**Chapter 11**

### Perfect Competition

**Topic: Perfect Competition**
**Skill: Recognition**

1) Perfect competition is an industry with
   A) a few firms producing identical goods.
   B) a few firms producing goods that differ somewhat in quality.
   C) many firms producing identical goods.
   D) many firms producing goods that differ somewhat.

**Answer: C**

2) In a perfectly competitive industry, there are
   A) many buyers and many sellers.
   B) many buyers, but there might be only one or two sellers.
   C) many sellers, but there might be only one or two buyers.
   D) one firm that sets the price for the others to follow.

**Answer: A**

**Topic: Perfect Competition**
**Skill: Analytical**

3) In perfect competition, the product of a single firm
   A) has many perfect substitutes produced by other firms.
   B) has many perfect complements produced by other firms.
   C) is sold under many differing brand names.
   D) is sold to different customers at different prices.

**Answer: A**

4) In perfect competition, restrictions on entry into an industry
   A) apply to both capital and labor.
   B) apply to labor but not to capital.
   C) apply to capital but not to labor.
   D) do not exist.

**Answer: D**

**Topic: Price Takers**
**Skill: Recognition**

5) In perfect competition,
   A) each firm can influence the price of the good.
   B) there are few buyers.
   C) there are significant restrictions on entry.
   D) all firms in the market sell their product at the same price.

**Answer: D**

**Topic: Price Takers**
**Skill: Conceptual**

6) The price elasticity of demand for any particular perfectly competitive firm’s output is
   A) less than 1.
   B) 1.
   C) equal to zero.
   D) infinite.

**Answer: D**

**Topic: Price Takers**
**Skill: Analytical**

7) The demand for wheat from farm A is perfectly elastic because wheat from farm A is
   A) a perfect complement for wheat from farm B.
   B) a normal good.
   C) a perfect substitute for wheat from farm B.
   D) an inferior good.

**Answer: C**
CHAPTER 11

Topic: Price Takers
Skill: Conceptual
8) In perfect competition, the elasticity of demand for the product of a single firm is
   A) 0.
   B) between 0 and 1.
   C) 1.
   D) infinite.
   Answer: D

Topic: Price Takers
Skill: Conceptual
9) In perfect competition, the elasticity of demand for the product of a single firm is
   A) zero, because the firm produces a unique product.
   B) zero, because many other firms produce identical products.
   C) infinite, because the firm produces a unique product.
   D) infinite, because many other firms produce identical products.
   Answer: D

Topic: Price Takers
Skill: Recognition
10) In perfect competition, an individual firm
    A) faces unitary elasticity of demand.
    B) has a price elasticity of supply equal to one.
    C) faces a perfectly elastic demand.
    D) has perfectly elastic supply.
    Answer: C

Topic: Market Demand/Firm Demand
Skill: Conceptual
12) In a perfectly competitive industry, the price elasticity of demand for the market demand is ____ and the price elasticity of demand for an individual firm’s demand is ____.
    A) infinite; infinite
    B) less than infinite; infinite
    C) infinite; less than infinite
    D) less than infinite; less than infinite
    Answer: B

Topic: Market Demand/Firm Demand
Skill: Conceptual
13) The market for fish is perfectly competitive. So, the price elasticity of demand for fish from a single fishery
    A) is less than the elasticity of demand for fish overall.
    B) equals the elasticity of demand for fish overall.
    C) is greater than the elasticity of demand for fish overall.
    D) is sometimes greater than and sometimes less than the elasticity of demand for fish overall.
    Answer: C

Topic: Market Demand/Firm Demand
Skill: Conceptual
14) In perfect competition, the price of the product is determined where the industry
    A) elasticity of supply equals the industry elasticity of demand.
    B) supply curve and industry demand curve intersect.
    C) average variable cost equals the industry average total cost.
    D) fixed cost is zero.
    Answer: B

Topic: Economic Profit and Revenue
Skill: Recognition
15) Economists assume that a perfectly competitive firm’s objective is to maximize its
    A) quantity sold.
    B) economic profit.
    C) revenue.
    D) output price.
    Answer: B
**Topic: Economic Profit and Revenue**  
**Skill: Recognition**

16) Total economic profit is  
A) total revenue minus total opportunity cost.  
B) total revenue divided by total cost.  
C) marginal revenue minus marginal cost.  
D) marginal revenue divided by marginal cost.  
**Answer: A**

**Topic: Economic Profit and Revenue**  
**Skill: Conceptual**

17) The economic profit of a perfectly competitive firm  
A) is less than its total revenue.  
B) equals its total revenue.  
C) is greater than its total revenue.  
D) is less than its total revenue if its supply curve is inelastic and is greater than its total revenue if its supply curve is elastic.  
**Answer: A**

**Topic: Economic Profit and Revenue**  
**Skill: Conceptual**

18) In perfect competition, a firm that maximizes its economic profit will sell its good  
A) below the market price.  
B) at the market price.  
C) above the market price.  
D) below the market price if its supply curve is inelastic and above the market price if its supply curve is elastic.  
**Answer: B**

**Topic: Total Revenue**  
**Skill: Conceptual**

19) The above figure shows a firm's total revenue line. The firm must be in a market with  
A) perfect competition.  
B) monopolistic competition.  
C) monopoly.  
D) oligopoly.  
**Answer: A**

**Topic: Total Revenue**  
**Skill: Recognition**

20) For a perfectly competitive firm, curve A in the above figure is the firm’s  
A) total fixed cost curve.  
B) average fixed cost curve.  
C) average variable cost curve.  
D) total revenue curve.  
**Answer: D**

**Topic: Total Revenue**  
**Skill: Analytical**

21) The figure above portrays a total revenue curve for a perfectly competitive firm. Curve A is straight because the firm  
A) is a price taker.  
B) faces constant returns to scale.  
C) wants to maximize its profits.  
D) has perfect information.  
**Answer: A**
22) The figure above portrays a total revenue curve for a perfectly competitive firm. The firm’s marginal revenue from selling a unit of output
A) equals $0.50.
B) equals $1.00.
C) equals $2.00.
D) cannot be determined.
Answer: C

23) The figure above portrays a total revenue curve for a perfectly competitive firm. The price of the product in this industry
A) equals $0.50.
B) equals $1.00.
C) equals $2.00.
D) cannot be determined.
Answer: C

24) In the above figure showing a perfectly competitive firm’s total revenue line, the firm’s marginal revenue
A) falls as output increases.
B) does not change as output increases.
C) rises as output increases.
D) cannot be determined.
Answer: B

25) In the above table, if the firm sells 5 units of output, its total revenue is
A) $15.
B) $30.
C) $75.
D) $90.
Answer: C

26) In the above table, if the quantity sold by the firm rises from 5 to 6, its marginal revenue is
A) $15.
B) $30.
C) $75.
D) $90.
Answer: A

27) In the above table, if the quantity sold by the firm rises from 6 to 7, its marginal revenue is
A) $15.
B) $30.
C) $90.
D) $105.
Answer: A

28) In perfect competition, the marginal revenue of an individual firm
A) is zero.
B) is positive but less than the price of the product.
C) equals the price of the product.
D) exceeds the price of the product.
Answer: C

29) In the case of a perfectly competitive firm, the
A) price of the product falls sharply when the quantity the firm sells doubles.
B) change in the firm’s total revenue equals the price of the product multiplied by the change in quantity sold.
C) firm’s marginal revenue exceeds the price of the product.
D) firm’s marginal revenue is less than average revenue.
Answer: B
30) For any perfectly competitive firm, marginal revenue is
A) always greater than marginal cost.
B) equal to price.
C) always less than marginal cost.
D) all of the above.
Answer: B

31) In perfect competition, the firm’s marginal revenue curve
A) cuts its demand curve from below, going from left to right.
B) cuts its demand curve from above, going from left to right.
C) always lies below its demand curve.
D) is the same as its demand curve.
Answer: D

<table>
<thead>
<tr>
<th>Quantity (units)</th>
<th>Price (dollars per unit)</th>
<th>Total revenue (dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>11</td>
<td>10</td>
<td>110</td>
</tr>
</tbody>
</table>

32) Based on the table above, what is the marginal revenue of the tenth unit of output?
A) $190
B) $100
C) $10
D) $9
Answer: C

33) In the above figure, if the milk industry is perfectly competitive, then the firm’s marginal revenue curve is represented by
A) curve F.
B) curve G.
C) curve H.
D) curve I.
Answer: C

34) At a firm’s break-even point, definitely its
A) total revenue equals its total opportunity cost.
B) marginal revenue exceeds its marginal cost.
C) marginal revenue equals its average variable cost.
D) marginal revenue equals its average fixed cost.
Answer: A

35) When Sidney’s Sweaters, Inc. makes exactly zero economic profit, Sidney, the owner,
A) is taking a loss.
B) will shut down in the short run.
C) makes an income equal to his best alternative forgone income.
D) will boost output.
Answer: C
**Topic: Break-Even Point**  
**Skill: Conceptual**  
36) The break-even point is defined as occurring at an output rate at which  
A) total revenue equals total opportunity cost.  
B) economic profit is maximized.  
C) marginal revenue equals marginal cost.  
D) total cost is minimized.  
**Answer: A**

<table>
<thead>
<tr>
<th>Output</th>
<th>Total Revenue</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$0</td>
<td>$25</td>
</tr>
<tr>
<td>1</td>
<td>$30</td>
<td>$49</td>
</tr>
<tr>
<td>2</td>
<td>$60</td>
<td>$69</td>
</tr>
<tr>
<td>3</td>
<td>$90</td>
<td>$91</td>
</tr>
<tr>
<td>4</td>
<td>$120</td>
<td>$117</td>
</tr>
<tr>
<td>5</td>
<td>$150</td>
<td>$147</td>
</tr>
<tr>
<td>6</td>
<td>$180</td>
<td>$180</td>
</tr>
</tbody>
</table>

**Topic: Total Revenue**  
**Skill: Analytical**  
37) In the above table, the price of the product is  
A) $30.  
B) $147.  
C) $150.  
D) $180.  
**Answer: A**

**Topic: Marginal Revenue**  
**Skill: Analytical**  
39) In the above table, the marginal revenue from the fourth unit of output is  
A) $30.  
B) $147.  
C) $150.  
D) $180.  
**Answer: A**

**Topic: Profit-Maximizing Output**  
**Skill: Analytical**  
40) In the above table, if the firm produces 2 units of output, it will make an economic  
A) profit of $9.  
B) profit of $60.  
C) loss of $9.  
D) loss of $60.  
**Answer: C**

**Topic: Firm's Decisions in Perfect Competition, Fixed Cost**  
**Skill: Analytical**  
41) In the above table, the firm’s total fixed cost of production is  
A) $3.00.  
B) $4.00.  
C) $7.00.  
D) $29.00.  
**Answer: B**

**Topic: Firm's Decisions in Perfect Competition, Average Fixed Cost**  
**Skill: Analytical**  
42) In the above table, the average fixed cost at 4 units of output is  
A) $1.00.  
B) $4.50.  
C) $4.70.  
D) $4.80.  
**Answer: A**
**Topic: Firm's Decisions in Perfect Competition, Average Variable Cost**  
**Skill: Analytical**

43) In the above table, the average variable cost at 2 units of output is

A) $1.00.  
B) $2.00.  
C) $4.00.  
D) $4.80.

**Answer: B**

---

**Topic: Total Revenue, Total Cost, and Economic Profit**  
**Skill: Conceptual**

46) The above figure illustrates a firm’s total revenue and total cost curves. Which one of the following statements is FALSE?

A) Economic profit is the vertical distance between the total revenue curve and the total cost curve.  
B) At output $Q_1$ the firm makes zero economic profit.  
C) At an output above $Q_3$ the firm incurs an economic loss.  
D) At output $Q_2$ the firm incurs an economic loss.

**Answer: D**

47) The feature of the above figure that indicates that the firm is a perfectly competitive firm is the

A) shape of the total cost curve.  
B) shape of the total revenue curve.  
C) fact that the total cost and total revenue curves are farthest apart at output is $Q_2$.  
D) fact that the total cost and total revenue curves cross twice.

**Answer: B**

---

44) In the above figure, by increasing its output from $Q_1$ to $Q_2$, the firm

A) reduces its marginal revenue.  
B) increases its marginal revenue.  
C) decreases its profit.  
D) increases its profit.

**Answer: D**

45) In the above figure, by increasing its output from $Q_2$ to $Q_3$, the firm

A) reduces its marginal revenue.  
B) increases its marginal revenue.  
C) decreases its profit.  
D) increases its profit.

**Answer: C**
48) Given the total cost and total revenue curves in the above figure, what are the output levels at which the perfect competitor will earn economic profits?
A) From 0 to 30,000 bushels
B) From 0 to 60,000 bushels
C) Between 30,000 and 80,000 bushels
D) Over 80,000 bushels
Answer: C

49) Given the total cost and total revenue curves in the above figure, what are the output levels at which the perfect competitor will incur economic losses?
A) Below 80,000 bushels
B) From 30,000 to 80,000 bushels
C) Below 30,000 bushels and over 80,000 bushels
D) At 30,000 bushels and at 80,000 bushels
Answer: C

50) Given the total cost and total revenue curves in the figure above, what is the profit-maximizing output level?
A) 30,000 bushels
B) 60,000 bushels
C) 80,000 bushels
D) All output levels occur between 30,000 and 80,000 bushels are profit-maximizing output levels.
Answer: B

51) In the above figure, the firm is making an economic loss at
A) point a.
B) point c.
C) points b and d.
D) points a, b, and d.
Answer: A

52) In the above figure, the firm is breaking even at points
A) a and c.
B) b and d.
C) c and d.
D) a and d.
Answer: B
53) In the above figure, when the firm produces output corresponding to point $c$, the firm’s marginal cost
A) is less than its marginal revenue.
B) equals its marginal revenue.
C) exceeds its marginal revenue.
D) equals its average revenue.
Answer: B

54) For a perfectly competitive firm, in a diagram with quantity on the horizontal axis and both total revenue and total cost on the vertical axis, the firm’s _____ is a straight line _____.
A) total cost curve; with zero slope
B) total revenue curve; with zero slope
C) total cost curve; through the origin
D) total revenue curve; through the origin
Answer: D

55) A perfectly competitive firm maximizes its profit by producing the output at which its marginal cost equals its
A) marginal revenue.
B) average total cost.
C) average variable cost.
D) average fixed cost.
Answer: A

56) For a firm in perfect competition, a diagram shows quantity on the horizontal axis and both the firm’s marginal cost ($MC$) and its marginal revenue ($MR$) on the vertical axis. The firm’s profit-maximizing quantity occurs at the point where the
A) slope of the $MC$ curve is zero.
B) $MC$ and $MR$ curves are parallel.
C) $MC$ curve intersects the $MR$ curve from below, going from left to right.
D) $MC$ curve intersects the $MR$ curve from above, going from left to right.
Answer: C

57) A firm will expand the amount of output it produces as long as its average total revenue exceeds its average total cost.
A) rises; rise
B) rises; fall
C) fall; fall
D) fall; rise
Answer: D

58) A perfectly competitive firm is producing at the point where its marginal cost equals its marginal revenue. If the firm boosts its output, its total revenue will ____ and its profit will ____
A) rise; rise
B) rise; fall
C) fall; rise
D) fall; fall
Answer: B

59) A perfectly competitive firm is producing at the point where its marginal cost equals its marginal revenue. If the firm boosts its output, its revenue will
A) rise and its total variable cost will rise even more.
B) rise and its total variable cost will rise, but not by as much.
C) fall but its total variable cost will rise.
D) fall and its total variable cost will fall, but not by as much.
Answer: A

60) A perfectly competitive firm’s marginal revenue exceeds its marginal cost at its current output. To increase its profit, the firm will
A) lower its price.
B) raise its price.
C) decrease its output.
D) increase its output.
Answer: D
61) A perfectly competitive firm’s marginal cost exceeds its marginal revenue at its current output. To increase its profit, the firm will

A) lower its price.
B) raise its price.
C) decrease its output.
D) increase its output.

**Answer: C**

62) A perfectly competitive firm is producing more than the profit-maximizing amount of its product. You can conclude that its

A) total cost exceeds its total revenue.
B) average total cost exceeds the price of the product.
C) marginal revenue is less than the price of the product.
D) marginal cost exceeds the price of the product.

**Answer: D**

63) In the above figure, the line represented by the “2” is the

A) average fixed cost.
B) average variable cost.
C) total cost.
D) average total cost.

**Answer: B**

64) In the above figure, the line represented by the “1” is the

A) average fixed cost.
B) marginal revenue.
C) total cost.
D) average total cost.

**Answer: B**

65) In the above figure, the line represented by the “4” is the

A) average fixed cost.
B) marginal revenue.
C) average total cost.
D) marginal cost.

**Answer: D**

66) In the above figure, the firm will produce

A) 0 units.
B) 5 units.
C) 15 units.
D) 20 units.

**Answer: C**
67) In the above figure, the marginal cost of the last unit produced by the profit maximizing firm is
A) $5.
B) $10.
C) $15.
D) $20.
Answer: B

68) In the above figure, the firm’s total economic profit is equal to
A) $50.
B) $200.
C) $150.
D) MR – MC.
Answer: A

69) The costs incurred even when no output is produced are called
A) fixed costs.
B) variable costs.
C) external costs.
D) marginal costs.
Answer: A

70) A firm’s shutdown point is the quantity and price at which the firm’s total revenue just equals its
A) total cost.
B) total variable cost.
C) total fixed cost.
D) marginal cost.
Answer: B

71) It definitely pays a firm to shut down if the price of its product is
A) above its minimum average variable cost.
B) below its minimum average variable cost.
C) above its maximum variable cost.
D) below its minimum total cost.
Answer: B
77) In the short run, a perfectly competitive firm will shut down if
A) it incurs any economic loss.
B) price equals average cost.
C) total revenue is less than total variable cost.
D) total revenue is less than total fixed cost.
Answer: C

78) In the short run, a firm will
A) not produce if its total revenue does not cover its total cost.
B) produce and incur a loss if its total revenue covered its total variable cost but not its total cost.
C) produce and break even if its total revenue covered its total fixed cost but not its total variable cost.
D) produce and earn a profit if its total revenue was equal to its total cost.
Answer: B

79) By producing less, a firm can reduce
A) its fixed costs and its variable costs.
B) its fixed costs but not its variable costs.
C) its variable costs but not its fixed costs.
D) neither its variable costs nor its fixed costs.
Answer: C

80) The shutdown point occurs at the level of output for which the ___ is at its minimum.
A) marginal cost
B) average variable cost
C) average fixed cost
D) total cost
Answer: B

81) A competitive firm is more likely to shut down during a recession, when the demand for its product declines, than during an economic expansion, because during the recession it might be unable to cover its
A) fixed costs.
B) variable costs.
C) external costs.
D) depreciation due to machinery becoming obsolete.
Answer: B

82) If the price of its product falls below the minimum point on the AVC curve, the best a perfectly competitive firm can do is to
A) keep producing and incur a loss equal to its total variable cost.
B) keep producing and incur a loss equal to its total fixed cost.
C) shut down and incur a loss equal to its total variable cost.
D) shut down and incur a loss equal to its total fixed cost.
Answer: D

83) If the price of its product just equals the average variable cost of production for a competitive firm, A) total revenue equals total fixed cost and the firm’s loss equals total variable cost.
B) total revenue equals total variable cost and the firm’s loss equals total fixed cost.
C) total fixed cost is zero.
D) total variable cost equals total fixed cost.
Answer: B
### Topic: Profit-Maximizing Output
**Skill: Analytical**

84) Based on the table above which shows Chip’s costs, if rice sells for $600 a ton, Chip’s profit-maximizing output is

A) less than one ton.
B) between two and three tons.
C) between three and four tons.
D) between one and two tons.

**Answer: B**

85) Based on the table above which shows Chip’s costs, if rice sells for $600 a ton, Chip will

A) shut down because he incurs an economic loss.
B) shut down because the price is below his minimum average variable cost.
C) stay open because he earns an economic profit.
D) stay open because the price is above his minimum average variable cost.

**Answer: D**

### Topic: Shutdown Point
**Skill: Analytical**

86) Based on the table above which shows Chip’s costs, if Chip shuts down in the short run, his total cost will be

A) $0.
B) $1,000.
C) $1,200.
D) $4,000.

**Answer: B**

87) Based on the table above which shows Chip’s costs, if Chip shuts down in the short run, his economic loss will be

A) $0.
B) $1,000.
C) $1,200.
D) $4,000.

**Answer: B**

### Topic: Profit-Maximizing Output
**Skill: Analytical**

89) In the above figure, if the price is $P_1$, the firm will produce

A) nothing.
B) where $MC$ equals $ATC$.
C) where $MC$ equals $P_1$.
D) where $ATC$ equals $P_1$.

**Answer: C**
90) In the above figure, if the price is $P_1$, the firm maximizes its profit by producing
A) nothing.
B) where $MC = ATC$.
C) where $MC = P_1$.
D) where $ATC = P_1$.
Answer: C

91) In the above figure, if the firm increases its output from $Q_1$ to $Q_2$, it will
A) reduce its marginal revenue.
B) increase its marginal revenue.
C) decrease its profit.
D) increase its profit.
Answer: D

92) In the above figure, if the firm increases its output from $Q_2$ to $Q_3$, it will
A) reduce its marginal revenue.
B) increase its marginal revenue.
C) decrease its profit.
D) increase its profit.
Answer: C

93) In the above figure, if the price is $P_1$, the firm is
A) making an economic profit.
B) incurring an economic loss.
C) breaking even.
D) shut down.
Answer: A

94) In the above figure, if the firm produced $Q_1$, the firm’s economic profit is 
A) less; less
B) less; more
C) more; less
D) more; more
Answer: B

95) In the above figure, if the firm produced $Q_3$, the firm’s economic profit is 
A) less; less
B) less; more
C) more; less
D) more; more
Answer: A

96) A perfectly competitive firm will have an economic profit of zero if, at its profit-maximizing output, its marginal revenue equals its
A) average total cost.
B) marginal cost.
C) average variable cost.
D) average fixed cost.
Answer: A
97) Consider the perfectly competitive firm in the figure above. At the profit maximizing level of output, the firm will
A) earn an economic profit equal to the area $ABCD$.
B) incur an economic loss equal to the area $ABCD$.
C) earn a normal profit.
D) earn an economic profit equal to the area $AECD$.
**Answer: A**

98) Consider the perfectly competitive firm in the above figure. The profit maximizing level of output for the firm is equal to
A) 0 units.
B) 14 units.
C) 17 units.
D) 19 units.
**Answer: C**

99) Consider the perfectly competitive firm in the above figure. At the profit maximizing level of output, the firm is earning
A) an economic loss equal to $119$.
B) an economic loss equal to $114$.
C) an economic loss equal to $102$.
D) a normal profit.
**Answer: A**

100) Consider the perfectly competitive firm in the above figure. The shutdown point occurs at a price of
A) $11$.
B) $12$.
C) $16$.
D) $22$.
**Answer: A**
Topic: Shutdown Point  
Skill: Conceptual
101) Consider the perfectly competitive firm in the above figure. What will the firm choose to do in the short-run and why?
A) Shut down because the firm incurs an economic loss.
B) Stay in business because the firm is making an economic profit.
C) Stay in business because the firm’s economic loss is less than fixed costs.
D) Stay in business because it is earning a normal profit.
Answer: C

Topic: Long-Run Equilibrium  
Skill: Conceptual
102) Consider the perfectly competitive firm in the above figure. At what price will long-run equilibrium occur?
A) $11.
B) $12.
C) $22.
D) $23.
Answer: C

Topic: The Firm’s Short-Run Supply Curve  
Skill: Recognition
103) A perfectly competitive firm’s short-run supply curve is the same as
A) its ATC curve.
B) its MR curve.
C) its AVC curve.
D) its MC curve above the minimum of the AVC curve.
Answer: D

Topic: The Firm’s Short-Run Supply Curve  
Skill: Recognition
104) The short-run supply curve for a perfectly competitive firm is its
A) marginal cost curve above the horizontal axis.
B) marginal cost curve above its shutdown point.
C) average cost curve above the horizontal axis.
D) average cost curve above its shutdown point.
Answer: B

Topic: The Firm’s Short-Run Supply Curve  
Skill: Conceptual
105) The short-run supply curve for a perfectly competitive firm is its marginal cost curve
A) above the horizontal axis.
B) above its shutdown point.
C) below its shutdown point.
D) everywhere.
Answer: B

Topic: The Firm’s Short-Run Supply Curve  
Skill: Conceptual
106) The short-run supply curve for a perfectly competitive firm is its marginal cost curve above the minimum point on the
A) average fixed cost curve.
B) average variable cost curve.
C) average total cost curve.
D) demand curve.
Answer: B

Topic: The Firm’s Short-Run Supply Curve  
Skill: Analytical
107) A perfectly competitive firm’s supply curve is made up of its marginal cost curve at all points above its minimum
A) average total cost curve.
B) average fixed cost curve.
C) price.
D) average variable cost curve.
Answer: D

Topic: The Firm’s Short-Run Supply Curve  
Skill: Recognition
108) The firm’s supply curve is its
A) marginal cost curve, at all points above the minimum average variable cost curve.
B) marginal cost curve, at all points above the minimum average fixed cost curve.
C) marginal revenue curve, at all points above the minimum average revenue curve.
D) marginal revenue curve, at all points above the minimum average total cost curve.
Answer: A
109) The figure above shows short-run cost curves for a perfectly competitive firm. If the price of the product is $8, in the short run the firm will
A) earn a normal profit.
B) earn an economic profit.
C) incur an economic loss.
D) None of the above answers is correct because more information is needed to determine the firm’s profit or loss.
Answer: C

110) The figure above shows short-run cost curves for a perfectly competitive firm. If the price of the product is $8 and the firm does not shut down, the firm’s output in the short run
A) will be 0.
B) will be between 0 and 10.
C) will be 10 or higher.
D) cannot be determined without more information.
Answer: B

111) The figure above shows a firm in a perfectly competitive market. The firm will shut down if price falls below
A) $P_1$.
B) $P_2$.
C) $P_3$.
D) $P_4$.
Answer: B

112) The figure above shows a firm in a perfectly competitive market. If the firm does not shut down, the least amount of output that it will produce is
A) less than 5 units.
B) 5 units.
C) 8 units.
D) 10 units.
Answer: C
**Topic: The Firm’s Short-Run Supply Curve**  
**Skill: Conceptual**

113) The figure above shows a firm in a perfectly competitive market. If the price rises from $P_3$ to $P_4$, then output will increase by

A) 0 units.  
B) 1 unit.  
C) 2 units.  
D) 3 units.

**Answer: B**

114) The figure above shows a firm in a perfectly competitive market. The firm’s supply curve is the curved line linking

A) point $a$ to point $c$ and stopping at point $c$.  
B) point $b$ to point $d$ and continuing on past point $d$ along the $MC$ curve.  
C) point $b$ to point $f$ and stopping at point $f$.  
D) point $c$ to point $e$ and continuing on past point $e$ along the $ATC$ curve.

**Answer: B**

**Topic: Output, Price and Profit**  
**Skill: Analytical**

115) In the above figure, the vertical distance between the $ATC$ and $AVC$ curves is

A) the marginal cost.  
B) the total cost.  
C) the average fixed costs.  
D) None of the above answers are correct.

**Answer: C**

116) In the above figure, given a market price of $16, the profit maximizing firm will

A) produce 50 units.  
B) produce 35 units.  
C) produce 10 units.  
D) choose not to produce.

**Answer: B**

117) In the above figure, given a market price of $12, the profit maximizing firm will have an economic profit

A) of less than $100 but more than $0.  
B) of more than $100.  
C) that is negative, that is, it will have an economic loss.  
D) of zero, that is, it will break even with a normal profit.

**Answer: D**

118) In the above figure, given a market price of $10, the profit maximizing firm will

A) produce 40 units.  
B) produce 25 units.  
C) produce 10 units.  
D) choose not to produce.

**Answer: C**

119) Using the above figure, of the prices below, which price enables the firm to earn the maximum economic profit?

A) $4 per unit.  
B) $10 per unit.  
C) $12 per unit.  
D) $16 per unit.

**Answer: D**
120) In the above figure, at any price between $8 per unit to $12 per unit, how many units will the profit maximizing firm produce?

A) None, because the producer will never choose to operate at a loss.
B) Less than 20 because this will reduce marginal cost.
C) Between 20 and 30, because variable costs are covered so the firm’s losses will be minimized by producing rather than shutting down.
D) More than 30, because variable costs are covered so that the producer can earn economic profits.

Answer: C

121) In the above figure, below what minimum price will the firm shutdown rather than produce?

A) For any price less than $16 per unit.
B) For any price less than $12 per unit.
C) For any price less than $8 per unit.
D) For any price less than $4 per unit.

Answer: A

122) In the above figure, at a price of $4 per unit, the firm will

A) shut down because its total revenue is less than its variable costs.
B) incur an economic loss.
C) produce 5 units.
D) Both answers A and B are correct.

Answer: D

123) In a perfectly competitive industry, the industry supply curve is the sum of the

A) supply curves of all the individual firms.
B) average variable cost curves of all the individual firms.
C) average total cost curves of all the individual firms.
D) average fixed cost curves of all the individual firms.

Answer: A

124) If there are 1,000 rutabaga farms, all perfectly competitive, an increase in the price of fertilizer used for growing rutabagas will

A) have no effect on the total quantity of rutabagas supplied, because no farm has enough market power to raise the price.
B) have no effect on the total quantity of rutabagas supplied, because each farm’s supply curve is a vertical line.
C) decrease the total quantity of rutabagas supplied, because each farm’s supply curve shifts leftward.
D) reduce the total quantity of rutabagas supplied, because each farm’s supply curve is a horizontal line and will shift upward.

Answer: C

125) In the above figure, if the price is \( P_1 \), the firm is

A) making an economic profit.
B) incurring an economic loss.
C) earning a normal profit.
D) earning enough revenue to pay all of its opportunity costs.

Answer: B
CHAPTER 11

Topic: Long-Run Adjustments; Exit
Skill: Analytical
126) Suppose the cost curves in the above figure apply to all firms in the industry. Then, if the initial price is \( P_1 \), in the long run the market
A) demand will increase.
B) demand will decrease.
C) supply will increase.
D) supply will decrease.

Answer: D

Topic: Long-Run Adjustments; Exit
Skill: Analytical
127) Suppose the cost curves in the above figure apply to all firms in the industry. If the initial price is \( P_1 \), firms are
A) making an economic profit and some firms will leave the industry.
B) making an economic profit and some firms will enter the industry.
C) incurring an economic loss and some firms will leave the industry.
D) incurring an economic loss and some firms will enter the industry.

Answer: C

Topic: Long-Run Adjustments; Exit
Skill: Conceptual
128) New reports indicate that eating turnips helps people remain healthy. The news shifts the demand curve for turnips rightward. In response, new farms enter the turnip industry. During the period in which the new farms are entering, the price of a turnip ____ and the profit of each existing firm ____.
A) rises; rises
B) rises; falls
C) falls; rises
D) falls; falls

Answer: D

Topic: Long-Run Adjustments; Exit
Skill: Conceptual
129) If firms exit an industry, the
A) industry supply curve shifts leftward.
B) price of the product falls.
C) profits of the remaining firms decrease.
D) output of the industry increases.

Answer: A

Topic: Long-Run Adjustments; Exit
Skill: Analytical
130) As firms leave an industry because they are incurring an economic loss, the economic loss of each remaining firm
A) decreases and the price of the product falls.
B) increases and the price of the product rises.
C) decreases and the price of the product rises.
D) increases and the price of the product falls.

Answer: B

Topic: Long-Run Adjustments; Exit
Skill: Conceptual
131) In a perfectly competitive industry, a permanent decrease in demand initially brings a lower price, economic
A) loss, and entry into the industry.
B) loss, and exit from the industry.
C) profit, and entry into the industry.
D) profit, and exit from the industry.

Answer: B
132) In the above figure, the firm’s initial average total cost curve is $SRAC$ with an initial marginal cost curve of $MC$. The price of the product is $P_1$. In the short run the firm will produce output equal to the amount

A) $Q_1$
B) $Q_2$
C) $Q_3$
D) $Q_4$

Answer: B

133) In the above figure, the firm’s initial average total cost curve is $SRAC$. If the price is $P_1$, in the long run the firm will

A) reduce its plant size.
B) retain the same plant size.
C) expand its plant size.
D) exit the industry.

Answer: C

134) In the above figure when the firm has reached its long-run equilibrium position, it will produce output equal to the amount

A) $Q_1$
B) $Q_2$
C) $Q_3$
D) $Q_4$

Answer: C

135) If the cost curves shown in the above figure apply to all firms in the industry and the initial price is $P_1$, in the long run the price will be

A) zero.
B) less than $P_1$.
C) equal to $P_1$.
D) greater than $P_1$.

Answer: B

136) In a perfectly competitive industry, a permanent increase in demand initially brings a higher price, economic

A) loss, and entry into the industry.
B) loss, and exit from the industry.
C) profit, and entry into the industry.
D) profit, and exit from the industry.

Answer: C

137) In the long run, fixed costs are

A) zero and variable costs are zero.
B) zero and variable costs are positive.
C) positive and variable costs are zero.
D) positive and variable costs are positive.

Answer: B
138) In the long run, the economic profits of a firm in a perfectly competitive industry
A) will be above zero.
B) will be below zero.
C) will equal zero.
D) can be above, below, or equal to zero.
Answer: C

139) Assuming long-run external diseconomies exist, when demand increases in a perfectly competitive market, in the long run, the price of the product
A) equals the initial price (before the increase in demand) and the quantity increases.
B) equals the initial price (before the increase in demand) and the quantity decreases.
C) rises above the initial price (before the increase in demand) and the quantity increases.
D) falls below the initial price (before the increase in demand) and the quantity decreases.
Answer: C

140) Assuming long-run external economies exist, when demand increases in a perfectly competitive market, in the long run, the price of the product
A) equals the initial price (before the increase in demand) and the quantity increases.
B) equals the initial price (before the increase in demand) and the quantity decreases.
C) rises above the initial price (before the increase in demand) and the quantity increases.
D) falls below the initial price (before the increase in demand) and the quantity increases.
Answer: D

141) In a perfectly competitive market, if there are no external economies or diseconomies, an increase in demand
A) raises the price in the long run.
B) leaves the price the same in the long run.
C) lowers the price in the long run.
D) raises average cost in the long run.
Answer: B

142) If there are external economies, as demand increases,
A) the price falls in the long run.
B) the price rises in the long run.
C) firms exit from the industry in the long run.
D) output decreases in the long run.
Answer: A

143) External economies are factors beyond the control of an individual firm that ____ as the total industry output increases.
A) lower its costs
B) raise its costs
C) raise its marginal revenue
D) lower its profit
Answer: A

144) A long-run supply curve for a perfectly competitive industry can slope upward because of
A) external economies.
B) external diseconomies.
C) diminishing marginal returns.
D) economic profit.
Answer: B
**Topic: A Permanent Change in Demand**

**Skill: Analytical**

145) In the above figure, the industry short-run supply curve shifts from $S_0$ to $S_2$ as the
A) number of firms decreases.
B) number of firms increases.
C) external economies rise.
D) wage rate falls.

*Answer: B*

**Topic: External Economies and Diseconomies**

**Skill: Conceptual**

146) The curve $LS_0$ in the above figure is the long-run supply curve of a perfectly competitive industry. As the demand curve shifts rightward, the industry exhibits
A) external economies.
B) external diseconomies.
C) neither external economies nor external diseconomies.
D) technological advancement.

*Answer: B*

**Topic: External Economies and Diseconomies**

**Skill: Analytical**

147) Congestion of airports and airspace causes the airline industry to experience external economies and have a long-run supply curve with negative slope.
A) economies and have a long-run supply curve with negative slope.
B) economies and have a long-run supply curve with positive slope.
C) diseconomies and have a long-run supply curve with negative slope.
D) diseconomies and have a long-run supply curve with positive slope.

*Answer: D*

**Topic: External Economies and Diseconomies**

**Skill: Analytical**

148) Assuming long-run external economies exist, when demand increases in a perfectly competitive market, in the long run the average total cost curve for a typical firm shifts downward.
A) shifts downward.
B) shifts upward.
C) stays the same.
D) is no longer U-shaped.

*Answer: A*

**Topic: External Economies and Diseconomies**

**Skill: Analytical**

149) If the slope of the long-run supply curve for a perfectly competitive industry is positive, the industry experiences
A) external economies.
B) external diseconomies.
C) internal economies.
D) internal diseconomies.

*Answer: B*

**Topic: External Economies and Diseconomies**

**Skill: Analytical**

150) If the slope of the long-run supply curve for a perfectly competitive industry is negative, the industry experiences
A) external economies.
B) external diseconomies.
C) internal economies.
D) internal diseconomies.

*Answer: A*
### Competition and Efficiency

**Topic: External Cost**
**Skill: Recognition**

151) An example of an external cost is
   A) pollution.
   B) the price that a firm pays for a consultant’s advice.
   C) the price that a consumer pays for a new car.
   D) the damage created by a tornado.

**Answer:** A

### Study Guide Questions

**Topic: Study Guide Question; Perfect Competition**
**Skill: Conceptual**

152) Which of the following characterizes a perfectly competitive industry?
   A) The industry demand curve is vertical.
   B) The demand for each individual firm is perfectly elastic.
   C) Each firm sets a different price.
   D) Each firm produces a product slightly different from that of its competitors.

**Answer:** B

**Topic: Study Guide Question; Profit-Maximizing Output**
**Skill: Analytical**

153) Paul runs a shop that sells printers. Paul is a perfect competitor and can sell each printer for a price of $300. The marginal cost of selling one printer a day is $200; the marginal cost of selling a second printer is $250; and the marginal cost of selling a third printer is $350. To maximize his profit, Paul should sell
   A) one printer a day.
   B) two printers a day.
   C) three printers a day.
   D) more than three printers a day.

**Answer:** B

154) Because of a decrease in the wage rate it must pay, a perfectly competitive firm’s marginal costs decrease but its demand curve stays the same. As a result, the firm
   A) decreases the amount of output it produces and raises its price.
   B) increases the amount of output it produces and lowers its price.
   C) increases the amount of output it produces and does not change its price.
   D) decreases the amount of output it produces and lowers its price.

**Answer:** C

**Topic: Study Guide Question; The Firm’s Short-Run Supply Curve**
**Skill: Conceptual**

155) For prices above the minimum average variable cost, a perfectly competitive firm’s supply curve is
   A) horizontal at the market price.
   B) vertical at zero output.
   C) the same as its marginal cost curve.
   D) the same as its average variable cost curve.

**Answer:** C

**Topic: Study Guide Question; Economic Profits and Losses in the Short Run**
**Skill: Analytical**

156) A perfectly competitive firm is definitely earning an economic profit when
   A) $\text{MR} < \text{MC}$.
   B) $\text{P} > \text{ATC}$.
   C) $\text{P} < \text{ATC}$.
   D) $\text{P} > \text{AVC}$.

**Answer:** B

157) In the short run, a perfectly competitive firm can
   A) earn an economic profit.
   B) earn a normal profit.
   C) incur an economic loss.
   D) earn an economic profit, earn a normal profit, or incur an economic loss.

**Answer:** D
158) Suppose firms in a perfectly competitive industry are suffering an economic loss. Over time,
A) other firms enter the industry, so the price rises and the economic loss decreases.
B) some firms leave the industry, so the price rises and the economic loss decreases.
C) other firms enter the industry, so the price falls and the economic loss decreases.
D) some firms leave the industry, so the price falls and the economic loss decreases.
Answer: B

159) As firms enter a perfectly competitive industry,
A) the price falls and the existing firms’ economic profits do not change.
B) the price rises and the existing firms’ economic profits decrease.
C) the price falls and the existing firms’ economic profits decrease.
D) the price falls and the existing firms’ economic losses do not change.
Answer: C

160) In the long run, a perfectly competitive firm can
A) earn an economic profit.
B) earn a normal profit.
C) incur an economic loss.
D) earn an economic profit, earn a normal profit, or incur an economic loss.
Answer: B

162) If there are external diseconomies in an industry, in the long run, after a permanent increase in demand, the price
A) will be higher than it was initially before the increase in demand.
B) will be lower than it was initially before the increase in demand.
C) will be the same as it was initially before the increase in demand.
D) may be higher or lower than it was initially before the increase in demand, depending on whether or not the firms are earning an economic profit.
Answer: A

163) To which of the following situations does the term “external diseconomies” apply?
A) The firm’s MC curve falls as more output is produced.
B) The firm’s ATC curve slopes upward as the firm produces more output.
C) Increases in an industry’s output reduce the costs of the firms in an industry.
D) Increases in an industry’s output raise the costs of the firms in an industry.
Answer: D
A) has negative slope.
B) has positive slope.
C) is horizontal.
D) is vertical.

Answer: C
166) Carol’s Candies is producing 150 boxes of candy a day. Carol’s marginal revenue and marginal cost curves are shown in the figure above. To increase her profit, Carol should
A) increase output to increase profit.
B) decrease output to increase profit.
C) maintain the current level of output to maximize profit.
D) Not enough information is given to determine if Carol should increase, decrease, or not change her level of output.

Answer: B

167) Joe’s Shiny Shoes is a firm that operates in a perfectly competitive market. The figure above shows Joe’s cost and revenue curves. If the number of firms in the shoe market decreases, Joe will
A) decrease his production.
B) increase his production.
C) have an MR curve with positive slope.
D) have an MR curve with negative slope.

Answer: B

MyEconLab Questions

Topic: Perfect Competition
Level 1: Definitions and Concepts
168) In perfect competition, ___.
A) there are restrictions on entry into the industry
B) firms in the industry have advantages over firms that plan to enter the industry
C) only firms know their competitors’ prices
D) there are many firms that sell identical products

Answer: D

Topic: Price Taker
Level 1: Definitions and Concepts
169) In perfect competition, each firm ___.
A) can influence the price that it charges
B) produces as much as it can
C) is a price taker
D) faces a perfectly inelastic demand for its product

Answer: C
CHAPTER 11
Topic: Economic Profit and Revenue
Level 1: Definitions and Concepts
170) Economic profit is ____.
A) included in the firm’s total cost
B) equal to normal profit minus total cost
C) equal to total revenue minus marginal cost
D) equal to total revenue minus total cost
Answer: D

Topic: Economic Profit and Revenue
Level 1: Definitions and Concepts
171) A competitive firm’s total revenue minus its total cost equals its ____.
A) marginal revenue
B) economic profit
C) opportunity cost
D) normal profit
Answer: B

Topic: Long-Run Adjustments
Level 1: Definitions and Concepts
172) In the short run, perfectly competitive firms ____ but in the long run, perfectly competitive firms make ____.
A) make economic losses; economic losses
B) can incur economic losses; positive economic profits
C) must positive economic profits; positive economic profits
D) can incur economic losses; zero economic profit
Answer: D

Topic: Marginal Revenue
Level 1: Definitions and Concepts
173) In perfect competition, at all levels of output the market price is the same as the firm’s ____.
A) marginal revenue
B) normal profit
C) average variable cost
D) fixed cost
Answer: A

Topic: Shutdown Point
Level 1: Definitions and Concepts
174) When a competitive firm produces the profit-maximizing output and it is at its shutdown point, the firm’s ____.
A) marginal revenue equals its average fixed cost
B) total revenue equals its total variable cost
C) marginal cost is less than its average variable cost
D) total revenue is less than its total variable cost
Answer: B

Topic: Short-Run Supply Curve
Level 1: Definitions and Concepts
175) In a competitive industry when the plant size of each firm and the number of firms remain constant, the quantity supplied by all firms at each price is shown on the ____.
A) vertical supply curve at the shutdown point
B) short-run industry supply curve
C) horizontal firm supply curve at the market price
D) horizontal supply curve at the shutdown point
Answer: B

Topic: External Economies and Diseconomies
Level 1: Definitions and Concepts
176) The presence of external economies ____ each firm’s costs as the industry output ____ and the presence of external diseconomies ____ each firm’s costs as industry output ____.
A) lower; increases; lower; decreases
B) lower; increases; lower; increases
C) lower; decreases; lower; increases
D) raise; increases; lower; increases
Answer: A

Topic: Long-Run Supply Curve
Level 1: Definitions and Concepts
177) The ____ how the quantity supplied by an industry changes as the market price changes when firms have made all possible adjustments.
A) individual firms’ supply curves show
B) individual firms’ marginal cost curves show
C) long-run industry supply curve shows
D) short-run industry supply curve shows
Answer: C

Topic: How Perfect Competition Arises
Level 2: Using Definitions and Concepts
178) The smallest quantity of output at which long-run average cost is at a minimum is a firm’s ____.
A) maximum efficient scale
B) profit-maximizing output point
C) minimum efficient scale
D) efficient output point
Answer: A
Topic: Profit-Maximizing Output
Level 2: Using Definitions and Concepts
179) In perfect competition, a firm maximizes its economic profit if it produces the output at which ____.
   A) total revenue equals total cost
   B) price equals marginal cost
   C) price equals average cost
   D) economic profit equals zero in the short run
Answer: B

Topic: Profit-Maximizing Output
Level 2: Using Definitions and Concepts
180) Charlie’s Chimps is a perfectly competitive firm that produces cuddly chimps for children. The market price of a chimp is $10, and Charlie’s produces 100 chimps at a marginal cost of $9 a chimp. Charlie’s ____.
   A) is maximizing its profit
   B) will maximize its profit if it produces more than 100 chimps
   C) will maximize its profit if it lowers the price to $9 a chimp
   D) will maximize its profit if it produces fewer than 100 chimps
Answer: B

Topic: The Firm’s Short-Run Supply Curve
Level 2: Using Definitions and Concepts
181) The short-run industry supply curve is ____.
   A) vertical at the quantity at which firms will shut down
   B) horizontal at the price at which firms will shut down
   C) is downward sloping at the price at which firms will shut down
   D) shows the total revenue at each possible market price
Answer: B

Topic: Long-Run Adjustments
Level 2: Using Definitions and Concepts
183) Today, firms in a perfectly competitive industry are making an economic profit. In the long run, firms will ____ the industry until all firms in the industry are ____.
   A) exit; covering only their total fixed costs
   B) enter; making zero economic profit
   C) exit; producing at the minimum point on their long-run average cost curve
   D) enter; making zero normal profit
Answer: B

Topic: Efficiency of Perfect Competition
Level 2: Using Definitions and Concepts
184) In a competitive market, the market demand curve measures the ____ if ____ exist and the market supply curve measures the ____ if ____ exist.
   A) marginal social benefit; no external benefits; marginal social cost; no external costs
   B) marginal social benefit; external benefits; marginal social cost; external costs
   C) consumers’ marginal benefit; external benefits; firms’ marginal benefit; external benefits
   D) firms’ marginal benefit; external benefits; consumers’ marginal cost; external costs
Answer: C

Topic: Efficiency of Perfect Competition
Level 2: Using Definitions and Concepts
185) When the price equals the consumers’ marginal benefit and the producers’ marginal cost, the gains from trade are ____.
   A) zero
   B) minimized
   C) less than when price is greater than consumers’ marginal benefit
   D) maximized
Answer: D

Topic: Efficiency of Perfect Competition
Level 2: Using Definitions and Concepts
186) Consumer surplus ____.
   A) equals total revenue minus marginal cost
   B) is maximized when the market outcome is efficient
   C) equals total revenue minus opportunity cost
   D) plus producer surplus equals the gains from trade
Answer: D
CHAPTER 11

Topic: Marginal Analysis
Level 3: Calculations and Predictions
187) Sadie’s Cleaning Services is a perfectly competitive firm that currently cleans 20 offices an evening. Sadie’s marginal cost is greater than the price it charges. Sadie’s will increase its profit if it cleans ____.
A) more than 20 offices an evening
B) fewer than 20 offices an evening
C) more than 20 offices an evening and charges a higher price
D) 20 offices an evening but increases its price
Answer: B

<table>
<thead>
<tr>
<th>Quantity (coats per day)</th>
<th>Total cost (dollars per coat)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>1,410</td>
</tr>
<tr>
<td>8</td>
<td>1,640</td>
</tr>
<tr>
<td>9</td>
<td>1,910</td>
</tr>
<tr>
<td>10</td>
<td>2,210</td>
</tr>
<tr>
<td>11</td>
<td>2,560</td>
</tr>
</tbody>
</table>

Topic: Profit-Maximizing Output
Level 3: Calculations and Predictions
188) The table above shows the total cost incurred by Sue’s Coat Shop, a perfectly competitive firm. If the market price of a coat is $285, Sue’s will maximize economic profit by selling ____ coats a day.
A) 7
B) 11
C) 8
D) 9
Answer: D

Topic: Profit-Maximizing Output
Level 3: Calculations and Predictions
189) Tammy sells woolen hats in a perfectly competitive market. The marginal cost of producing 1 hat is $24. The marginal cost of producing a second hat is $26 and the marginal cost of producing a third hat is $28. The market price of a hat is $26. To maximize profit, Tammy produces ____ a day.
A) 1 hat
B) 3 hats
C) 2 hats
D) as many hats as possible
Answer: C

Topic: Economic Profits and Economic Losses in the Short Run
Level 3: Calculations and Predictions
190) The figure above shows Mollie’s Mugs’ costs of producing mugs. The mug market is perfectly competitive. If the market price of a mug falls to $5 and Mollie’s shuts down temporarily, its total variable cost is ____ an hour and it incurs an economic loss of ____ an hour.
A) $160; $280
B) $8; $14
C) $0; $120
D) $0; $6
Answer: C

Topic: Economic Profits and Economic Losses in the Short Run
Level 3: Calculations and Predictions
191) If the market price in a perfectly competitive industry is less than a firm’s minimum average variable cost, then the firm’s total revenue will always ____.
A) exceed its total fixed cost
B) be less than its total economic loss
C) equal its total cost
D) be less than its total variable cost
Answer: D
192) The figure illustrates the short-run costs of Paul’s Picture Frames Inc. The picture frame market is perfectly competitive and the market price is $30 per frame. Paul produces _____ frames each week, makes _____ of total revenue, and makes zero _____ profit.
   A) 200; $4,000; economic
   B) 300; $9,000; normal
   C) 200; $4,000; normal
   D) 300; $9,000; economic
   **Answer: D**

193) The donut market is perfectly competitive. The figure shows the costs of a typical donut producer. In the short run, the donut producer’s supply curve is the curve running from point _____ to point E.
   A) A
   B) D
   C) B
   D) C
   **Answer: C**

194) When some firms enter an industry in which firms are earning an economic profit, the short-run industry supply curve shifts _____, the market price _____, and each firm’s economic profit _____.
   A) leftward; increases; decreases
   B) rightward; increases; increases
   C) rightward; decreases; decreases
   D) leftward; decreases; decreases
   **Answer: C**
CHAPTER 11

**Topic: Permanent Change in Demand**

**Level 3: Calculations and Predictions**

195) The industry that produces zangs is in long-run equilibrium. Then the demand for zangs increases permanently. As a result, firms will ____. Some firms will ____ the industry, and the industry supply curve will shift ____.

A) make economic profits; enter; rightward
B) make normal profits; exit; leftward
C) incur economic losses; exit; rightward
D) incur economic losses; exit; leftward

*Answer: A*

**Topic: Efficiency of Perfect Competition**

**Level 3: Calculations and Predictions**

196) Perfect competition achieves efficiency if ____.

A) there are no external benefits and no external costs
B) producer surplus equals zero
C) consumer surplus is greater than producer surplus
D) marginal benefit is greater than marginal cost

*Answer: A*

**Topic: Price Takers**

**Level 4: Advanced Calculations and Predictions**

197) The market for lawn services is perfectly competitive. Larry’s Lawn Service cannot increase its total revenue by raising its price because ____.

A) Larry’s supply of lawn services is perfectly inelastic
B) the demand for Larry’s services is perfectly inelastic
C) Larry’s supply of lawn services is inelastic
D) the demand for Larry’s services is perfectly elastic

*Answer: D*

---

**Price Demand Schedule**

<table>
<thead>
<tr>
<th>Price (dollars per CD)</th>
<th>Quantity demanded (CDs per week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.00</td>
<td>30,000</td>
</tr>
<tr>
<td>8.50</td>
<td>25,000</td>
</tr>
<tr>
<td>9.00</td>
<td>20,000</td>
</tr>
<tr>
<td>9.50</td>
<td>15,000</td>
</tr>
<tr>
<td>10.00</td>
<td>10,000</td>
</tr>
</tbody>
</table>

**Marginal Cost Schedule**

<table>
<thead>
<tr>
<th>Quantity (CDs per week)</th>
<th>Marginal cost (dollars per CD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>8.50</td>
</tr>
<tr>
<td>100</td>
<td>9.00</td>
</tr>
<tr>
<td>150</td>
<td>9.50</td>
</tr>
<tr>
<td>200</td>
<td>10.00</td>
</tr>
<tr>
<td>250</td>
<td>10.20</td>
</tr>
</tbody>
</table>

**Topic: Profit-Maximizing Output**

**Level 4: Advanced Calculations and Predictions**

198) The first table shows the market demand schedule for CDs, and the second table shows the cost structure of each firm. The CD market is perfectly competitive, there are 100 identical firms. The market price of a CD is ____, and ____ CDs are produced and sold.

A) $9.00; 20,000
B) $9.50; 15,000
C) $10.00; 10,000
D) $8.50; 24,000

*Answer: B*
199) The figure above shows the costs for the typical grower in the perfectly competitive turnip industry. Currently, the price is $1,000 for a ton of turnips. In the long run, the industry supply of turnips will ____.
A) decrease, and the price of a ton of turnips will fall to $600.
B) increase, and the turnip grower’s economic profit will increase.
C) increase, and the turnip grower’s economic profit will decrease.
D) decrease and the price of a ton of turnips will rise to $1,200.
Answer: D

200) The figure above shows the costs for the typical grower in the perfectly competitive turnip industry. Currently, the price of a ton of turnips is $1,200. The demand for turnips increases permanently. The turnip industry experiences neither external economies nor external diseconomies. In the long run, the price of a ton of turnips ____.
A) increases so it is above $1,200.
B) is $1,200 and turnip growers will make normal profit
C) decreases so it is below $1,200, and turnip growers will make normal profit
D) decreases so it is below $1,200 and the turnip growers earn an economic profit
Answer: B

201) The apple industry is perfectly competitive and is in long-run equilibrium. Now a disease kills 50 percent of the apple orchards. In the short run, the price of a bag of apples ____ and the remaining apple growers make ____ profits. In the long run, the ____.
A) increases; normal; price of apples will return to their original level
B) remains the same; normal; orchards will be replanted and growers will make normal profits
C) increases; normal; orchards will be replanted and economic profit will return to zero
D) increases; positive economic; orchards will be replanted and economic profit will return to zero
Answer: D

202) If the long-run industry supply in a perfectly competitive industry is downward sloping, then the industry experiences ____ and as the industry expands the price ____.
A) external diseconomies; falls
B) external economies; falls
C) external diseconomies; rises
D) external economies; rises
Answer: B
203) Initially, a competitive industry that has 1,000 firms is in long-run equilibrium. Then 100 firms in the industry adopt a new technology that reduces the average cost of producing the good. In the short run, the price ____, firms with the new technology make ____ profits, and firms with the old technology ____.

A) remains the same; normal; incur economic losses
B) falls; positive economic; incur economic losses
C) remains the same; positive economic; make normal profit
D) remains the same; positive economic; incur economic losses

Answer: B

204) A competitive industry is in long-run equilibrium. Some firms in the industry adopt new technology that reduces the average total cost of producing the good. In the long run, the price is ____, firms with the new technology make ____ profits, and firms with the old technology ____.

A) lower; normal; exit the industry
B) constant; economic; make normal profit
C) lower; normal; switch to the new technology or exit the industry
D) constant; normal; exit the industry

Answer: C