

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

A. $\frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

B. $\frac{P}{Q} \times \frac{1}{\text{slope}}$

C. $\frac{\Delta Q / Q}{\Delta P / P}$

D. 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

- A. Your accounting profit has gone down and your economic profit has gone up
- B. Your economic profit has gone down and your accounting profit has gone up
- C. Both your accounting and economic profit have gone down
- D. Both your accounting and economic profit have gone up
- E.** 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

- A. Increasing output with its existing plant until LMC equals price
- B. Increasing plant size until LMC and SAC are identical and equal to price
- C. Decreasing plant size until LAC, SAC and price are equal
- D.** 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 _____.

- A.** -5, -35
- B. -35, -35
- C. 25, -5
- D. 110, -30

12. Competitive markets result allocative efficiency because they:

- A.** Maximize the total benefits from exchange
- B. Make sure goods are produce at the lowest costs
- C. Generate the most benefits for consumers
- D. Distribute resources in the most equitable way