firm producing output q and the industry in which it operates. Which of the following is correct?



A) The diagrams portray neither long-run nor short-run equilibrium.
B) The diagrams portray both long-run and short-run equilibrium.
C) The diagrams portray short-run equilibrium, but not long-run equilibrium.
D) The diagrams portray long-run equilibrium, but not short-run equilibrium.

Ans: C Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 178 Subtopic: Firm and industry: Equilibrium price Type: Graphic

213. Which of the following statements is correct?
A) The demand curve for a perfectly competitive firm is perfectly elastic, but the demand curve for a perfectly competitive industry is downward sloping.
B) The demand curve for a perfectly competitive firm is downward sloping, but the demand curve for a perfectly competitive industry is perfectly elastic.
C) The demand curves are downward sloping for both a perfectly competitive firm and a perfectly competitive industry.
D) The demand curves are perfectly elastic for both a perfectly competitive firm and a perfectly competitive industry.

Ans: A Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 178 Subtopic: Firm and industry: Equilibrium price Type: Application

214. The demand curve in a perfectly competitive industry is _____, while the demand curve to a single firm in that industry is _____.
A) perfectly inelastic, perfectly elastic
B) downward sloping, perfectly elastic
C) downward sloping, perfectly inelastic
D) perfectly elastic, downward sloping

Ans: B Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 178 Subtopic: Firm and industry: Equilibrium price Type: Application

215. A perfectly competitive firm is precluded from making economic profit in the long run because:
A) it is a "price taker."
B) its demand curve is perfectly elastic.
C) it produces a differentiated product.
D) free entry to the industry.

Ans: D Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 179 Subtopic: Assumptions Type: Application

216. A constant-cost industry is one in which:
A) resource prices fall as output is increased.
B) resource prices rise as output is increased.
C) resource prices remain unchanged as output is increased.
D) small and large levels of output entail the same total costs.

Ans: C Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 180 Subtopic: Assumptions Type: Definition

217. In a perfectly competitive industry:
A) there will be no economic profits in either the short run or the long run.
B) economic profits may persist in the long run if consumer demand is strong and stable.
C) there may be economic profits in the short run, but not in the long run.
D) there may be economic profits in the long run, but not in the short run.

Ans: C Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180 Subtopic: The goal of our analysis Type: Application

218. Assume a perfectly competitive firm is maximizing profit at some output at which long-run average total cost is at a minimum. Then:
A) the firm is earning an economic profit.
B) there is no tendency for the firm's industry to expand or contract.
C) allocative but not productive efficiency is being achieved.
D) other firms will enter this industry.

Ans: B Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180 Subtopic: The goal of our analysis Type: Application

219. We would expect an industry to expand if firms in that industry are:
    A) earning normal profits.
    B) earning economic profits.
    C) realizing an equality of total revenue and total costs.
    D) earning accounting profits.

    Ans: B Level: Easy Main Topic: 7.5 Profit maximization in the long run
    Page: 180 Subtopic: The goal of our analysis Type: Application

220. Which of the following is true concerning perfectly competitive industries?
    A) There will be economic losses in the long run because of cut-throat competition.
    B) Economic profits will persist in the long run if consumer demand is strong and stable.
    C) In the short run, firms may incur economic losses or earn economic profit, but in the long run they earn a normal profit.
    D) There are economic profits in the long run, but not in the short run.

    Ans: C Level: Moderate Main Topic: 7.5 Profit maximization in the long run
    Page: 180 Subtopic: The goal of our analysis Type: Application

221. When a perfectly competitive firm is in long-run equilibrium, price is equal to:
    A) marginal cost, but may be greater or less than average cost.
    B) minimum of the average cost, and also to marginal cost.
    C) minimum average cost, but may be greater or less than marginal cost.
    D) marginal revenue, but may be greater or less than both average and marginal cost.

    Ans: B Level: Moderate Main Topic: 7.5 Profit maximization in the long run
    Page: 180 Subtopic: Long-run equilibrium Type: Application

222. When a perfectly competitive industry is in long-run equilibrium, which statement is true?
    A) Average total cost is less than marginal cost.
    B) Price and average total cost are equal.
    C) Marginal cost is at its maximum level.
    D) Marginal revenue is greater than price.

    Ans: B Level: Moderate Main Topic: 7.5 Profit maximization in the long run
    Page: 180 Subtopic: Long-run equilibrium Type: Application

223. Long-run competitive equilibrium:
A) is realized only in constant-cost industries.
B) will never change once it is realized.
C) is not economically efficient.
D) results in zero economic profits.

Ans: D Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 180 Subtopic: Long-run equilibrium Type: Application

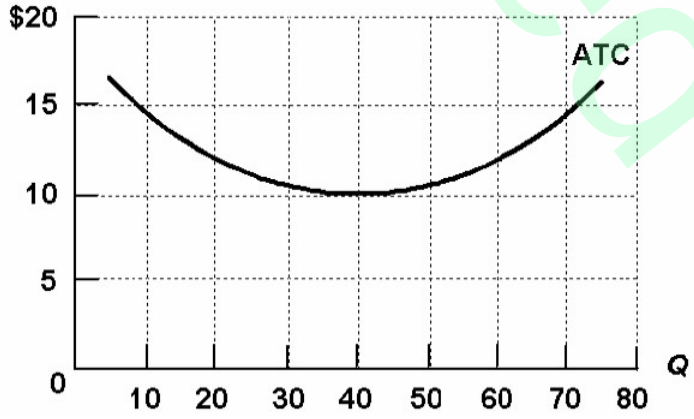
224. When a perfectly competitive firm is in long-run equilibrium:
A) marginal revenue equals marginal cost.
B) price equals marginal cost.
C) minimum average total cost equals price.
D) all of the above are true.

Ans: D Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180 Subtopic: Long-run equilibrium Type: Application

225. A perfectly competitive firm:
A) must earn a normal profit in the short run.
B) cannot earn economic profit in the long run.
C) may realize either economic profit or losses in the long run.
D) cannot earn economic profit in the short run.

Ans: B Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180 Subtopic: Long-run equilibrium Type: Application

Use the following to answer questions 226-228:



226. Refer to the diagram above showing the average total cost curve for a perfectly competitive firm. At the long-run equilibrium level of output, this firm's total revenue:
A) is $10.
B) is $40.
C) is $400.
D) cannot be determined from the information provided.

Ans: C Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Graphic

227. Refer to the diagram above showing the average total cost curve for a perfectly competitive firm. At the long-run equilibrium level of output, this firm's total cost:
A) is $10.
B) is $400.
C) is $40.
D) cannot be determined from the information provided.

Ans: B Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Graphic

228. Refer to the diagram above showing the average total cost curve for a perfectly competitive firm. At the long-run equilibrium level of output, this firm's economic profit:
A) is zero.
B) is $400.
C) is $200.
D) cannot be determined from the information provided.

Ans: A Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Graphic

229. In long-run equilibrium a perfectly competitive firm will operate where price is:
A) greater than MR but equal to MC and minimum ATC.
B) greater than MR and MC, but equal to minimum ATC.
C) greater than MC and minimum ATC, but equal to MR.
D) equal to MR, MC, and minimum ATC.

Ans: D Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Formula

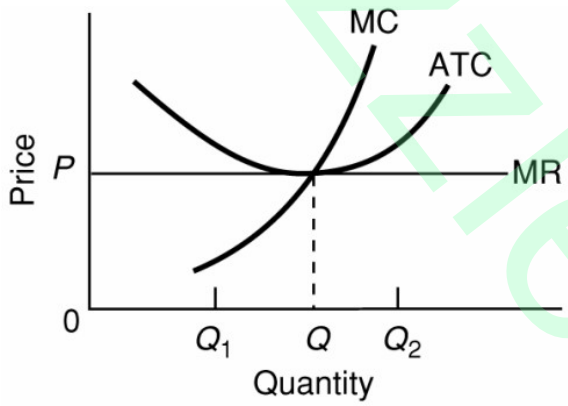
230. Which is true of a perfectly competitive firm in the long-run equilibrium?
A) Average fixed cost equals price.
B) Marginal cost equals marginal product.
C) Price equals marginal cost.
D) Average variable cost equals marginal cost.

Ans: C Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Application

231. Assume that the market for soybeans is perfectly competitive. Currently, firms growing soybeans are experiencing economic profits. In the long run, we can expect this market's:
A) supply curve to increase.
B) demand curve to increase.
C) supply curve to decrease.
D) demand curve to decrease.

Ans: A Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Application

232. The diagram below portrays:



A) a competitive firm which should shut down in the short run.
B) the equilibrium position of a competitive firm in the long run.
C) a competitive firm which is realizing an economic profit.
D) the loss-minimizing position of a competitive firm in the short run.

Ans: B Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Graphic

233. Suppose a firm in a perfectly competitive market discovers that the price of its product is above its minimum AVC point but below ATC. Given this, the firm:
A) minimizes losses by producing at the minimum point of its AVC curve.
B) maximizes profits by producing where MR = ATC.
C) should close down immediately.
D) should continue producing in the short run, but leave the industry in the long run.

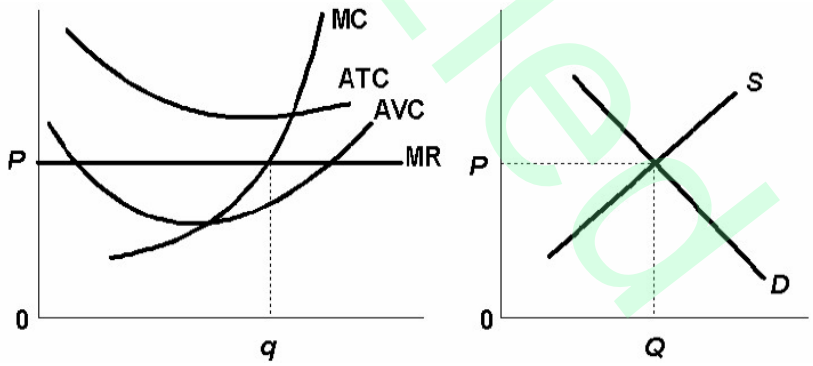
Ans: D Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Application

234. Which of the following will not hold true for a competitive firm in long-run equilibrium?
A) P equals AFC
B) P equals minimum ATC
C) MC equals minimum ATC
D) P equals MC

Ans: A Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Formula

Use the following to answer question 235:

These diagrams, pertain to a perfectly competitive firm producing output q and the industry in which it operates



235. Refer to the diagrams above. In the long run we should expect:
A) firms to enter the industry, market supply to rise, and product price to fall.
B) firms to leave the industry, market supply to rise, and product price to fall.
C) firms to leave the industry, market supply to fall, and product price to rise.
D) no change in the number of firms in this industry.

Ans: C Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Graphic

236. Which of the following will not hold true for a competitive firm in long-run equilibrium?
    A) P equals AFC
    B) P equals minimum ATC
    C) MC equals minimum ATC
    D) P equals MC

    Ans: A Level: Moderate Main Topic: 7.5 Profit maximization in the long run
    Page: 180-181 Subtopic: Long-run equilibrium Type: Formula

237. Suppose a firm in a perfectly competitive market discovers that the price of its product is above its minimum AVC point but below ATC. Given this, the firm:
    A) minimizes losses by producing at the minimum point of its AVC curve.
    B) maximizes profits by producing where MR = ATC.
    C) should close down immediately.
    D) should continue producing in the short run, but leave the industry in the long run.

    Ans: D Level: Moderate Main Topic: 7.5 Profit maximization in the long run
    Page: 180-181 Subtopic: Long-run equilibrium Type: Application

238. If a perfectly competitive firm is producing at the MR = MC output level and earning an economic profit, then:
    A) the selling price for this firm is above the market equilibrium price.
    B) new firms will enter this market.
    C) some existing firms in this market will leave.
    D) there must be price fixing by the industry's firms.

    Ans: B Level: Moderate Main Topic: 7.5 Profit maximization in the long run
    Page: 180-181 Subtopic: Long-run equilibrium Type: Application

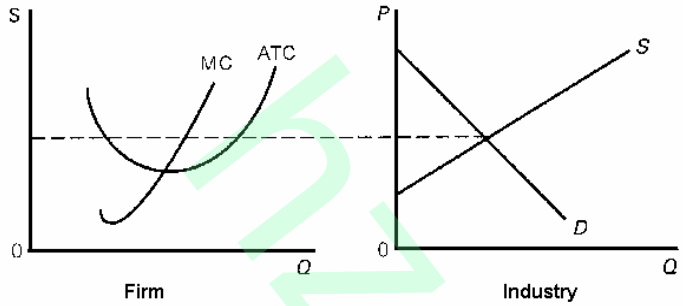
239. Which of the following statements is correct?
    A) Economic profits induce firms to enter an industry; losses encourage firms to leave.
    B) Economic profits induce firms to leave an industry; profits encourage firms to leave.
    C) Economic profits and losses have no significant impact on the growth or decline of an industry.
    D) Normal profits will cause an industry to expand.

    Ans: A Level: Moderate Main Topic: 7.5 Profit maximization in the long run
    Page: 180-181 Subtopic: Long-run equilibrium Type: Application

240. If a perfectly competitive firm is in short-run equilibrium and its marginal cost exceeds its average total cost, then we can conclude that:
A) this is a decreasing-cost industry.
B) this is an increasing-cost industry.
C) firms will exit the industry in the long run.
D) firms will enter the industry in the long run.

Ans: D Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Application

241. A perfectly competitive firm, as shown below, will face what kind of change in profits over the long run, assuming industry demand is constant?



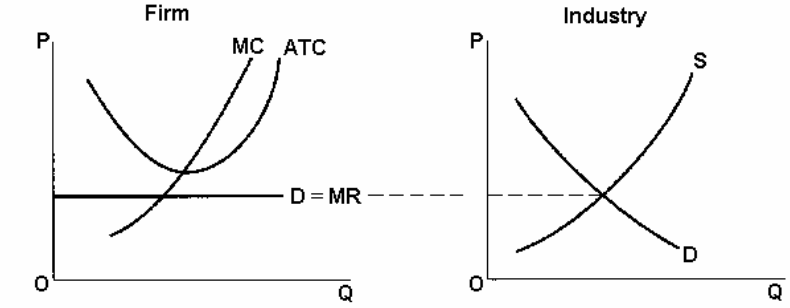
A) Profits will increase.
B) Profits will decrease.
C) Profits will be unchanged.
D) Cannot be decided from the information given.

Ans: B Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Graphic

242. If firms enter a perfectly competitive industry, then in the long run this change will shift the industry:
A) demand curve to the left, and the market price will decrease.
B) demand curve to the right, and the market price will increase.
C) supply curve to the right, and the market price will decrease.
D) supply curve to the left, and the market price will increase.

Ans: C Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Application

243. According to the graphs below, what will happen in the long run to industry supply and the equilibrium price of the product?



A) S will decrease, P will decrease.
B) S will increase, P will decrease.
C) S will decrease, P will increase.
D) S will increase, P will increase.

Ans: C Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Graphic

244. If firms are losing money in a perfectly competitive industry, then in the long run this situation will shift the industry:
A) demand curve to the right, and the market price will increase.
B) supply curve to the left, and the market price will increase.
C) supply curve to the right, and the market price will decrease.
D) demand curve to the left, and the market price will decrease.

Ans: B Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Subtopic: Long-run equilibrium Type: Application

245. Perfectly competitive industry X has constant costs and its product is an inferior good. The industry is currently in long-run equilibrium. The economy now goes into a recession and average incomes decline. The result will be:
A) an increase in output and in the price of the product.
B) an increase in output, but not in the price, of the product.
C) a decrease in the output, but not in the price, of the product.
D) a decrease in output and in the price of the product.

Ans: B Level: Difficult Main Topic: 7.5 Profit maximization in the long run
Page: 182 Subtopic: Long-run supply for a constant-cost industry
Type: Calculation

246. A constant-cost industry is one in which:
   A) a higher price per unit will not result in an increased output.
   B) if 100 units can be produced for $100, then 150 can be produced for $150, 200 for $200, and so forth.
   C) the demand curve and therefore the unit price and quantity sold seldom change.
   D) the total cost of producing 200 or 300 units is no greater than the cost of producing 100 units.

   Ans: B Level: Moderate Main Topic: 7.5 Profit maximization in the long run
   Page: 182 Subtopic: Long-run supply for a constant-cost industry Type: Definition

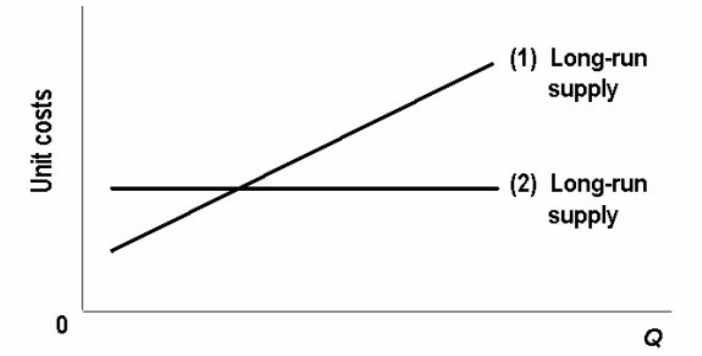
247. If a perfectly competitive constant-cost industry is realizing economic profits, we can expect industry supply to:
   A) increase, output to increase, price to decrease, and profits to decrease.
   B) increase, output to increase, price to increase, and profits to decrease.
   C) decrease, output to decrease, price to increase, and profits to increase.
   D) increase, output to decrease, price to decrease, and profits to decrease.

   Ans: A Level: Difficult Main Topic: 7.5 Profit maximization in the long run
   Page: 182 Subtopic: Long-run supply for a constant-cost industry
   Type: Application

248. The long-run supply curve would be perfectly elastic in:
   A) an increasing-cost industry.
   B) a decreasing-cost industry.
   C) a constant-cost industry.
   D) a variable-cost industry.

   Ans: C Level: Easy Main Topic: 7.5 Profit maximization in the long run
   Page: 182 Subtopic: Long-run supply for a constant-cost industry Type: Definition

249. Refer to the diagram below, Line (2) reflects the long-run supply curve for:



A) a constant-cost industry.
B) a decreasing-cost industry.
C) an increasing-cost industry.
D) technologically progressive industry.

Ans: A Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 182 Subtopic: Long-run supply for a constant-cost industry Type: Graphic

250. The long-run supply curve would be perfectly elastic in:
A) an increasing-cost industry.
B) a decreasing-cost industry.
C) a variable-cost industry.
D) a constant-cost industry.

Ans: D Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 182 Subtopic: Long-run supply for a constant-cost industry Type: Definition

251. Suppose a perfectly competitive increasing-cost industry is in long-run equilibrium. Now assume that a decrease in consumer demand occurs. After all resulting adjustments have been completed, the new equilibrium price:
A) and industry output will be less than the initial price and output.
B) will be greater than the initial price, but the new industry output will be less than the original output.
C) will be less than the initial price, but the new industry output will be greater than the original output.
D) and industry output will be greater than the initial price and output.

Ans: A Level: Difficult Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Application

252. Which of the following statements is correct?
    A) The long-run supply curve for a perfectly competitive increasing-cost industry will be upward sloping.
    B) The long-run supply curve for a perfectly competitive increasing-cost industry will be perfectly elastic.
    C) The long-run supply curve for a perfectly competitive industry will be less elastic than the industry's short-run supply curve.
    D) The long-run supply curve for a perfectly competitive decreasing-cost industry will be upward sloping.

    Ans: A Level: Difficult Main Topic: 7.5 Profit maximization in the long run
    Page: 183 Subtopic: Long-run supply for an increasing-cost industry
    Type: Application

253. Assume a perfectly competitive increasing-cost industry is initially in long-run equilibrium and that an increase in consumer demand occurs. After all economic adjustments have been completed product price will be:
    A) lower, but total output will be larger than originally.
    B) higher and total output will be larger than originally.
    C) lower and total output will be smaller than originally.
    D) higher, but total output will be smaller than originally.

    Ans: B Level: Difficult Main Topic: 7.5 Profit maximization in the long run
    Page: 183 Subtopic: Long-run supply for an increasing-cost industry
    Type: Application

254. Assume a perfectly competitive, increasing-cost industry is in long-run equilibrium. If a decline in demand occurs, firms will:
    A) leave the industry, price will decrease, and quantity produced will increase.
    B) enter the industry and price and quantity will both increase.
    C) leave the industry and price and output will both increase.
    D) leave the industry and price and output will both decline.

    Ans: D Level: Difficult Main Topic: 7.5 Profit maximization in the long run
    Page: 183 Subtopic: Long-run supply for an increasing-cost industry
    Type: Application

255. An increasing-cost industry is associated with:
A) a perfectly elastic long-run supply curve.
B) an upward sloping long-run supply curve.
C) a perfectly inelastic long-run supply curve.
D) an upward sloping long-run demand curve.

Ans: B Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Definition

256. An increasing-cost industry is the result of:
A) higher resource prices which occur as the industry expands.
B) a change in the industry's minimum efficient scale.
C) X-inefficiency.
D) the law of diminishing returns.

Ans: A Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Application

257. Suppose losses cause industry X to contract and, as a result, the prices of relevant inputs decline. Industry X is:
A) a constant-cost industry.
B) a decreasing-cost industry.
C) an increasing-cost industry.
D) encountering X-inefficiency.

Ans: C Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Application

258. One explanation for the existence of an increasing-cost industry is:
A) increasing marginal returns to labour occur.
B) firms produce beyond the point of minimum long-run average total costs.
C) perfectly elastic long-run supply schedules are observed in the industry.
D) as the industry expands, input prices are bid up for some factor of production.

Ans: D Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Application

259. If the long-run supply curve of a perfectly competitive industry slopes upward, this implies that the prices of relevant resources:
A) will fall as the industry expands.
B) are constant as the industry expands.
C) rise as the industry contracts.
D) rise as the industry expands.

Ans: D Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Application

260. The long-run supply curve would be upward sloping in:
A) an increasing-cost industry.
B) a decreasing-cost industry.
C) a constant-cost industry.
D) a variable-cost industry.

Ans: A Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Definition

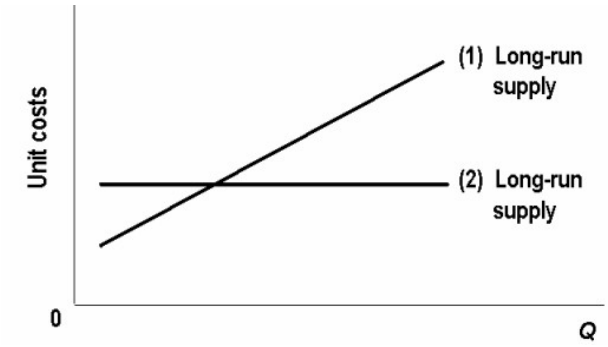
261. Assume a perfectly competitive increasing-cost industry is in long-run equilibrium. Now suppose that an increase in consumer demand occurs. After all the resulting adjustments have been completed, the new equilibrium price:
A) and industry output will be less than the initial price and output.
B) and industry output will be greater than the initial price and output.
C) will be greater, but the new output will be less than initially.
D) will be less, but the new output will be greater than initially.

Ans: B Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Application

262. Assume a perfectly competitive increasing-cost industry is initially in long-run equilibrium and that an increase in consumer demand occurs. After all economic adjustments have been completed, product price will be:
A) higher, and total output will be larger than originally.
B) lower, and total output will be smaller than originally.
C) lower, but total output will be larger than originally.
D) higher, but total output will be smaller than originally.

Ans: A Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Application

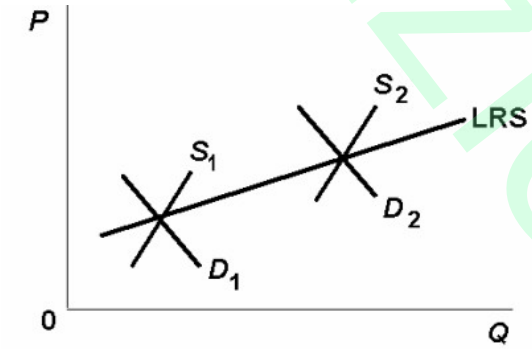
263. Refer to the diagram below. Line (1) reflects the long-run supply curve for:



A) a constant-cost industry.
B) an increasing-cost industry.
C) a decreasing-cost industry.
D) technologically progressive industry.

Ans: B Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Graphic

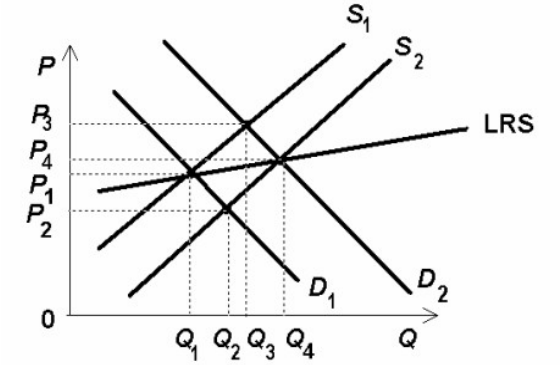
264. The diagram below depicts long-run supply for:



A) a constant-cost industry.
B) a decreasing-cost industry.
C) an increasing-cost industry.
D) none of the above.

Ans: C Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry
Type: Graphic

265. The industry represented by the graph where S_1 and S_2 are short-run supply curves, D_1 and D_2 are short-run demand curves, and LRS is the long-run supply curve can be said to be:



A) a constant-cost industry.
B) an average-cost industry.
C) a decreasing-cost industry.
D) an increasing-cost industry.

Ans: D Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 183 Subtopic: Long-run supply for an increasing-cost industry Type: Graphic

266. The long-run supply curve under perfect competition will be:
A) downward sloping in a decreasing-cost industry and upward sloping in an increasing-cost industry.
B) horizontal in a constant-cost industry and downward sloping in an increasing-cost industry.
C) vertical in a constant-cost industry and upward sloping in a decreasing-cost industry.
D) upward sloping in an increasing-cost industry and vertical in a constant-cost industry.

Ans: A Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183-184 Subtopic: Long-run supply for a decreasing-cost industry
Type: Definition

267. When compact disc (CD) players first came on the market, they sold for over $1,000. Now a good CD player can be purchased for $100. These facts imply that:
A) the CD industry was once competitive, but is now monopolistic.
B) fewer firms produce CD players than was the case five or ten years ago.
C) the demand curve for CD players has shifted leftward.
D) the CD player industry is a decreasing-cost industry.

Ans: D Level: Difficult Main Topic: 7.5 Profit maximization in the long run
Page: 183-184 Subtopic: Long-run supply for a decreasing-cost industry
Type: Application

268. Suppose that an industry's long-run supply curve is downward sloping. This suggests that:
A) it is an increasing-cost industry.
B) relevant inputs have become more expensive as the industry has expanded.
C) technology has become less efficient as a result of the industry's expansion.
D) it is a decreasing-cost industry.

Ans: D Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 183-184 Subtopic: Long-run supply for a decreasing-cost industry
Type: Application

269. A decreasing-cost industry is one in which:
A) contraction of the industry will decrease unit costs.
B) input prices fall or technology improves as the industry expands.
C) the long-run supply curve is perfectly elastic.
D) the long-run supply curve is upward sloping.

Ans: B Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183-184 Subtopic: Long-run supply for a decreasing-cost industry
Type: Definition

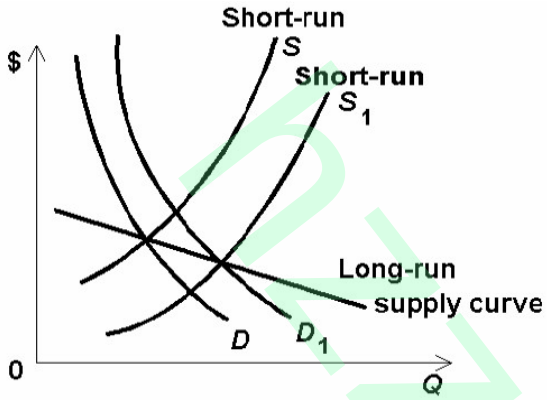
270. The long-run supply curve would be downward sloping in:
A) an increasing-cost industry.
B) a decreasing-cost industry.
C) a constant-cost industry.
D) a variable-cost industry.

Ans: B Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183-184 Subtopic: Long-run supply for a decreasing-cost industry
Type: Definition

271. Suppose an increase in product demand occurs in a decreasing-cost industry. As a result:
   A) the new long-run equilibrium price will be lower than the original long-run equilibrium price.
   B) equilibrium quantity will decline.
   C) firms will eventually leave the industry.
   D) the new long-run equilibrium price will be higher than the original price.

   Ans: A Level: Moderate Main Topic: 7.5 Profit maximization in the long run
   Page: 183-184 Subtopic: Long-run supply for a decreasing-cost industry
   Type: Application

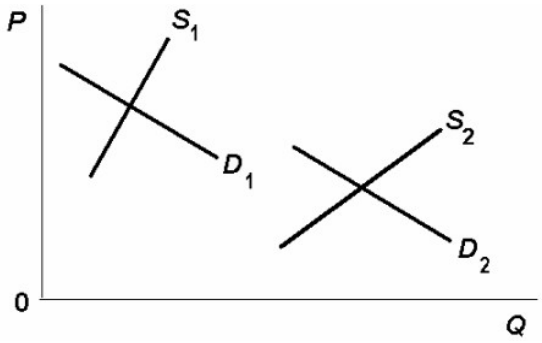
272. The following diagram represents a(n):



   A) decreasing-cost industry: Firms may be paying lower prices for their inputs when the industry expands.
   B) increasing-cost industry: Firms may be paying higher prices for their inputs when the industry expands.
   C) competitive, break-even industry: The long-run supply curve is upward sloping as it must be according to the law of supply.
   D) constant-cost industry: Prices of the inputs stay the same, and other production costs are constant as the industry expands.

   Ans: A Level: Moderate Main Topic: 7.5 Profit maximization in the long run
   Page: 183-184 Subtopic: Long-run supply for a decreasing- cost industry
   Type: Graphic

273. The long-run supply curve for the industry described in the graph would be:



A) vertical.
B) horizontal.
C) upward sloping.
D) downward sloping.

Ans: D Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 183-184 Subtopic: Long-run supply for a decreasing-cost industry
Type: Graphic

274. Productive efficiency refers to:
A) cost minimization, where P = minimum ATC.
B) production, where P = MC.
C) maximizing profits by producing where MR = MC.
D) setting TR = TC.

Ans: A Level: Easy Main Topic: 7.6 Perfect competition and efficiency
Page: 184 Subtopic: Productive efficiency: P= Minimum ATC Type: Formula

275. The term "productive efficiency" refers to:
A) any short-run equilibrium position of a competitive firm.
B) the production of the product-mix most desired by consumers.
C) the production of a good at the lowest average total cost.
D) fulfilling the condition P = MC.

Ans: C Level: Easy Main Topic: 7.6 Perfect competition and efficiency
Page: 184 Subtopic: Productive efficiency: P= Minimum ATC Type: Definition

276. Which statement is correct?
   A) In order to maximize profits a firm should produce at that output at which total revenue is greatest.
   B) In long-run equilibrium a competitive firm will produce at the point of minimum average costs.
   C) A competitive firm will produce in the short run so long as total receipts are sufficient to cover total fixed costs.
   D) A competitive firm will close down in the short run whenever price is less than the minimum attainable average total cost.

   Ans: B Level: Difficult Main Topic: 7.6 Perfect competition and efficiency
   Page: 184 Subtopic: Productive efficiency: P= Minimum ATC Type: Application

277. Which would indicate that a firm is operating under conditions of perfect competition and is being productively efficient?
   A) It is making economic profits in the long run.
   B) Marginal cost equals average variable cost.
   C) It produces at the minimum average total cost.
   D) Its marginal revenue is less than average revenue.

   Ans: C Level: Difficult Main Topic: 7.6 Perfect competition and efficiency
   Page: 184 Subtopic: Productive efficiency: P= Minimum ATC Type: Application

278. An economy is producing at the least-cost rate of production when:
   A) price and the minimum average cost are equal.
   B) marginal cost is greater than average total cost.
   C) marginal revenue is greater than price.
   D) price and marginal revenue are equal.

   Ans: A Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
   Page: 184 Subtopic: Productive efficiency: P= Minimum ATC Type: Application

279. In long-run equilibrium under conditions of perfect competition and productive efficiency, all firms produce at minimum:
   A) average total cost.
   B) marginal cost.
   C) total cost.
   D) average variable cost.

   Ans: A Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
   Page: 184 Subtopic: Productive efficiency: P= Minimum ATC Type: Application

280. The term "allocative efficiency" refers to:
    A) the level of output which coincides with the intersection of the MC and AVC curves.
    B) minimization of the AFC in the production of any good.
    C) the production of the product-mix most desired by consumers.
    D) the production of a good at the lowest average total cost.

    Ans: C Level: Easy Main Topic: 7.6 Perfect competition and efficiency
    Page: 184 Subtopic: Allocative efficiency: P=MC Type: Definition

281. Resources are efficiently allocated when production occurs where:
    A) marginal cost equals average variable cost.
    B) price is equal to average revenue.
    C) price is equal to marginal cost.
    D) price is equal to average variable cost.

    Ans: C Level: Easy Main Topic: 7.6 Perfect competition and efficiency
    Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

282. Allocative efficiency occurs when the:
    A) minimum of average total cost equals average revenue.
    B) minimum of average total cost equals marginal revenue.
    C) marginal cost equals the marginal benefit to society.
    D) marginal revenue equals marginal benefit to society.

    Ans: C Level: Easy Main Topic: 7.6 Perfect competition and efficiency
    Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Definition

283. "Allocative efficiency" is achieved when the production of a good occurs where:
    A) P = minimum ATC.
    B) P = MC.
    C) P = minimum AVC.
    D) total revenue is equal to TFC.

    Ans: B Level: Easy Main Topic: 7.6 Perfect competition and efficiency
    Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Formula

284. Perfect competition produces a socially optimal allocation of resources in the long run because:
A) marginal cost equals marginal revenue.
B) marginal cost equals average total cost.
C) marginal revenue equals price.
D) marginal cost equals price.

Ans: D Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

285. When a perfectly competitive firm is in long-run equilibrium and is allocatively efficient:
A) total revenue is at a maximum.
B) marginal cost equals marginal revenue.
C) average variable cost equals marginal cost.
D) total cost is at a minimum.

Ans: B Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

286. Resources are efficiently allocated when production occurs at that output at which:
A) P equals MR.
B) P equals AVC.
C) P exceeds MR.
D) P equals MC.

Ans: D Level: Easy Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Formula

287. Resources are efficiently allocated when production occurs at that output level where price:
A) equals marginal cost.
B) equals marginal revenue.
C) is greater than marginal revenue.
D) is equal to average variable cost.

Ans: A Level: Easy Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Definition

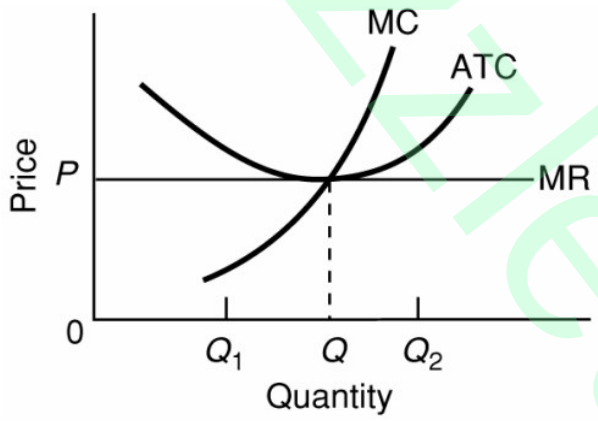
288. In a perfectly competitive industry, an optimal allocation of scarce resources occurs when:
A) P = AC.
B) P = MC.
C) MR = MC.
D) TR = TC.

Ans: B Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Formula

289. When a perfectly competitive firm is in long-run equilibrium and is allocatively efficient:
A) total revenue is at a maximum.
B) marginal cost equals marginal revenue.
C) average variable cost equals marginal cost.
D) total cost is at a minimum.

Ans: B Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

Use the following to answer questions 290-291:



290. Refer to the diagram above. By producing output level Q:
A) neither productive nor allocative efficiency are achieved.
B) both productive and allocative efficiency are achieved.
C) allocative efficiency is achieved, but productive efficiency is not.
D) productive efficiency is achieved, but allocative efficiency is not.

Ans: B Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Graphic

291. Refer to the diagram above. At output level Q_1:
    A) neither productive nor allocative efficiency are achieved.
    B) both productive and allocative efficiency are achieved.
    C) allocative efficiency is achieved, but productive efficiency is not.
    D) productive efficiency is achieved, but allocative efficiency is not.

    Ans: A Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
    Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Graphic

292. Under perfect competition in the long run:
    A) neither "allocative efficiency" nor "productive efficiency" are achieved.
    B) both "allocative efficiency" and "productive efficiency" are achieved.
    C) "productive efficiency" is achieved, but "allocative efficiency" is not.
    D) "allocative efficiency" is achieved, but "productive efficiency" is not.

    Ans: B Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
    Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

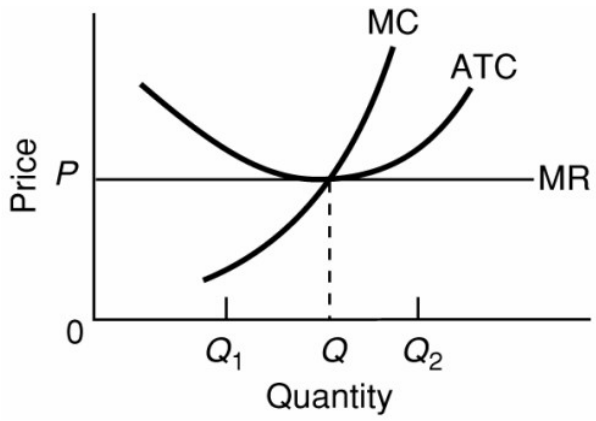
293. If for a firm P = minimum ATC = MC, then:
    A) neither "allocative efficiency" nor "productive efficiency" is being achieved.
    B) "productive efficiency" is being achieved, but "allocative efficiency" is not.
    C) both "allocative efficiency" and "productive efficiency" are being achieved.
    D) "allocative efficiency" is being achieved, but "productive efficiency" is not.

    Ans: C Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
    Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

294. A firm is producing an output such that the benefit from one more unit is more than the cost of producing that additional unit. This means the firm is:
    A) producing more output than allocative efficiency requires.
    B) producing less output than allocative efficiency requires.
    C) realizing productive efficiency.
    D) producing an inefficient output, but we cannot say whether output should be increased or decreased.

    Ans: B Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
    Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

Use the following to answer questions 295-296:



295. Refer to the diagram above. At output level Q_1:
A) resources are overallocated to this product and productive efficiency is not realized.
B) resources are underallocated to this product and productive efficiency is not realized.
C) productive efficiency is achieved, but resources are underallocated to this product.
D) productive efficiency is achieved, but resources are overallocated to this product.

Ans: B Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Graphic

296. Refer to the diagram above. At output level Q_2:
A) resources are overallocated to this product and productive efficiency is not realized.
B) resources are underallocated to this product and productive efficiency is not realized.
C) productive efficiency is achieved, but resources are underallocated to this product.
D) productive efficiency is achieved, but resources are overallocated to this product.

Ans: A Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Graphic

297. If the price of product Y is $25 and its marginal cost is $18:
A) Y is being produced with the least-cost combination of resources.
B) society will realize a net gain if less of Y is produced.
C) resources are being underallocated to Y.
D) resources are being overallocated to Y.

Ans: C Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

298. Assume that society places a higher value on the last unit of X produced than the value of the resources used to produce that unit. With no externalities, this information means that:
A) total cost is greater than total revenue.
B) price is greater than marginal cost.
C) marginal cost is greater than price.
D) resources are being overallocated to X.

Ans: B Level: Difficult Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

299. If production is occurring where marginal cost exceeds price, the perfectly competitive firm will:
A) maximize profit, but resources will be underallocated to the product.
B) maximize profit, but resources will be overallocated to the product.
C) fail to maximize profit and resources will be underallocated to the product.
D) fail to maximize profit and resources will be overallocated to the product.

Ans: D Level: Difficult Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

300. If a perfectly competitive firm is producing where price exceeds marginal cost, then:
A) the firm will fail to maximize profit, but resources will be efficiently allocated.
B) the firm will fail to maximize profit and resources will be overallocated to the product.
C) the firm will fail to maximize profit and resources will be underallocated to the product.
D) resources will be underallocated to the product, but the firm will maximize profit.

Ans: C Level: Difficult Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

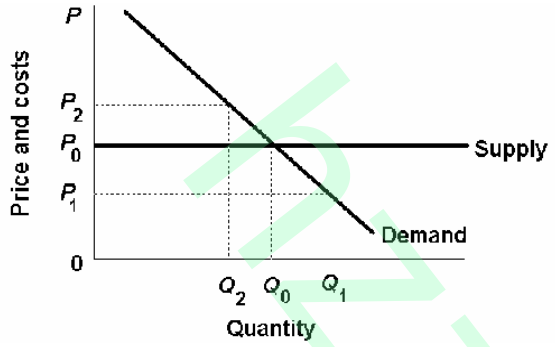
301. If a market is characterized by substantial external costs:
A) resources will be overallocated to the product.
B) resources will be underallocated to the product.
C) entry to the industry will be blocked.
D) government will have to assume responsibility for the product's production.

Ans: A Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

302. If a market is characterized by substantial external benefits:
A) it must be a natural monopoly.
B) resources will be overallocated to the product.
C) resources will be underallocated to the product.
D) the exclusion principle will not apply.

Ans: C Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Application

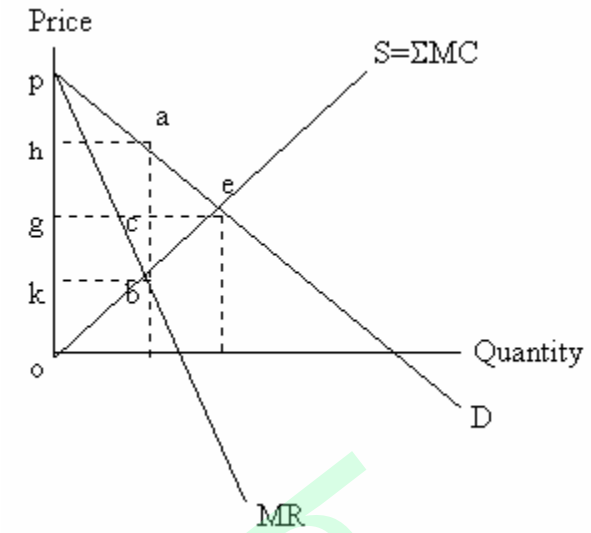
303. Refer to the graph below. If these supply and demand curves accurately reflect all costs and benefits in the production and consumption of a product, we know that in a competitive market marginal:



A) cost equals marginal benefit at P_1Q_1.
B) benefit exceeds marginal cost at an output level of Q_2.
C) cost exceeds marginal benefit at an output level of Q_2.
D) cost equals marginal benefit at all points on the supply curve.

Ans: B Level: Difficult Main Topic: 7.6 Perfect competition and efficiency
Page: 184-186 Subtopic: Allocative efficiency: P=MC Type: Graphic

Use the following to answer questions 304-305:



304. The diagram above represents an industry. Assuming that the market structure for this industry is perfect competition, the producer surplus is shown by the area:
A) oge
B) abe
C) ace
D) ghae

Ans: A Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 186 Subtopic: Maximum consumer and producer surplus Type: Graphic

305. Refer to the diagram above. Assuming a perfectly competitive market structure, what area represents the consumer surplus?
A) oge
B) pha
C) pge
D) ghae

Ans: C Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 186 Subtopic: Maximum consumer and producer surplus Type: Graphic

306. In long-run equilibrium, perfectly competitive markets:
A) minimize total cost.
B) maximize consumer surplus.
C) yield economic profits to most sellers.
D) inevitably degenerate into monopoly in increasing cost industries.

Ans: B Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 186 Subtopic: Maximum consumer and producer surplus Type: Application

307. In a perfectly competitive industry at equilibrium price and quantity
   A) The producer surplus exceeds the consumer surplus.
   B) The sum of consumer and producer surplus is maximized.
   C) The consumer surplus exceeds producer surplus.
   D) The willingness of consumers to pay exceeds the opportunity cost of producing the product.

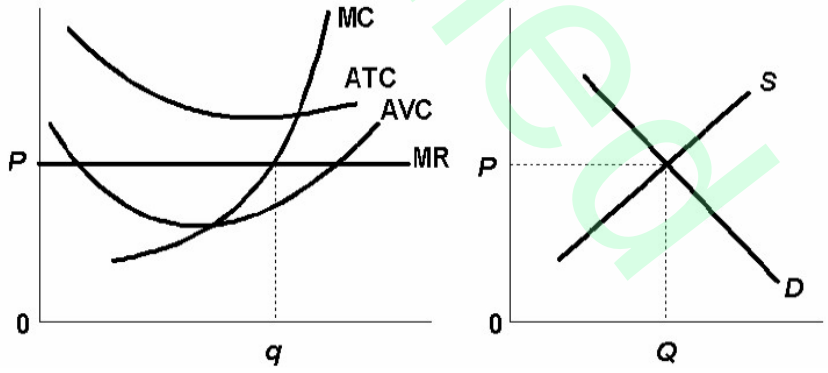
   Ans: B Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
   Page: 186 Subtopic: Maximum consumer and producer surplus Type: Application

308. Assume that a decline in consumer demand occurs in a perfectly competitive industry which is initially in long-run equilibrium. We can:
   A) predict that the new price will be greater than the original price.
   B) predict that the new price will be less than the original price.
   C) predict that the new price will be the same as the original price.
   D) not compare the original and the new price without knowing about cost conditions in the industry.

   Ans: D Level: Difficult Main Topic: 7.6 Perfect competition and efficiency
   Page: 186-187 Subtopic: Dynamic adjustments Type: Application

   Use the following to answer question 309:

   These diagrams pertain to a perfectly competitive firm producing output q and the industry in which it operates.



309. Refer to the diagrams above. The predicted long-run adjustments in this industry might be offset by:
A) a decline in product demand.
B) an increase in resource prices.
C) a technological improvement in production methods.
D) none of the above.

Ans: C Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 186-187 Subtopic: Dynamic adjustments Type: Graphic

310. If there is a decrease in demand for a product in a perfectly competitive industry, it results in an industry:
A) contraction that will end when the price of the product is greater than its marginal cost.
B) contraction that will end when the price of the product is equal to its marginal cost.
C) expansion that will end when the price of the product is greater than its marginal cost.
D) expansion that will end when the price of the product is equal to its marginal cost.

Ans: B Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 186-187 Subtopic: Dynamic adjustments Type: Application

311. The highly efficient allocation of resources in perfect competition:
A) maximizes the profit for producers but does not maximize consumer satisfaction.
B) maximizes the consumer satisfaction but does not maximize producers' profits.
C) maximizes the profit for producers at the same time that maximizes consumer satisfaction.
D) maximizes the profit for producers but reduces the consumer satisfaction.

Ans: C Level: Easy Main Topic: 7.6 Perfect competition and efficiency
Page: 187 Subtopic: hand" revisited Type: Application

312. When prescription drugs lose their patent protection:
A) prices of the brand name drug and the generic drug have to be equal.
B) a pharmaceutical company can produce and sell the drug under a generic name.
C) to produce the generic drug, a pharmaceutical company needs the approval of the brand name producer.
D) he brand name drug will no longer be available on the market.

Ans: B Level: Easy Main Topic: Last Word Page: 187-188
Type: Application

313. The expiration of the patent for a brand name drug:
    A) will make the generic drugs available for consumers at a lower price and consequently increases the consumer surplus.
    B) will make the generic drugs available for consumers at a lower price and thus reduces the consumer surplus.
    C) will make the generic drugs available for consumers at a higher price and consequently increases the consumer surplus.
    D) will make the generic drugs available for consumers at a higher price and therefore reduces the consumer surplus.

    Ans: A Level: Easy Main Topic: Last Word Page: 186-187
    Type: Application

314. Perfect competition is a market structure characterized by a sole seller of a product or service.

    Ans: False Level: Easy Main Topic: 7.1 Four market structures
    Page: 163 Type: Definition

315. Competitive firms are price takers largely because of intensive advertising by their competitors.

    Ans: False Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 164 Type: Application

316. In a perfectly competitive industry, competition centers more on advertising and sales promotion than on price.

    Ans: False Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Type: Application

XXXXXX

317. Although individual perfectly competitive firms can influence the price of their product, these firms as a group cannot influence market price.

    Ans: False Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165Type: Application

318. The demand curves for firms in a perfectly competitive industry are perfectly elastic.

    Ans: True Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Type: Application

319. The total revenue curve of a competitive seller graphs as a straight, upward sloping line.

Ans: True Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Type: Application

320. Marginal revenue is the addition to total revenue resulting from the sale of one more unit of output.

Ans: True Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165 Type: Definition

321. Along the perfectly competitive firm's demand curve, average revenue is equal to marginal revenue.

Ans: True Level: Easy Main Topic: 7.2 Characteristics of perfect competition and the firm's demand curve Page: 165-166 Type: Application

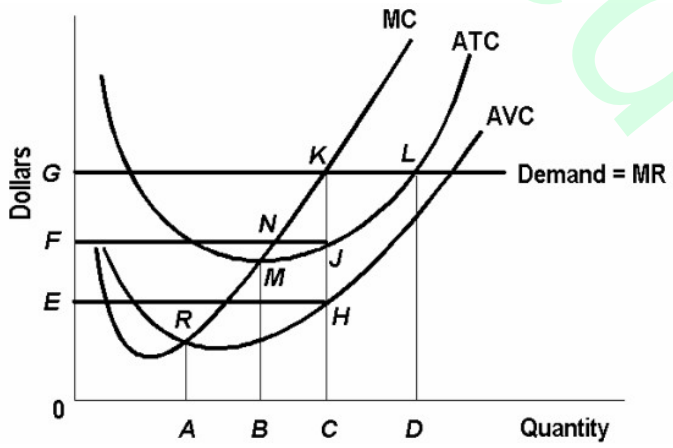
322. The break-even point means that the firm is realizing economic profits.

Ans: False Level: Easy Main Topic: 7.3 Profit maximization in the short run Page: 177 Type: Definition

323. In maximizing profit a firm will always produce that output where total revenues are at a maximum.

Ans: False Level: Easy Main Topic: 7.3 Profit maximization in the short run Page: 167-168 Type: Application

Use the following to answer questions 324-329:



324. Refer to the diagram above. This firm will maximize profits by producing output D.

Ans: False Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Type: Graphic

325. Refer to the diagram above. At the profit-maximizing output total revenue will be 0GLD.

Ans: False Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Type: Graphic

326. Refer to the diagram above. At output C production will result in an economic profit.

Ans: True Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Type: Graphic

327. Refer to the diagram above. At output C total variable cost is FGKJ.

Ans: False Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Type: Graphic

328. Refer to the diagram above. At output C average fixed cost is GF.

Ans: False Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Type: Graphic

329. Refer the diagram above. If demand fell to the level of FNJ, there would be no output at which the firm could realize an economic profit.

Ans: False Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Type: Graphic

330. A competitive firm will produce in the short run so long as its price exceeds its average fixed cost.

Ans: False Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Type: Application

331. Price and marginal revenue are identical for an individual perfectly competitive seller.

Ans: True Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Type: Application

332. If a perfectly competitive firm is producing a level of output greater than its profit-maximizing output, then marginal revenue is greater than marginal cost.

Ans: False Level: Moderate Main Topic: 7.3 Profit maximization in the short run
Page: 170-171 Type: Application

333. If MR > MC for a competitive firm, it should raise its price and increase its level of output.

Ans: False Level: Difficult Main Topic: 7.3 Profit maximization in the short run
Page: 168-181 Type: Application

334. In the short run a competitive firm will always choose to shut down if product price is less than the lowest attainable average total cost.

Ans: False Level: Easy Main Topic: 7.3 Profit maximization in the short run
Page: 182 Type: Application

335. In the short run, a competitive firm will not produce unless price is equal to average total costs.

Ans: False Level: Moderate Main Topic: 7.4 Marginal cost and short-run supply
Page: 184-185 Type: Application

336. The short-run supply curve slopes upward because producers must be compensated for rising marginal costs.

Ans: True Level: Easy Main Topic: 7.4 Marginal cost and short-run supply
Page: 184-185 Type: Application

337. The demand curve for a perfectly competitive industry is perfectly elastic, but the demand curves faced by individual firms in such an industry are downward sloping.

Ans: False Level: Easy Main Topic: 7.4 Marginal cost and short-run supply
Page: 177-178 Type: Application

338. After all long-run adjustments have been completed, a firm in a competitive industry will produce that level of output where average total cost is at a minimum.

Ans: True Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 189 Type: Application

339. In long-run equilibrium, a competitive firm produces where P = MR = MC = minimum ATC and earns normal economic profits.

Ans: True Level: Moderate Main Topic: 7.5 Profit maximization in the long run
Page: 180-181 Type: Application

340. The long-run supply curve for an increasing-cost industry is downward sloping.

Ans: False Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 182-192 Type: Definition

341. The long-run supply curve for a competitive, decreasing-cost industry is downward sloping.

Ans: True Level: Easy Main Topic: 7.5 Profit maximization in the long run
Page: 192-193 Type: Application

342. Productive efficiency refers to long-run market conditions where marginal cost is equal to marginal revenue.

Ans: False Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 193-195 Type: Definition

343. Marginal cost is a measure of the alternative goods which society forgoes in using resources to produce an additional unit of some specific product.

Ans: True Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 195 Type: Application

344. Because the equilibrium position of a perfectly competitive seller entails an equality of price and marginal costs, competition produces to an efficient allocation of economic resources.

Ans: True Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 195 Type: Application

345. In the long run, perfect competition forces firms to produce at the minimum of average total cost and charge a price consistent with that cost.

Ans: True Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 195 Type: Application

346. An underallocation of resources will occur in a perfectly competitive industry at any level of output where price is greater than marginal cost.

Ans: True Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 195 Type: Application

347. The operation of the "invisible hand" means the pursuit of private interests promotes social interests in perfect competition.

Ans: True Level: Moderate Main Topic: 7.6 Perfect competition and efficiency
Page: 196 Type: Application

348. When a generic drug becomes available, the price of the drug falls, and consumer surplus rises.

Ans: True Level: Easy Main Topic: Last Word Page: 197 Type: Application

