Unit 6. Firm behaviour and market structure: perfect competition

Quiz

1. Which of the following is true for a perfectly competitive firm in the long run?

A. $P=MR=MC=ATC$
B. $P=MR=MC>ATC$
C. $P>MR=MC=ATC$
D. $P=MR>MC=ATC$
E. $P>MR=MC>ATC$

2. Jason cleans swimming pools in a perfectly competitive local market. A profit-maximizer, he can charge $10 per pool to clean 9 pools per day, incurring total variable costs of $81 and total fixed costs of $19.Which of the following is true?

A. Jason should shut down in the short run, with economic losses of $19.
B. Jason should shut down in the short run, with economic losses of $10.
C. Jason should clean 9 pools per day, with economic losses of $19.
D. Jason should clean 9 pools per day, with economic losses of $10.
E. Jason should clean 9 pools per day, with economic profits of $10.

3. For the perfectly competitive firm, the profit-maximizing decision to shut down is made when the price

A. falls below minimum average total cost.
B. is greater than minimum average variable cost, but lower than minimum average total cost.
C. falls below minimum average variable cost.
D. is equal to minimum average total cost.
E. is equal to average fixed cost.

4. The short run supply curve of a perfect competitor is

A. the upward bending segment of marginal cost curve
B. the upward bending segment of marginal cost curve that is higher than minimum of average variable cost
C. the upward bending segment of marginal cost curve that is higher than minimum of average cost
D. the downward sloping segment of marginal cost curve
E. answers B and C are true

5. The long-run supply curve of a perfect competitor is

A. the upward bending segment of marginal cost curve

B. the upward bending segment of marginal cost curve that is higher than minimum of average variable cost

C. the upward bending segment of marginal cost curve that is higher than minimum of average cost

D. the downward sloping segment of marginal cost curve

E. answers A and C are true

6. Producer surplus of a perfect competitor in the short run is equal to

A. economic profit;

B. economic profit and fixed cost;

C. total revenue minus variable cost;

D. answers B and C are correct;

E. none of the above

7. Production under perfect competition is efficient because

A. Firms produce at prices that are equal to marginal costs

B. Firms produce at prices equal to minimum of long run average costs

C. Firms produce at prices equal to minimum of average variable costs

D. All of the above

E. None of the above

8. Suppose that the price at a perfectly competitive market remains unchanged when the firms enter (or exit from) the market. It means that

A. production technology does not exhibit decreasing returns to scale

B. this is a constant-cost industry

C. the long-run market supply curve is horizontal

D. the answers B and C are both correct

E. all the answers above are correct

9. Suppose that initially an increasing-cost industry is in long-run equilibrium. Assume an increase in demand for the product of the industry that yields a new short-run equilibrium. Adjustment to new long-run equilibrium will:

A. raise equilibrium price and quantity produced

B. reduce equilibrium price and quantity produced

C. raise equilibrium price and reduce equilibrium quantity produced

D. reduce equilibrium price and raise equilibrium quantity produced

E. information is insufficient to draw a conclusion about the direction of change in equilibrium price and quantity.

10. Demand curve for a perfectly competitive firm is

A. downward sloping and equal to the market demand curve.

B. perfectly elastic.

C. perfectly inelastic.

D. "kinked" at the going market price.

E. the same as the firms’ marginal cost curves.