

**Microeconomics: Monika Köppl – Turyna**  
**Additional Problems: Perfect Competition**

1. Which of the following is not a condition for perfect competition?
  - A. Firms take prices as given
  - B. Firms sell a standardized product
  - C. Firms are protected by barriers to entry
  - D. Firms have perfect information
2. The profit maximizing output level for a perfectly competitive firm is always where
  - A.  $P = MC$
  - B.  $P = AVC$
  - C.  $MC = ATC$
  - D.  $MC = AVC$
3. If a firm's demand curve falls below its AVC curve, then the firm should
  - A. Shut down now
  - B. Operate in the short run but not the long run
  - C. Set price = marginal cost
  - D. Shutdown in the long-run
4. The demand curve facing a perfectly competitive firm is
  - A. Infinitely elastic
  - B. Perfectly inelastic
  - C. Downward sloping
  - D. Perfectly elastic
5. In general, economists assume that firms
  - A. Maximize accounting profit
  - B. Maximize economic profit
  - C. Maximize sales
  - D. Maximize revenue
6. If firms are price takers this implies
  - A. That in the short-run economic profits will be zero
  - B. That the demand curve facing the firm is perfectly elastic
  - C. That the total revenue curve is horizontal
  - D. That the marginal revenue curve is upward sloping
7. Producer surplus is given by
  - A. The area above the supply curve but below the price
  - B. The area below the supply curve
  - C. The area below the demand curve but above the price
  - D. The area below the demand curve

8. The elasticity of supply is given by
- $\frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$
  - $\frac{P}{Q} \times \frac{1}{\text{slope}}$
  - $\frac{\Delta Q / Q}{\Delta P / P}$
  - All of the above
9. You have a small business that makes \$50,000 accounting and economic profit for you. As a disabled person, you must work at home and you did not have other opportunities until your neighbor offers you a job you like equally well for \$50,000 and you can do it at home. This means
- Your accounting profit has gone down and your economic profit has gone up
  - Your economic profit has gone down and your accounting profit has gone up
  - Both your accounting and economic profit have gone down
  - Both your accounting and economic profit have gone up
  - Your economic profit has gone down and your accounting profit has stayed the same
10. If a firm is producing where its LMC = price and the LMC is equal to LAC, then it would do better in the long run by
- Increasing output with its existing plant until LMC equals price
  - Increasing plant size until LMC and SAC are identical and equal to price
  - Decreasing plant size until LAC, SAC and price are equal
  - Changing nothing because it is already at the long run profit maximizing point
11. I get \$200 revenue from the sale of my product each day. I rent the factory that I use for \$90 a day. The raw materials of the operation cost \$115 a day. I do all the work myself. Both jobs are equally attractive as far as the work is concerned. Recently, a competitor offered me \$30 a day to work for him. My accounting profit is \_\_\_\_\_, and my economic profit is \_\_\_\_\_.
- 5, -35
  - 35, -35
  - 25, -5
  - 110, -30
12. Competitive markets result allocative efficiency because they:
- Maximize the total benefits from exchange
  - Make sure goods are produce at the lowest costs
  - Generate the most benefits for consumers
  - Distribute resources in the most equitable way