

Chapter 23

Perfect Competition

23.1 Characteristics of a Perfectly Competitive Market Structure

- 1) Which of the following is NOT a characteristic of a perfectly competitive market?
- A) The products sold by the firms in the market are homogeneous.
 - B) There are many buyers and sellers in the market.
 - C) It is difficult for a firm to enter or leave the market.
 - D) Each firm is a price taker.

Answer: C

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 2) Which of the following is a characteristic of perfect competition?
- A) Easy entry and exit
 - B) Few firms
 - C) Differentiated products
 - D) None of the above

Answer: A

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 3) All of the following are characteristics of perfect competition EXCEPT
- A) homogenous products.
 - B) each firm is a price taker.
 - C) product differentiation.
 - D) a lack of barriers.

Answer: C

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 4) Perfect competition is characterized by
- A) many buyers and sellers.
 - B) a small number of firms.
 - C) differentiated products of firms in the industry.
 - D) high barriers to entry.

Answer: A

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 5) The perfectly competitive firm cannot influence the market price because
- A) it has market power.
 - B) its production is too small to affect the market.
 - C) it is a price maker.
 - D) its costs are too high.

Answer: B

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Which of the following is NOT a characteristic of a perfectly competitive industry?
- A) There is free entry and exit in the long run.
 - B) The industry demand curve is downward sloping.
 - C) Each firm produces the same homogeneous product.
 - D) Economic profits must be positive in the short run.

Answer: D

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 7) Being a price taker essentially means
- A) a firm can influence the market price.
 - B) a firm cannot influence the market price.
 - C) the firm cannot legally set its price above the market price.
 - D) the firm cannot legally set its price below the market price.

Answer: B

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 8) In a perfectly competitive industry
- A) each firm is a price maker.
 - B) no buyer or seller can influence the market price.
 - C) there is apt to be a shortage of sellers of output.
 - D) firms can never make an economic profit.

Answer: B

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Each firm in a perfectly competitive industry is
- A) producing a unique product.
 - B) relatively large.
 - C) a price taker.
 - D) a price setter.

Answer: C

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

10) All firms in a perfect competition industry

- A) are price makers.
- B) produce differentiated products.
- C) produce identical products.
- D) lose money.

Answer: C

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

11) Which of the following is NOT a characteristic of a perfectly competitive industry?

- A) There are large numbers of buyers and sellers.
- B) The firms in the industry produce a homogeneous product.
- C) Sellers have better information about the product than consumers.
- D) Any firm can enter or leave the industry without serious impediments.

Answer: C

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

12) A market structure in which the decisions of individual buyers and sellers have no effect on market price is

- A) perfect competition.
- B) a short-run industry.
- C) a long-run industry.
- D) a market supply industry.

Answer: A

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

13) A market structure in which the decisions of individual buyers and sellers have no effect on market price is

- A) monopoly.
- B) monopolistic competition.
- C) perfect competition.
- D) oligopoly.

Answer: C

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

14) A firm in a perfectly competitive industry is a

- A) price taker.
- B) quantity taker.
- C) quality maker.
- D) price maker.

Answer: A

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 15) Under perfect competition, a firm that sets its price slightly above the market price would
- A) make lower profits than the other firms, but the amount would depend on the elasticity of demand.
 - B) make a normal rate of return, but on reduced revenues.
 - C) lose all of its customers.
 - D) earn higher profits as long as the other firms continued to charge the market price.

Answer: C

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 16) A price taker is a firm that
- A) seeks to maximize revenue rather than profit.
 - B) cannot influence the market price.
 - C) searches for the best price and then takes the highest profits possible.
 - D) buys inputs for firms.

Answer: B

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Which of the following is NOT a characteristic of perfect competition?
- A) There are large numbers of buyers and sellers.
 - B) The firms in an industry produce goods that are different from each other.
 - C) Any firm can easily enter or leave the industry.
 - D) Both buyers and sellers have equally good information.

Answer: B

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 18) When considering perfect competition the absence of entry barriers implies that
- A) no firm can enter the industry.
 - B) firms can enter but cannot get out of the industry easily.
 - C) all firms will earn economic profit.
 - D) firms can enter and leave the industry without serious impediments.

Answer: D

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

19) In a perfectly competitive market, which of the following is the main factor that affects consumers' decisions on which firm to purchase a good from?

- A) Quality
- B) Customer service
- C) Reputation
- D) Price

Answer: D

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

20) All of the following are characteristics of a perfectly competitive industry EXCEPT

- A) the product sold is homogeneous.
- B) firms in the industry are price takers.
- C) buyers and sellers have equal access to information.
- D) there are a large number of buyers and sellers with only a few being able to influence the market price.

Answer: D

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

21) When there are large numbers of buyers and sellers, then

- A) the products sold must look identical.
- B) firms will move labor and capital in pursuit of profit-making opportunities to whatever business venture gives them the highest return on their investment.
- C) no one buyer or seller has any influence on price.
- D) consumers are able to find out about lower prices charged by other firms.

Answer: C

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

22) What does it mean when the products sold by the firms in an industry are homogeneous?

- A) The product sold by one firm is a perfect substitute of the product sold by another firm in the same industry.
- B) Firms in the industry can produce the same product with different inputs.
- C) All firms in the industry are identical in size.
- D) The product sold by one firm is a perfect complement of the product sold by another firm in the same industry.

Answer: A

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 23) In a perfectly competitive market structure both buyers and sellers have equal access to information. This implies
- A) the products sold will be alike.
 - B) firms will move labor and capital in pursuit of profit-making opportunities to whatever business venture gives them the highest return on their investment.
 - C) no one buyer or seller has any influence on price.
 - D) consumers are able to find out about lower prices charged by other firms.

Answer: D

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 24) In a perfectly competitive market structure any firm can enter or leave the industry without serious impediments. This implies
- A) the products sold will be alike.
 - B) firms will move labor and capital in pursuit of profit-making opportunities to whatever business venture gives them the highest return on their investment.
 - C) no one buyer or seller has any influence on price.
 - D) consumers are able to find out about lower prices charged by other firms.

Answer: B

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Malfeasance at Enron, a Houston-based energy firm, led to overstatement of revenues by almost \$92 billion. As Enron closed its operations, U.S. energy prices remained stable. This may have been evidence that
- A) Enron could charge whatever price it wanted to for energy.
 - B) there was lack of any competition, so Enron was the winner.
 - C) there is a competitive market in energy distribution in the United States.
 - D) the accounting profession needs to review its policies quickly.

Answer: C

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 26) Clothing retailers have faced greater competition in recent years as more firms have entered the clothing market. Some of the competition has come from foreign competitors, but much of it is domestic competition. As a result there is much competition in markets for many types of clothing and
- A) individual buyers and sellers cannot affect the market price because it is determined by the market forces of demand and supply.
 - B) there are no other implications.
 - C) firms have a great degree of flexibility in pricing their products because these products can be sold at a high profit level.
 - D) there are relatively few buyers and sellers in the market, and one individual firm can determine the market price.

Answer: A

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 27) Your local farmer has many competitors and exists in a market structure known as perfect competition. This means that price is determined outside of the individual farmer's ability to charge a price higher than the going market for a bushel of wheat, hence the farmer is
- A) a price maker and can therefore charge different customers different prices.
 - B) always able to price produce above the competition and earn a larger profit.
 - C) never able to determine any prices he charges for anything, such as soybeans.
 - D) a price taker and cannot affect the market price of wheat.

Answer: D

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Perfect competition is a market structure
- A) in which any firm would have serious impediments to entry or exit.
 - B) in which individual buyers and sellers have no effect on the market price.
 - C) resulting from individual firms selling highly differentiated products.
 - D) where there is significant regulation and markets are always efficient.

Answer: B

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

- 29) The firm in a perfectly competitive industry is a
- A) price taker.
 - B) price maker.
 - C) price seeker.
 - D) price dealer.

Answer: A

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 30) Which of the following statements about the perfect competitor is INCORRECT?
- A) The perfectly competitive firm is always a price taker.
 - B) The perfect competitor sells a homogeneous commodity.
 - C) If an individual firm raises price, it will lose business.
 - D) The products made by a perfectly competitive firm have no close substitutes.

Answer: D

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 31) Which of the following is NOT a characteristic of perfect competition?
- A) There are many buyers and sellers.
 - B) Each firm determines the market price of its product.
 - C) Products are homogeneous.
 - D) Buyers and sellers have equal access to information.

Answer: B

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 32) Which of the following is NOT a characteristic of perfect competition?
- A) differentiated products
 - B) large number of buyers and sellers
 - C) price taking by each firm
 - D) easy entry and exit into the market

Answer: A

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 33) Which of the following is NOT a characteristic of perfect competition?
- A) Firms are "price takers."
 - B) All firms sell identical products.
 - C) There are substantial barriers to entry into the industry.
 - D) There are many buyers and sellers.

Answer: C

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

- 34) All of the following are characteristics of a perfectly competitive market EXCEPT
- A) homogeneous products.
 - B) large number of buyers and sellers.
 - C) buyers and seller have equal access to information.
 - D) high barriers to entry and exit.

Answer: D

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

35) Which of the following is closest to a perfectly competitive market?

- A) the computer software market
- B) the market for handmade guitars
- C) the market for broccoli
- D) the market for athletic shoes

Answer: C

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Reflective thinking skills

Question Status: Previous Edition

36) Which of the following is closest to a perfectly competitive market?

- A) the pizza market
- B) the market for breakfast cereal
- C) the market for corn
- D) the market for automobiles

Answer: C

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Reflective thinking skills

Question Status: New

37) Which of the following is closest to a perfectly competitive market?

- A) the soda pop market
- B) the market for bread
- C) the market for sugar
- D) the market for fast food

Answer: C

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Reflective thinking skills

Question Status: New

38) A perfectly competitive market has

- A) high barriers to entry or exit.
- B) homogeneous products.
- C) to do a lot of advertising to attract buyers.
- D) few firms.

Answer: B

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

39) What is a price taker? Discuss the assumptions used to obtain the perfectly competitive model.

Answer: A price taker, or perfectly competitive firm, is a firm that must take the market price of its product as given because it cannot influence the market price. The model of perfect competition has four assumptions. There is a large number of buyers and sellers, and no one has any influence on the market price. The product is homogeneous, so the output of one firm is a perfect substitute for the output of another firm. Buyers and sellers have all the information they require to determine the lowest price and best production technique. Finally, all firms can easily enter or leave the industry.

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

40) What are the main characteristics of a perfectly competitive market?

Answer: In a perfectly competitive market, there are large numbers of buyers and sellers; the products sold by the firms in the industry are homogeneous; both buyers and sellers have equal access to information; and any firm can enter or leave industry without serious impediments. As a result of these characteristics, all firms in the industry are price takers.

Diff: 2

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

Question Status: Previous Edition

41) "A market is said to be perfectly competitive when consumers can tell that some products are of better quality than others." Do you agree or disagree? Why?

Answer: Disagree. A market is perfectly competitive when firms produce homogeneous products and consumers cannot differentiate the quality of the products produced by different firms.

Diff: 1

Topic: 23.1 Characteristics of a Perfectly Competitive Market Structure

AACSB: Analytic skills

Question Status: Previous Edition

23.2 The Demand Curve of the Perfect Competitor

1) Under the perfectly competitive market structure, the demand curve of an individual firm is

- | | |
|--------------------------|-----------------------|
| A) perfectly inelastic. | B) downward sloping. |
| C) relatively inelastic. | D) perfectly elastic. |

Answer: D

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Revised

2) If a firm is a perfect competitor, then

- A) the demand curve for its product is perfectly elastic.
- B) it can independently set the price of the product it sells without regard to what other firms in the market are doing.
- C) it is impossible for the firm to earn short-run economic profits.
- D) its marginal cost will exceed marginal revenue at the optimal level of output.

Answer: A

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

3) For a firm in a perfectly competitive industry, the demand curve for its own product is

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

Answer: A

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

- 4) For a firm in a perfectly competitive industry, the demand curve for its own product is
- A) downward sloping.
 - B) vertical.
 - C) always above the marginal revenue curve.
 - D) the same as the marginal revenue curve.

Answer: D

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 5) In a perfectly competitive industry, the industry demand curve
- A) must be horizontal.
 - B) must be vertical.
 - C) is upward sloping.
 - D) is downward sloping.

Answer: D

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

- 6) The perfectly competitive firm faces
- A) a downward sloping demand curve.
 - B) a horizontal supply function.
 - C) perfectly elastic demand.
 - D) constant marginal costs.

Answer: C

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

- 7) A perfectly elastic demand function
- A) shows that a consumer is willing to pay any amount for the product.
 - B) is characteristic of an individual firm operating in a perfectly competitive market.
 - C) shows that the individual firm can increase sales by lowering the price of output.
 - D) has a marginal revenue that is always decreasing.

Answer: B

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

- 8) The demand curve for a perfectly competitive firm is horizontal because
- A) consumers are willing to pay any price to obtain its product.
 - B) its production decisions cannot influence the market price.
 - C) the firm profits from setting its price higher than the market price.
 - D) its product is easy for consumers to differentiate from those of other firms.

Answer: B

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The demand curve for a perfectly competitive industry is
- A) downward sloping.
 - B) horizontal.
 - C) vertical.
 - D) indeterminate without more information.

Answer: A

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

- 10) The demand curve for a perfectly competitive firm is
- A) elastic at relatively high prices and inelastic at relatively low prices.
 - B) perfectly elastic.
 - C) perfectly inelastic.
 - D) unitary elastic.

Answer: B

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

- 11) In the model of perfect competition, the market demand curve is found by
- A) a marketing analysis.
 - B) taking the demand curve of a "representative consumer" and expanding it by the number of consumers of the good.
 - C) horizontally summing the demand curves of individual consumers.
 - D) horizontally summing the supply curves of individual firms.

Answer: C

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 12) The demand curve for the product of a perfectly competitive firm's demand curve indicates that if the firm
- A) lowers its price, it can sell more.
 - B) accepts the market-set price, the number of units the firm can sell is limited.
 - C) raises its price, sales will fall to zero.
 - D) changes its price, the quantity demanded will change in the opposite direction.

Answer: C

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

13) Which of the following statements is **not** true for a perfectly competitive firm?

- A) A firm's demand curve is horizontal.
- B) The firm can influence its demand curve by advertising its product.
- C) The firm's demand curve is perfectly elastic.
- D) The market demand and supply curves determine the market price.

Answer: B

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

14) A perfectly competitive producer faces a demand curve for its own product that is

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

Answer: C

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

15) Which of the following statements is correct about the demand curve of the perfectly competitive industry?

- A) The demand curve of the perfectly competitive industry is horizontal as are the demand curves facing the individual firms.
- B) The market demand curve of perfect competition is vertical because the individual consumers are buying a homogeneous product.
- C) The market demand curve of the perfectly competitive industry is downward sloping while the demand curve facing an individual firm is horizontal.
- D) The market demand curve of the perfectly competitive industry is downward sloping, so the demand curves of the individual firms are also downward sloping.

Answer: C

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

16) Which of the following statements is correct?

- A) The demand curve of the perfectly competitive industry is elastic as are the demand curves facing the individual firms.
- B) The market demand curve of perfect competition is inelastic because the individual consumers are buying a homogeneous product.
- C) The market demand curve of the perfectly competitive industry is downward sloping while the demand curve of an individual firm is horizontal with a height equal to the product price.
- D) The market demand curve of the perfectly competitive industry is downward sloping, so the demand curves of the individual firms are also downward sloping.

Answer: C

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 17) The demand curve for the product of a perfectly competitive firm is
- A) perfectly elastic.
 - B) perfectly inelastic.
 - C) elastic at high prices and inelastic at low prices.
 - D) identical to the elasticity of demand on the market demand curve.

Answer: A

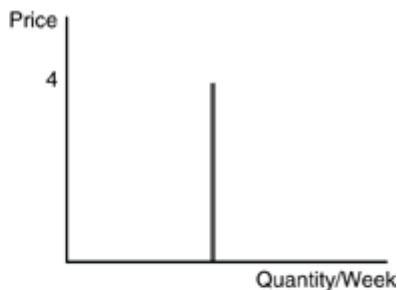
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Topic: 23.2 The Demand Curve of the Perfect Competitor

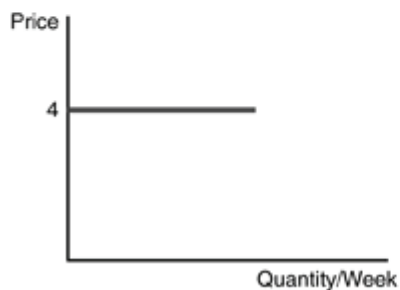
Question Status: Previous Edition



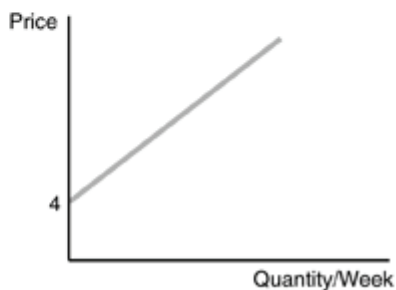
Panel A



Panel B



Panel C



Panel D

- 18) Refer to the above figure. The market supply and demand curves in a perfectly competitive market intersect at \$4. Which of the graphs represent the situation for an individual firm?
- A) Panel A
 - B) Panel B
 - C) Panel C
 - D) Panel D

Answer: C

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Refer to the above figure. Which of the graphs represent the situation for a perfectly competitive industry?
- A) Panel A
 - B) Panel B
 - C) Panel C
 - D) Panel D

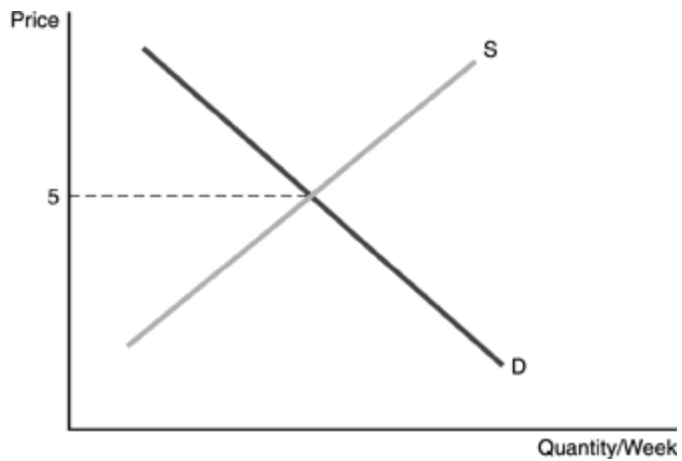
Answer: A

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: New



- 20) Refer to the above figure. The figure represents the market demand and supply curves for widgets. What statement can be made about the demand curve for an individual firm in this market?
- A) An individual firm's demand curve will be a smaller version of the market demand curve.
 - B) An individual firm's demand curve will be horizontal at \$5.
 - C) An individual firm's demand curve will be horizontal at a price below \$5.
 - D) An individual firm's demand curve cannot be determined from the graph above.

Answer: B

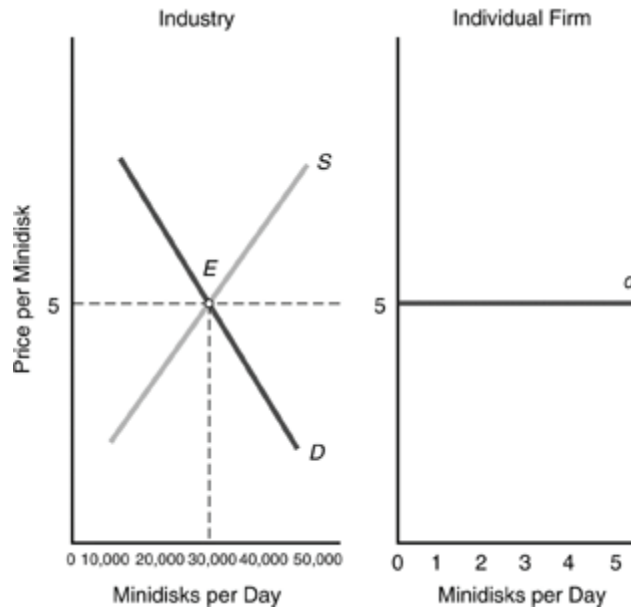
Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

21) Referring to the diagram, which of the following statements is INCORRECT?



- A) The equilibrium market price is \$5, at which the industry demand and supply curves intersect.
- B) If the individual firm raises its price, it will capture all sales in the market.
- C) The individual firm takes as given the market price along the perfectly elastic demand curve "d."
- D) The individual firm faces the going market price as determined by the industry.

Answer: B

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

22) The demand curve faced by a perfectly competitive industry

- A) slopes upward.
- B) slopes downward.
- C) has no slope.
- D) is perfectly inelastic.

Answer: B

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

23) The demand curve for a perfectly competitive industry is

- A) perfectly elastic.
- B) downward sloping.
- C) perfectly inelastic.
- D) unit elastic.

Answer: B

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

- 24) The demand curve for the product of a perfectly competitive firm is
- A) downward sloping.
 - B) upward sloping.
 - C) perfectly inelastic.
 - D) perfectly elastic.

Answer: D

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

Question Status: Previous Edition

- 25) If a firm in a perfectly competitive market raises its price,
- A) it will sell more products.
 - B) it will sell fewer products.
 - C) its sales will remain unchanged.
 - D) it will sell nothing.

Answer: D

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 26) A perfectly competitive firm faces a horizontal demand curve because it is
- A) a price taker.
 - B) a price maker.
 - C) a large firm in a small industry.
 - D) one of few firms in the market.

Answer: A

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 27) The perfectly competitive firm's demand curve has
- A) a negative slope.
 - B) a positive slope.
 - C) an undefined slope.
 - D) a slope of 0.

Answer: D

Diff: 2

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Revised

- 28) "Demand curves slope down, so the demand curve faced by a perfectly competitive firm must also be downward sloping." Do you agree or disagree? Why?

Answer: Market demand curves slope down. However, the demand curve faced by a perfectly competitive firm is horizontal at the market price. The firm's output is such a small portion of industry output so that it cannot influence the market price. If it sets the price of its good, which is identical to other firms' products, it will be unable to sell any of its output. If it sets its price below the market price, it will not maximize economic profits. Consequently, the firm takes the market price as given, and it receives this per-unit price for any given quantity it produces and sells.

Diff: 3

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Describe and explain how a perfectly competitive firm's demand curve is found.

Answer: The interaction of supply and demand in the industry determines the price. The firm is a price taker, so it takes the price as a given. It can sell as many units as it wants at this price. Hence, the demand curve for the product of a perfectly competitive firm is perfectly elastic, or horizontal, at the market price.

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Why is the demand curve horizontal for a perfectly competitive firm?

Answer: The demand curve for a perfectly competitive firm is horizontal to reflect the fact that if it raises its price, its sales will drop to zero. The firm has no control over the market price.

Diff: 1

Topic: 23.2 The Demand Curve of the Perfect Competitor

AACSB: Analytic skills

Question Status: Previous Edition

23.3 How Much Should the Perfect Competitor Produce?

- 1) For a firm in a perfectly competitive market, average revenue equals
- A) average cost.
 - B) the change in total revenue.
 - C) the market price.
 - D) price divided by quantity.

Answer: C

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 2) The total revenue of a perfectly competitive firm is calculated by
- A) multiplying average revenue by price.
 - B) dividing price by quantity.
 - C) multiplying price by quantity.
 - D) multiplying quantity by average total cost.

Answer: C

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

Question Status: Previous Edition

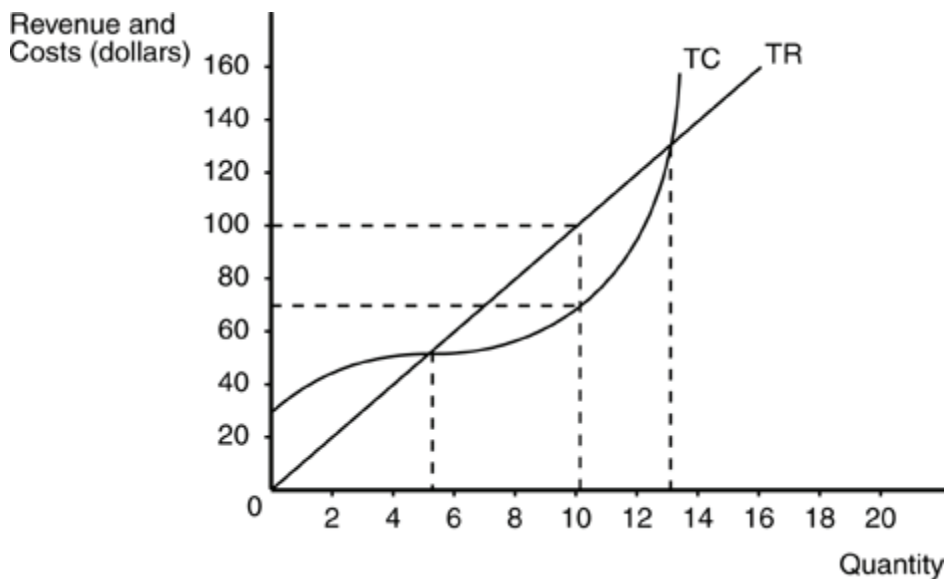
- 3) Economists generally assume that firms attempt to maximize
- A) total revenue.
 - B) sales.
 - C) marginal revenue.
 - D) total economic profits.

Answer: D

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

Question Status: Previous Edition



- 4) In the above figure, the market price charged by this profit-maximizing, perfectly competitive firm is

A) \$5 per unit of output. B) \$10 per unit of output.
C) \$8 per unit of output. D) \$14 per unit of output.

Answer: B

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 5) In the above figure, the profit-maximizing rate of production for the perfectly competitive firm is

A) 5. B) 10.
C) 13. D) none of the above.

Answer: B

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: New

- 6) In the above figure, at the profit-maximizing rate of production for the perfectly competitive firm total revenue is

A) \$100. B) \$70. C) \$30. D) \$130.

Answer: A

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: New

- 7) In the above figure, at the profit-maximizing rate of production for the perfectly competitive firm total cost is

A) \$100. B) \$70. C) \$30. D) \$130.

Answer: B

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: New

- 8) In the above figure, at the profit-maximizing rate of production for the perfectly competitive firm average total cost is

A) \$10. B) \$3. C) \$7. D) \$70.

Answer: C

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: New

- 9) In the above figure, at the profit-maximizing rate of production for the perfectly competitive firm profit is

A) \$100. B) \$70. C) \$30. D) \$130.

Answer: C

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: New

- 10) In the above figure, at output levels between 5 units and 13 units,

A) the firm's accounting profits are negative.
B) total revenue equals total costs.
C) the firm's economic profits are positive.
D) the firm is breaking even.

Answer: C

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 11) In the above figure, at which output level is this firm earning negative economic profits?

A) 2 B) 5 C) 10 D) 12

Answer: A

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 12) A firm in a perfectly competitive market maximizes profits when it finds
- A) the price at which total revenue minus total cost is the greatest.
 - B) the quantity at which total revenue minus total cost is the greatest.
 - C) the quantity at which total revenue equals total cost.
 - D) the quantity at which total revenue is maximized.

Answer: B

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 13) When a firm is operating at an output rate at which total revenue equal total costs, this is called
- A) its shutdown point.
 - B) its breakeven point.
 - C) a short-run profit.
 - D) a loss.

Answer: B

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

Total Output	Total Costs	Total Output	Total Costs
100	\$500	106	\$528
101	501	107	540
102	503	108	555
103	506	109	580
104	510	110	615
105	518	111	660

- 14) Refer to the above table. This firm operates in a perfectly competitive market in which the market price is \$10 per unit. What is its profit-maximizing rate of production?
- A) 104 units
 - B) 106 units
 - C) 108 units
 - D) 110 units

Answer: B

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Refer to the above table. This firm operates in a perfectly competitive market in which the market price is \$10/unit. What is true when the firm produces 103 units?
- A) Total revenue equals \$5,060.
 - B) Total costs exceed total revenue by \$403.
 - C) Marginal revenue is less than marginal cost.
 - D) Its total profit is \$524.

Answer: D

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Refer to the above table. This firm operates in a perfectly competitive market in which the market price is \$5/unit. What is true when the firm produces 110 units?

A) Total revenue equals \$3,075.
 B) Total costs exceed total revenue by \$65.
 C) Marginal revenue is more than marginal cost.
 D) Its total profit is \$65.

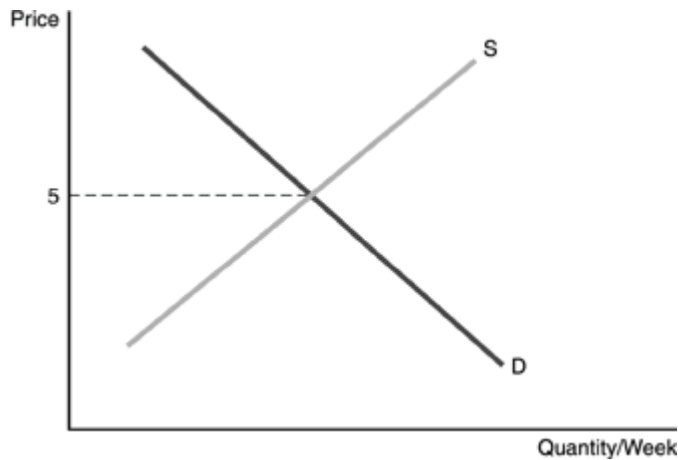
Answer: B

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: New



- 17) Refer to the above figure. If an individual firm wants to maximize economic profits, it should

A) charge \$5 for its product.
 B) charge more than \$5 for its product since increasing the price will increase revenues.
 C) charge less than \$5 for its product since a lower price will attract more customers.
 D) withdraw its product from the market forcing the market price up.

Answer: A

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 18) The total amount received from the sale of output is

A) average revenue. B) marginal revenue.
 C) total revenue. D) price revenue.

Answer: C

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Refer to the above table. The table represents information on the costs for Ajax Corporation. Ajax operates in a perfectly competitive market and the price of the product is \$7. What will be the value of total revenue when quantity sold equals 2?

A) \$7 B) \$14 C) \$21 D) \$16

Answer: B

Diff: 3

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: New

- 24) Refer to the above table. The table represents information on the costs for Ajax Corporation. Ajax operates in a perfectly competitive market and the price of the product is \$9. What does profit equal when quantity equals 4?

A) \$4 B) \$6 C) \$9 D) \$36

Answer: B

Diff: 3

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Refer to the above table. The table represents information on the costs for Ajax Corporation. Ajax operates in a perfectly competitive market and the price of the product is \$9. What does profit equal when quantity equals 3?

A) \$13 B) \$10 C) \$6 D) \$2

Answer: C

Diff: 3

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Refer to the above table. The table represents information on the costs for Ajax Corporation. Ajax operates in a perfectly competitive market and the price of the product is \$7. What does profit equal when quantity equals 2?

A) \$14 B) -\$2 C) \$16 D) \$2

Answer: B

Diff: 3

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: New

- 27) We assume that firms, when they are deciding the best rate of output at which to produce,
- A) try to get the highest price possible. B) want to maximize sales.
C) want to minimize costs. D) want to maximize profits.

Answer: D

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

Question Status: Previous Edition

28) The equation TR/Q is used to compute

- A) total cost.
- B) average revenue.
- C) demand.
- D) marginal revenue.

Answer: B

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

Question Status: Previous Edition

29) For a perfect competitor, price equals

- A) marginal revenue only.
- B) average revenue only.
- C) both average revenue and marginal revenue.
- D) neither marginal revenue nor average revenue.

Answer: C

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

30) In a perfectly competitive market, the average revenue curve of a firm is

- A) the same as its total revenue curve.
- B) the same as its demand curve.
- C) the same its economic profits.
- D) the difference between its total revenue curve and its marginal revenue curve.

Answer: B

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Revised

31) Under perfect competition, the firm must decide

- A) the best price to charge for its product.
- B) the best rate of output it should produce.
- C) the optimal level of advertising to engage in.
- D) the optimal level of quality and the packaging that will maximize profits.

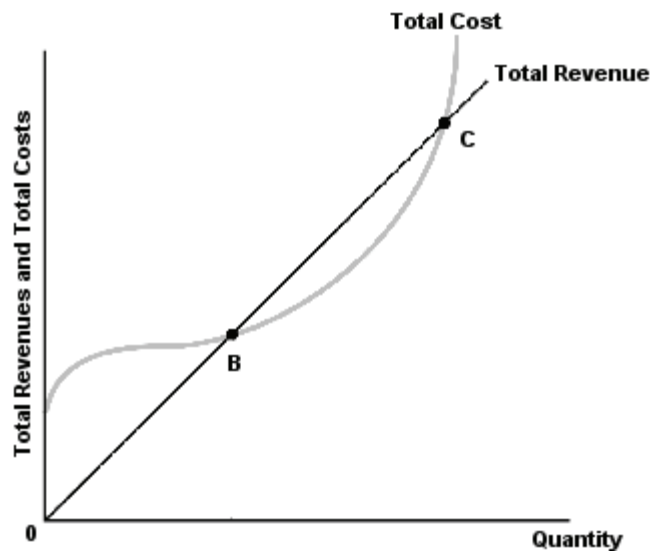
Answer: B

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition



- 32) Refer to the above figure. Profits for this firm are positive
- A) only for all points less than B.
 - B) only at points B and C.
 - C) for points between B and C.
 - D) for all points less than B and greater than C.

Answer: C

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Refer to the above figure. Profits for this firm will be maximized at
- A) point B.
 - B) point C.
 - C) a quantity greater than point C.
 - D) a quantity between points B and C.

Answer: D

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

- 34) Refer to the above figure. Profits for this firm are equal to zero
- A) only for all points less than B.
 - B) only at points B and C.
 - C) for points between B and C.
 - D) for all points less than B and greater than C.

Answer: B

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

35) Refer to the above figure. Profits for this firm are negative

- A) only for all points less than B.
- B) only at points B and C.
- C) for points between B and C.
- D) for all points less than B and greater than C.

Answer: D

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

36) Which of the following equals the ratio of the change in total revenues over the change in output?

- A) Total cost
- B) Average revenue
- C) Demand
- D) Marginal revenue

Answer: D

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

Question Status: Previous Edition

37) For the perfectly competitive firm, price

- A) equals average revenue and marginal revenue.
- B) equals average total cost.
- C) changes as output changes.
- D) depends on the fixed cost for the firm.

Answer: A

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

38) Total revenues

- A) are defined as the quantity sold divided by price.
- B) are not the same as total receipts from the sale of output.
- C) equal gross revenues minus all expenses of the firm.
- D) equal the price per unit times the total quantity sold.

Answer: D

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

Question Status: Previous Edition

39) The perfectly competitive firm's total revenue curve

- A) is linear and upward sloping.
- B) has a constant slope.
- C) has a positive slope.
- D) all of the above

Answer: D

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

40) The goal of the perfectly competitive firm is to

- A) maximize total revenue.
- B) maximize total profits.
- C) minimize AFC.
- D) minimize ATC.

Answer: B

Diff: 1

Topic: 23.3 How Much Should the Perfect Competitor Produce?

Question Status: Previous Edition

41) The vertical distance between the horizontal axis and any point on a perfect competitor's demand curve measures

- A) total cost.
- B) total revenues.
- C) product price, marginal revenue, and average revenue.
- D) supply curve for the product.

Answer: C

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

42) The rate of production that maximizes the positive difference between total revenues and total costs is the

- A) profit-maximizing rate of production.
- B) rate of production at which marginal revenue equals marginal product.
- C) rate of production at which marginal revenue equals average revenue.
- D) rate of production at which average revenue equals average total cost.

Answer: A

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

Question Status: Previous Edition

43) "A perfect competitor should maximize total revenues." Do you agree or disagree? Explain.

Answer: Disagree. A perfect competitor should maximize total profits instead of total revenues. Because the firm's average revenue is constant for all output levels, its total revenues increase proportionally to its output. However, because its total costs do not increase proportionally to output. As such, there is a level of output at which total profits--the difference between total revenues and total costs--are maximized.

Diff: 2

Topic: 23.3 How Much Should the Perfect Competitor Produce?

AACSB: Analytic skills

Question Status: Previous Edition

23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

1) Which is always true at a firm's profit-maximizing rate of production?

- A) Total Revenue = Total Costs
- B) The total revenue curve lies below the total cost curve.
- C) Marginal Revenue > Marginal Cost
- D) Marginal Revenue = Marginal Cost

Answer: D

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Revised

2) The perfectly competitive, profit-maximizing rate of production

- A) occurs at the point at which marginal revenue is equal to marginal cost.
- B) occurs at the point at which the difference between marginal revenue and marginal cost is maximized.
- C) is not measurable for a perfectly competitive firm.
- D) ignores the relation of total revenues and total costs.

Answer: A

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Revised

3) Which of the following is true for the perfectly competitive firm?

- A) Price and MR are always equal.
- B) AR is less than price.
- C) AR is more than price.
- D) Price elasticity of demand is equal to 1.

Answer: A

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

4) The profit-maximizing output for the perfectly competitive firm occurs at the point at which

- A) $TR - MR$ is at a maximum.
- B) $TR - TC$ is at a minimum.
- C) $MR = MC$.
- D) $TR - ATC$ is at a maximum.

Answer: C

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Revised

5) When $MR < MC$ for a firm, the firm should

- A) reduce its level of output.
- B) stay at the same level of output.
- C) stop producing.
- D) increase output, unless $P < AVC$.

Answer: A

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 6) A firm seeking to maximize economic profits should produce at the output at which
- A) total revenue equals total cost.
 - B) marginal revenue equals marginal cost.
 - C) average revenue equals average cost.
 - D) marginal revenue equals average revenue.

Answer: B

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Revised

- 7) A perfectly competitive firm will maximize profits when
- A) average cost is greater than marginal revenue.
 - B) marginal cost is greater than marginal revenue.
 - C) marginal cost is equal to marginal revenue.
 - D) average cost is equal to average revenue.

Answer: C

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Revised

- 8) For a perfectly competitive firm, profit maximization occurs when
- A) marginal revenue equals average total cost.
 - B) marginal revenue equals marginal cost.
 - C) marginal cost is equal to average total cost.
 - D) average total cost is at its minimum.

Answer: B

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Revised

- 9) When price and marginal cost are equal for a perfectly competitive firm, the firm is
- A) minimizing average total cost.
 - B) maximizing total revenue.
 - C) maximizing economic profit.
 - D) earning negative economic profit.

Answer: C

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Revised

- 10) When price is greater than both marginal cost and average variable cost, the perfectly competitive firm
- A) is maximizing economic profit.
 - B) should increase its level of output.
 - C) should reduce its level of output.
 - D) should stop production.

Answer: B

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 11) If a firm is producing an output rate at which marginal cost is greater than price, the firm
 A) is sustaining economic loss. B) should increase its output level.
 C) should reduce its output level. D) will not be covering its fixed cost.

Answer: C

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 12) If a firm is producing an output rate at which marginal cost is equal price, the firm
 A) is maximizing profits. B) should increase its output level.
 C) should reduce its output level. D) will not be covering its fixed cost.

Answer: A

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: New

- 13) For a firm in a perfectly competitive industry, which of the following is TRUE?
 A) $MR = P$ B) $MR < P$ C) $AVC = ATC$ D) $MR > P$

Answer: A

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 14) When demand is perfectly elastic, marginal revenue is
 A) zero. B) equal to price. C) declining. D) increasing.

Answer: B

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Which of the following conditions is TRUE for a profit-maximizing firm in a perfectly competitive industry?
 A) $MR = TC$ B) $ATC = AFC$ C) $MR = MC$ D) $MC = AVC$

Answer: C

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Revised

- 16) Suppose that at the current level of output, price = \$10, MC = \$4, AVC = \$7, and ATC = \$11.

Which of the following is true?

- A) The firm should decrease output.
- B) The firm should shut down.
- C) The firm should increase output.
- D) The firm should maintain the current level of output.

Answer: C

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Suppose that at the current level of output, price = \$10, MC = \$14, AVC = \$7, and ATC = \$9.

Which of the following is true?

- A) The firm should decrease output.
- B) The firm should shut down.
- C) The firm should increase output.
- D) The firm should maintain the current level of output.

Answer: A

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: New

- 18) Suppose that at the current level of output, price = \$10, MC = \$10, AVC = \$7, and ATC = \$9.

Which of the following is true?

- A) The firm should decrease output.
- B) The firm should shut down.
- C) The firm should increase output.
- D) The firm should maintain the current level of output.

Answer: D

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: New

- 19) For a firm in a perfectly competitive industry

- A) the demand curve is unitary elastic throughout.
- B) marginal revenue and product price are equal at every level of output.
- C) the price elasticity of demand is zero.
- D) more output can be sold only if the firm unilaterally lowers its product price.

Answer: B

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 20) The marginal revenue curve of a perfectly competitive firm
- A) has a vertical intercept equal to exactly one-half of the vertical intercept for the demand curve.
 - B) lies below the demand curve and above the average revenue curve.
 - C) intersects the average revenue curve from above at the maximum point of the average revenue curve.
 - D) is also the demand curve faced by the firm.

Answer: D

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 21) In a perfectly competitive industry, the firm's marginal revenue curve is
- A) downward sloping.
 - B) upward sloping.
 - C) vertical.
 - D) horizontal.

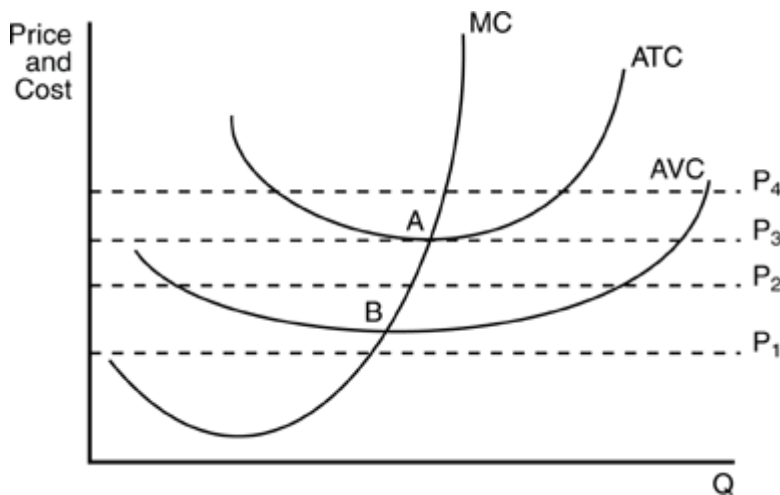
Answer: D

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition



- 22) In the above figure, what happens to the firm's optimal level of output if the price it receives for its product increases from P_2 to P_3 ?
- A) Output stays the same.
 - B) Output decreases.
 - C) Output increases.
 - D) There is not enough information provided to know what happens to output.

Answer: C

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 23) In the above figure, what happens to the firm's optimal level of output if the price it receives for its product decreases from P_4 to P_3 ?
- A) Output stays the same.
 - B) Output decreases.
 - C) Output increases.
 - D) There is not enough information provided to know what happens to output.

Answer: B

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: New

- 24) Marginal revenue equals
- A) total revenue divided by output.
 - B) price times quantity, divided by average revenue.
 - C) total revenue divided by average revenue.
 - D) the change in total revenue from selling one more unit.

Answer: D

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Previous Edition

- 25) The change in total revenues resulting from a change in output of one unit is
- A) average revenue.
 - B) marginal revenue.
 - C) quantity revenue.
 - D) price revenue.

Answer: B

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Previous Edition

- 26) For a perfect competitor, marginal revenue equals
- A) the slope of the demand curve.
 - B) average revenue divided by price.
 - C) price divided by average revenue.
 - D) the market price.

Answer: D

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 27) Which of the following is **not** true for a perfectly competitive firm?
- A) $P = MR$
 - B) $AR = MR$
 - C) $MR = TR$
 - D) $P = AR$

Answer: C

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 28) For a perfect competitor, the marginal revenue curve will be
- A) horizontal.
 - B) vertical.
 - C) positively sloped.
 - D) negatively sloped.

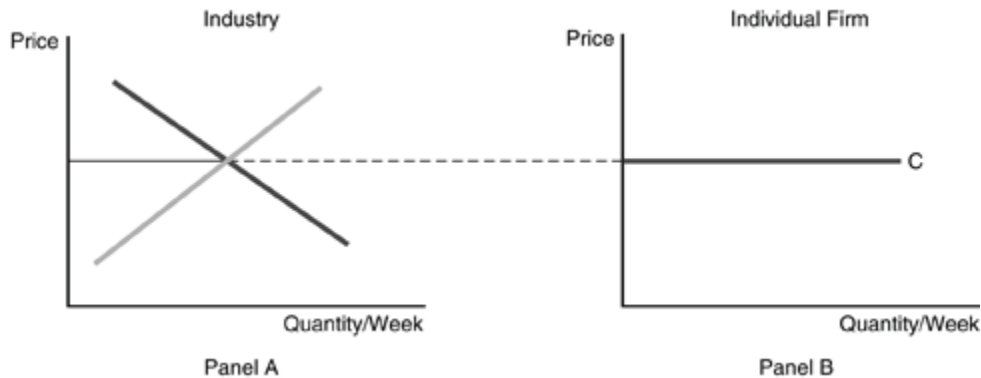
Answer: A

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition



- 29) Refer to the above figure. Line C in Panel B does **not** represent
- A) the equilibrium price.
 - B) average revenue.
 - C) total revenue.
 - D) marginal revenue.

Answer: C

Diff: 3

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 30) The perfectly competitive firm maximizes profits when
- A) it produces and sells the quantity at which the difference between marginal revenue and marginal cost is the greatest.
 - B) it produces and sells the quantity at which marginal revenue and marginal cost are equal.
 - C) it produces and sells the quantity at which the difference between average revenue and average cost is the greatest.
 - D) it produces and sells the quantity at which the difference between price and average cost is the greatest.

Answer: B

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Previous Edition

31) The rate of production at which marginal revenue equals marginal cost is

- A) a point of negative profits for the firm.
- B) what determines the equilibrium price in the market.
- C) the firm's shutdown point.
- D) the point where profits are maximized.

Answer: D

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Previous Edition

32) If marginal revenue is less than marginal cost, the firm should

- A) raise price.
- B) raise marginal revenue.
- C) increase its rate of output.
- D) decrease its rate of output.

Answer: D

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

33) If marginal revenue is greater than marginal cost, the firm should

- A) raise price.
- B) raise marginal revenue.
- C) increase its rate of output.
- D) decrease its rate of output.

Answer: C

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

34) Which of the following is always true for a perfectly competitive firm?

- A) $P = d = MR$
- B) $P = d = AVC$
- C) $MC = MR = AVC$
- D) $AVC = ATC = P$

Answer: A

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

35) Which of the following is always true in the short run for a perfectly competitive firm that is maximizing economic profits?

- A) $P = d = MR = MC = AVC$
- B) $P = d = MR = MC$
- C) $P = d = MR = Q$
- D) $MR = MC = Q$

Answer: B

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Marginal revenue is
- A) change in total revenue/change in output.
 - B) total revenue/output.
 - C) change in total revenue/output.
 - D) total revenue/change in output.

Answer: A

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Previous Edition

- 37) For a perfectly competitive firm,
- A) price is greater than marginal revenue.
 - B) price equals marginal revenue.
 - C) price is less than marginal revenue.
 - D) there is no relationship between price and marginal revenue.

Answer: B

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 38) The profit-maximizing level of output for a firm occurs at the point at which
- A) $P = ATC$.
 - B) $P = AVC$.
 - C) $MR = MC$.
 - D) $MR = ATC$.

Answer: C

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Previous Edition

- 39) Marginal revenue
- A) cannot be used to determine the profit-maximizing rate of production.
 - B) is the change in total revenues resulting from a change in output.
 - C) is a change in revenue that is immeasurable and non-quantifiable.
 - D) cannot be effectively utilized when analyzing the perfect competitor.

Answer: B

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Previous Edition

- 40) Under what condition are profits maximized?
- A) at the rate of output at which marginal revenue equals marginal cost
 - B) at the output rate where marginal cost is greater than marginal revenue
 - C) at the point at which the difference between total revenues and total costs is negative
 - D) at the point at which the difference between price and quantity demanded is greatest

Answer: A

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Previous Edition

- 41) The loss-minimizing output for the perfectly competitive firm occurs at the point at which
- A) $TR - MR = \text{minimum}$.
 - B) $TR - TC = \text{maximum}$.
 - C) $MR = MC$.
 - D) $TC - ATC = \text{maximum}$.

Answer: C

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 42) A perfectly competitive firm is selling 300 units of output at \$4 each. At this output level, total fixed cost is \$100 and total variable cost is \$500. The firm
- A) is maximizing its profit.
 - B) is earning a profit, but not necessarily the maximum profit.
 - C) is experiencing an economic loss.
 - D) should shut down.

Answer: B

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 43) Economic profits are maximized at the point at which
- A) marginal revenues equal marginal costs.
 - B) accounting profit exceeds economic profit.
 - C) total revenues are greater than total costs.
 - D) accounting profits are equal to zero.

Answer: A

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

Question Status: Previous Edition

- 44) For a perfectly competitive firm, when MC is less than MR,
- A) the producer has an incentive to expand output.
 - B) the producer has an incentive to decrease output.
 - C) the producer has no incentive to change production.
 - D) economic profits must be positive.

Answer: A

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 45) If a perfectly competitive firm is producing at an output at which marginal cost exceeds marginal revenue,
- A) price will be at the profit maximizing level.
 - B) sales will be at the profit maximizing level.
 - C) the firm should expand production.
 - D) the firm should reduce production.

Answer: D

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 46) A firm in a competitive industry faces the following short-run cost and revenue conditions: $ATC = \$8$; $AVC = \$4$; and $MR = MC = \$6$. This firm should
- A) expand production and keep price constant.
 - B) decrease production and raise its price.
 - C) shut down.
 - D) continue to operate at the same price and output level in the short run.

Answer: D

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 47) Suppose a perfectly competitive firm faces the following short-run cost and revenue conditions: $ATC = \$12.00$; $AVC = \$8.00$; $MC = \$12.00$; $MR = \$10.00$. The firm should
- A) decrease output.
 - B) increase output.
 - C) increase price.
 - D) change nothing.

Answer: A

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 48) Suppose a perfectly competitive firm faces the following short-run cost and revenue conditions: $ATC = \$7.00$; $AVC = \$5.00$; $MC = \$6.50$; $MR = \$6.50$. The firm should
- A) increase output.
 - B) decrease output.
 - C) continue to produce its current output.
 - D) shut down.

Answer: C

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 49) Suppose a perfectly competitive firm faces the following cost and revenue conditions: $ATC = \$25.00$; $AVC = \$20.00$; $MC = \$25.00$; $MR = \$28.00$. The firm should
- A) decrease output.
 - B) increase output.
 - C) shut down.
 - D) continue to produce its current output.

Answer: B

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 50) Suppose a perfectly competitive firm faces the following short-run cost and revenue conditions: $ATC = \$8.00$; $AVC = \$5.00$; $MC = \$8.00$; $MR = \$9.00$. The firm should
- A) decrease output.
 - B) increase output.
 - C) increase price.
 - D) continue to produce its current output.

Answer: B

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

- 51) A firm should continue producing until
- A) the cost of producing the output equals the revenues obtainable from selling the output.
 - B) the cost of increasing output by one more unit equals the revenues obtainable from selling the extra unit.
 - C) average costs are at a minimum.
 - D) the average cost when another unit is produced equals the average revenue obtainable from selling the extra unit.

Answer: B

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

- 52) For a perfectly competitive firm, which of the following is NOT true?
- A) The average revenue curve, the demand and the marginal revenue curves are identical.
 - B) The total revenue curve begins at the origin and slopes upward as output increases.
 - C) The slope of the total revenue curve is equal to the product price.
 - D) The total revenue curve is horizontal.

Answer: D

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

53) What does a perfectly competitive firm do to maximize profits?

Answer: The perfect competitor cannot influence market price, so it must find the rate of production that maximizes its profits. The profit-maximizing output is the output at which marginal revenue equals marginal cost. If marginal revenue is greater than marginal cost, an additional unit increases revenues more than costs, so profits increase. If marginal revenue is less than marginal cost, a reduction in output of one unit reduces costs more than revenues, so profits increase. Economic profits are maximized when marginal revenue equals marginal cost.

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Revised

54) Why should a perfect competitor produce at which price equals marginal cost?

Answer: For a perfect competitor, its market price equals marginal revenue. Because profits are maximized when marginal revenue equals marginal cost, a perfect competitor will therefore maximize profits by producing at marginal revenue equals marginal cost. A lower or higher level of output than that profit-maximizing output level will only result in lower profits.

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

55) Why should a firm not produce more than the rate of output at which marginal revenue equals marginal cost?

Answer: A firm maximizes its total profits when producing the rate of output at which marginal revenue equals marginal cost. If the firm produces more than this rate of production, then marginal cost will exceed marginal revenue, meaning that total profits decrease as a result of a higher production rate. Therefore, the profit-maximizing firm should not produce more than the rate of production at which marginal revenue equals marginal cost.

Diff: 2

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

56) How do we determine whether a firm has maximized profits?

Answer: A firm maximizes profits only when it produces where marginal revenue equals marginal cost. Whenever marginal revenue exceeds marginal cost, the firm can always make more profit by increasing production; whenever marginal revenue is less than marginal cost, the firm can always make more profit by reducing production.

Diff: 1

Topic: 23.4 Using Marginal Analysis to Determine the Profit-Maximizing Rate of Production

AACSB: Analytic skills

Question Status: Previous Edition

23.5 Short-Run Profits

Output	Total Costs
100	\$400
101	402
102	405
103	409
104	414
105	420
106	427
107	435

- 1) Refer to the above table. If the price is \$5, the perfectly competitive firm should produce
- A) 104 units. B) 105 units. C) 106 units. D) 107 units.

Answer: A

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Revised

- 2) Refer to the above table. If the price is \$5, the maximum economic profits this firm could earn is
- A) \$520. B) \$420. C) \$414. D) \$106.

Answer: D

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Revised

- 3) Refer to the above table. If the price is \$6, the perfectly competitive firm should produce
- A) 104 units. B) 105 units. C) 106 units. D) 107 units.

Answer: B

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Revised

- 4) Refer to the above table. If the price is \$6 the maximum profit this firm could earn is
- A) \$210. B) \$414. C) \$420. D) \$630.

Answer: A

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Revised

- 5) Refer to the above table. If the price is \$3, the perfectly competitive firm should produce
 A) 102 units. B) 105 units. C) 103 units. D) 104 units.

Answer: A

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: New

- 6) Refer to the above table. If the price is \$3 the maximum profit this firm could earn is
 A) \$99. B) \$306. C) -\$100. D) -\$99.

Answer: D

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: New

- 7) A firm in a perfectly competitive industry faces the following cost and revenue conditions: $ATC = \$6$; $AVC = \$3$; $MR = MC = \$5$. The firm is
 A) earning economic profits.
 B) experiencing economic losses.
 C) experiencing zero profits.
 D) in a position in which it should shut down.

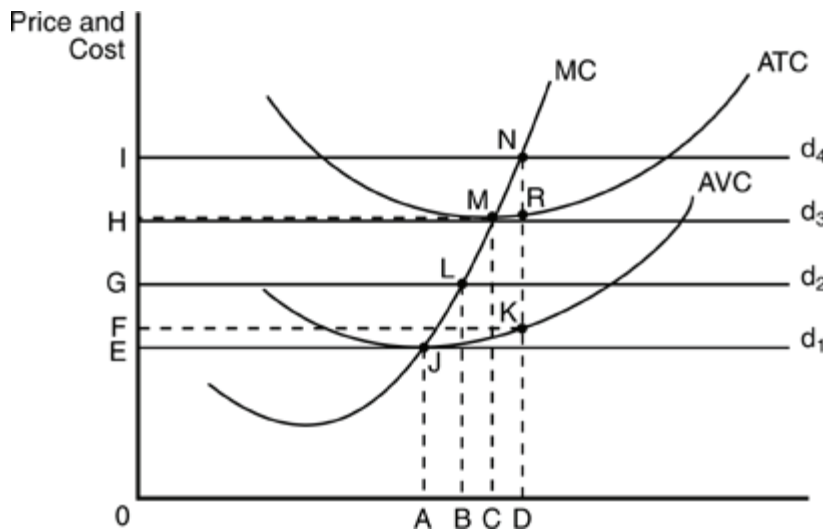
Answer: B

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition



- 8) In the above figure, if the firm is facing demand curve d_2 , then to maximize profits it will produce at output level

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

Answer: B

Diff: 1

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 9) In the above figure, if d_3 is the relevant demand curve for this firm, then which level of output will maximize this firm's profits or minimize its losses?

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

Answer: C

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Revised

- 10) In the above figure, if d_4 is the relevant demand curve for this firm, then which level of output will maximize this firm's profits or minimize its losses?

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

Answer: D

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: New

- 11) In the above figure, if d_1 is the relevant demand curve for this firm, then which level of output will maximize this firm's profits or minimize its losses?

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

Answer: A

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: New

- 12) If the firm in the above figure produces output level D, it incurs an average fixed cost of production equal to the distance

A) DK. B) RN. C) JL. D) KR.

Answer: A

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 13) What is always true about the short-run equilibrium position for a firm in perfect competition?

A) $MR = MC = P = ATC = AR$ B) $TR = TC$
C) $MR = MC = P = AR$ D) $MC = ATC$

Answer: C

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Profit per unit is the difference between

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

Answer: A

Diff: 1

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 15) A perfectly competitive firm is maximizing profits in the short run. This implies that the firm is earning the most economic profits possible, which

A) must be positive.
B) must be either zero or positive.
C) can be positive, negative, or zero.
D) exist at the point at which price equals total cost.

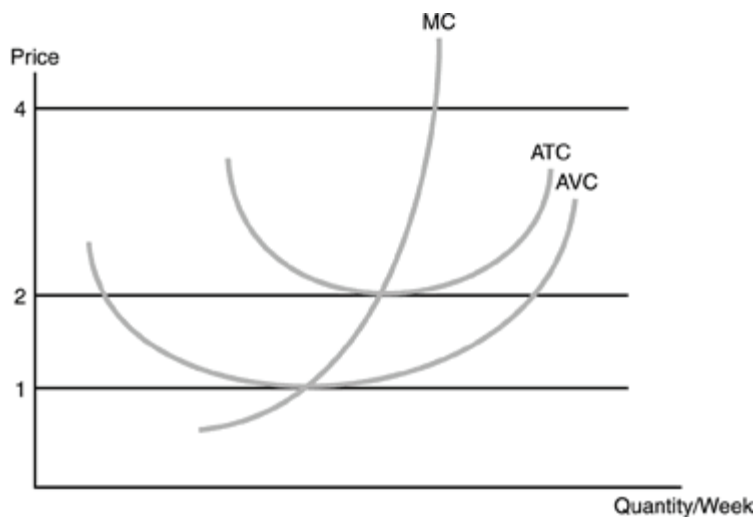
Answer: C

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition



16) Refer to the above figure. Profits will equal zero

- A) when the price equals \$1.
- B) when the price equals \$2.
- C) when the price equals \$4.
- D) at prices between \$1 and \$2.

Answer: B

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

17) Refer to the above figure. Profits will be positive

- A) when the price equals \$1.
- B) when the price equals \$2.
- C) at prices between \$1 and \$2.
- D) when the price is above \$2.

Answer: D

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

18) Refer to the above figure. The firm will just be covering all of its variable cost but none of its fixed cost

- A) when the price equals \$1.
- B) when the price equals \$2.
- C) when the price equals \$4.
- D) at prices between \$1 and \$2.

Answer: A

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

19) Refer to the above figure. Profits will be negative

- A) when the price equals \$2. B) when the price is above \$2.
C) when the price is below \$2. D) only when the price equals \$1.

Answer: C

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

20) Refer to the above figure. The firm's short-run shutdown price is

- A) at \$1. B) at \$2. C) at \$4. D) above \$4.

Answer: A

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

21) The difference between price and average total cost is

- A) total costs. B) marginal costs.
C) average profit. D) an irrelevant quantity.

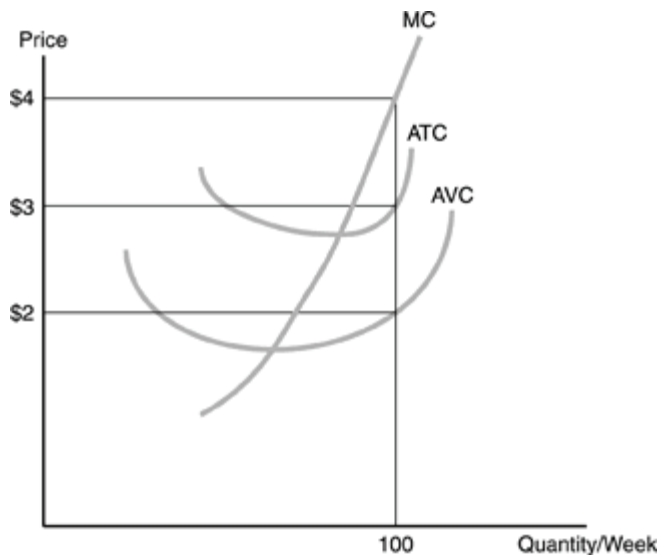
Answer: C

Diff: 1

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition



22) Refer to the above figure. When the price in the market is \$4, economic profits will equal

- A) \$100. B) \$200. C) \$300. D) \$400.

Answer: A

Diff: 3

Topic: 23.5 Short-Run Profits

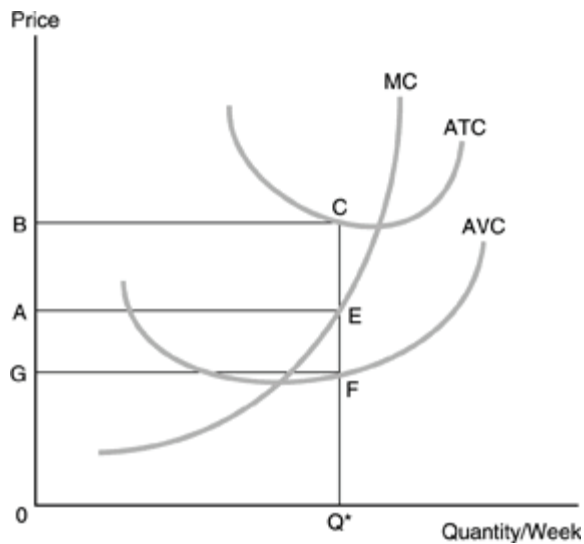
AACSB: Analytic skills

Question Status: Previous Edition

- Answer: A

Topic: 23.5 Short-Run Profits

Question Status: Previous Edition



- 24) Refer to the above figure. If the market price is equal to A, which statement can be made about profits?
- A) Profits are positive and equal to BCEA. B) Profits are positive and equal to BCFG.
 C) Profits are negative and equal to BCEA. D) Profits are negative and equal to GFQ*0.

Answer: C

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Refer to the above figure. In order to stay open in the short run, this firm must
- A) earn a positive profit.
 B) receive a price equal to or greater than the minimum of its average variable cost.
 C) receive a price exactly equal to its average total cost.
 D) recover its fixed cost.

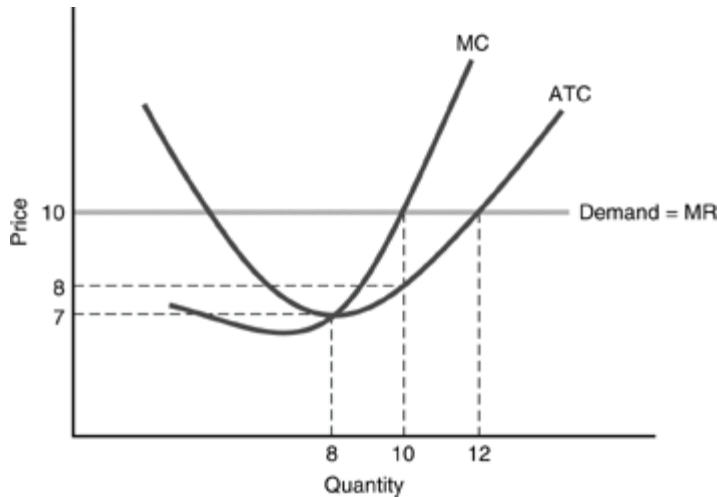
Answer: B

Diff: 3

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition



- 26) In the above figure, what is the profit-maximizing output and price?
 A) 8, \$7 B) 10, \$8 C) 12, \$10 D) 10, \$10

Answer: D

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 27) In the above figure, what is the profit at the profit-maximizing output level?
 A) \$70 B) \$2 C) \$20 D) \$10

Answer: C

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 28) In the above figure, what is the price the firm receives if the output is 8?
 A) \$10 B) \$2 C) \$7 D) \$8

Answer: A

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Suppose a perfectly competitive asparagus farm can produce six containers of asparagus at an output at which marginal cost equals marginal revenue. The price per container of asparagus is \$100 and the average total cost is \$75. What is the profit or loss that this asparagus farm is earning?
 A) \$450.00 B) \$600.00 C) \$150.00 D) -\$450.00

Answer: C

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Suppose a perfectly competitive ukulele factory can produce 35 ukuleles at an output at which marginal cost equals marginal revenue. The price per ukulele is \$1300 and the average total cost is \$1500. What is the profit or loss that this furniture factory is earning?

A) \$700.00 B) -\$7,000.00 C) -\$1,050.00 D) -\$450.00

Answer: B

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 31) In principle, how do we determine a perfectly competitive firm's profit-maximizing output and maximum profits given information about the market clearing price, and about the marginal cost and average total cost curves of the firm? Explain in words.

Answer: For a perfectly competitive firm, the market clearing price is the firm's marginal revenue and average revenue. The firm maximizes profits by producing the output at which marginal revenue equals marginal cost, which is at the point where the firm's marginal revenue curve crosses its marginal cost curve. Per-unit profit equals the market clearing price minus the average total cost of producing the profit-maximizing output. Total profits equal profit per unit (price minus average total cost) times the profit-maximizing output.

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Can a firm make losses by producing the rate of output at which marginal revenue equals marginal cost? Why?

Answer: Even when a firm is producing the output rate at which marginal revenue equal to marginal cost, there is no guarantee that it makes profits. Market price is affected by market supply and market demand conditions. If price falls below average total costs, the firm makes a loss. However, the firm is doing its best and minimizing economic losses by producing the rate of output at which marginal revenue equals marginal cost.

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

- 33) "By producing at an output rate at which marginal revenue equals marginal cost, a firm is definitely making positive economic profits." Do you agree or disagree? Why?

Answer: When it produces at an output rate at which marginal revenue equals marginal cost, the firm is doing its best (providing price exceeds its average variable cost). However, the firm does not necessarily make a profit. Depending on the market conditions that affect the market price and its average variable cost, it may actually incur a loss but the loss is still the minimum as long as marginal revenue equals marginal cost.

Diff: 2

Topic: 23.5 Short-Run Profits

AACSB: Analytic skills

Question Status: Previous Edition

23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

- 1) When a firm earns zero economic profits,
- A) it cannot continue to produce.
 - B) it has not covered its opportunity costs.
 - C) it has a positive accounting profit.
 - D) it has average revenue that is less than average cost.

Answer: C

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

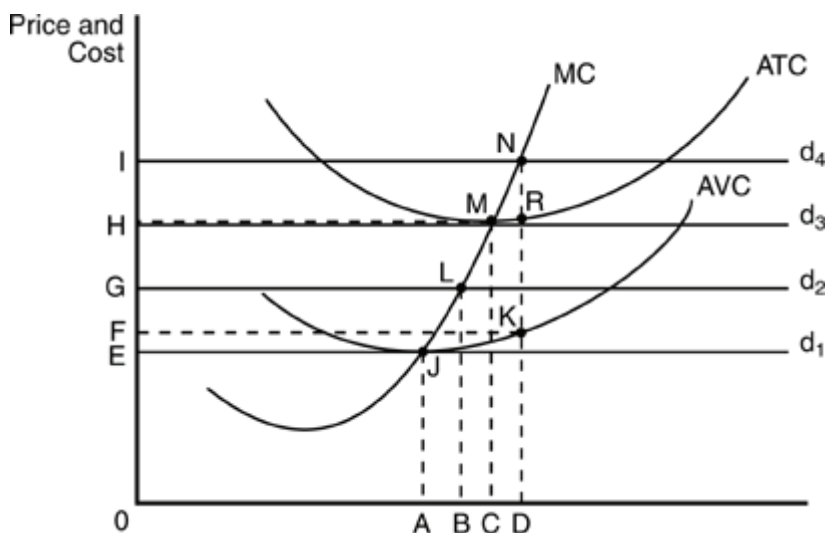
- 2) The short-run break-even price
- A) is the price at which the firm's current liabilities are paid off.
 - B) is the price at which a firm's total revenues equal total costs.
 - C) occurs at the output at which the firm yields a below normal rate of return.
 - D) occurs at the output at which the firm yields a positive economic profit.

Answer: B

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Revised



- 3) In the above figure, the firm will shut down if price falls below
- A) F.
 - B) I.
 - C) H.
 - D) E.

Answer: D

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

4) In the above figure, the firm will shut down if quantity falls below

- A) A. B) B. C) C. D) D.

Answer: A

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: New

5) The firm in the above figure breaks even when market price is

- A) H. B) E. C) I. D) G.

Answer: A

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

6) The firm in the above figure breaks even when quantity is

- A) A. B) B. C) C. D) D.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: New

7) In the short run, the perfectly competitive firm will always earn an economic profit when

- A) $P = ATC$. B) $P > AVC$. C) $P = MC$. D) $P > ATC$.

Answer: D

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Revised

8) A company finds that at the output level at which marginal cost equals marginal revenue, $TC = \$500$, $TVC = \$400$, and $TR = \$450$. Your advice to the firm is

- A) shut down, as $TC > TR$.
 B) reduce output to reduce the cost of production.
 C) increase output to reduce the per unit cost of production.
 D) continue to produce because loss is less than TFC .

Answer: D

Diff: 3

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

- 9) A company finds that at its present level of production, $MC = AVC$ at \$15, $MC = ATC$ at \$20, and $MC = MR$ at \$17. Your advice to the firm regarding its short-run operations is
- A) to continue production, as it is earning an economic profit of \$2 per unit.
 - B) to continue production, as it is earning an economic profit of \$3 per unit.
 - C) to shut down.
 - D) to continue production at a loss.

Answer: D

Diff: 3

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

- 10) A company finds that at its present level of production, $MR = MC$ at \$14, $MC = AVC$ at \$15, and $MC = ATC$ at \$20. Your advice to the firm regarding its short-run operations is
- A) to continue production, as it is earning an economic profit of \$1 per unit.
 - B) to continue production, as it is earning an economic profit of \$6 per unit.
 - C) to shut down.
 - D) to continue production at a loss.

Answer: C

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

- 11) Suppose that in a perfectly competitive market, the market price is \$10. A firm in that market has marginal cost of \$10, average total cost of \$12, and it is producing 100 units. The firm is
- A) earning \$1,000 in total economic profits and is maximizing economic profits.
 - B) earning \$200 in total economic profits and is maximizing economic profits.
 - C) earning zero total economic profits and is not maximizing economic profits.
 - D) incurring \$200 in total economic losses and is minimizing economic losses.

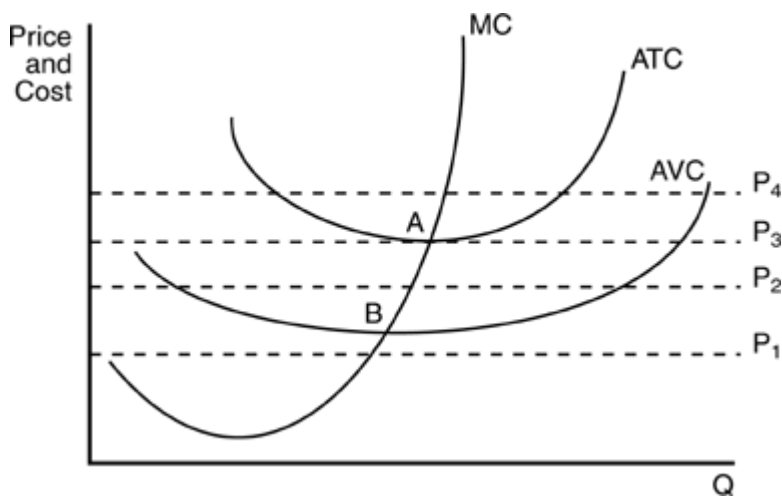
Answer: D

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised



12) In the above figure, if price is equal to P_4 , the firm will

- A) earn positive economic profits.
- B) incur an economic loss.
- C) earn zero economic profits.
- D) shut down.

Answer: A

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

13) If price is \$5, marginal cost is \$5, average total cost is \$3, and the quantity produced is 150 units, then the perfectly competitive firm is

- A) not maximizing economic profit.
- B) earning \$2 in economic profits and is maximizing economic profits.
- C) earning \$150 in economic profits and is not maximizing economic profits.
- D) earning \$300 in economic profits and is maximizing economic profits.

Answer: D

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

14) Suppose the market price is \$5, marginal cost is \$4, and average total cost is \$2. The perfectly competitive firm in that market is

- A) earning \$3 in economic profits per unit of output and is not maximizing profits.
- B) earning \$2 in economic profits per unit of output and is maximizing profits.
- C) earning \$1 in economic profits per unit of output and is not maximizing profits.
- D) none of the above: Insufficient information is given.

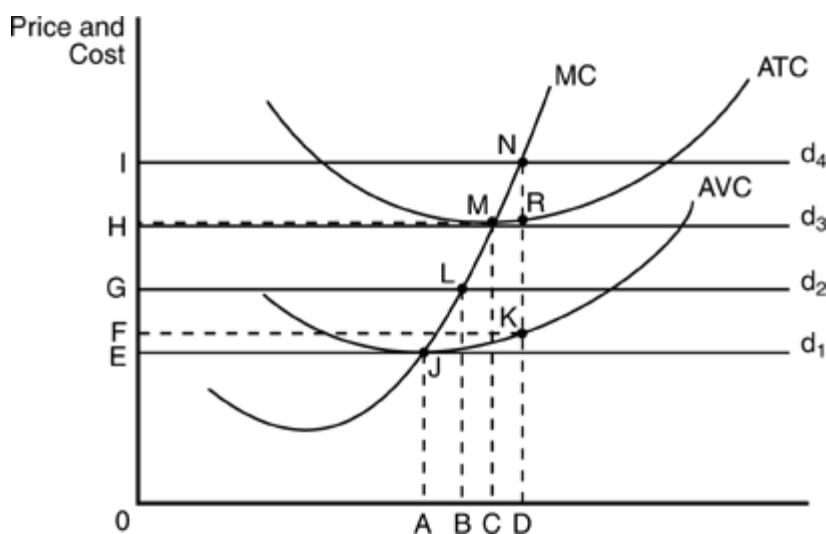
Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised



15) In the above figure, assume d_1 is the demand curve faced by this firm. Which is true?

- A) This firm is earning an economic profit.
- B) This firm is experiencing an economic loss.
- C) This firm is breaking even.
- D) This firm's total costs equal $EJA0$.

Answer: B

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

16) In the above figure, assume d_3 is the demand curve faced by this firm. Which is true?

- A) This firm is earning an economic profit.
- B) This firm is experiencing an economic loss.
- C) This firm is breaking even.
- D) This firm's total revenues equal $HRD0$.

Answer: C

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

17) In the above figure, when price is below E, this firm should

- A) lower prices.
- B) continue to operate as-is.
- C) attempt to lower ATC and to raise AVC.
- D) shut down.

Answer: D

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

18) For a perfectly competitive firm, the short-run break-even point occurs at the level of output where

- | | |
|--------------------|---------------------|
| A) $P > MR = MC$. | B) $MR = P > MC$. |
| C) $MR < P = MC$. | D) $P = MC = ATC$. |

Answer: D

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Revised

19) At the short-run break-even point, the perfectly competitive firm is

- | | |
|---------------------------------------|--|
| A) earning positive economic profits. | B) earning zero economic profits. |
| C) earning negative economic profits. | D) just covering its total variable costs. |

Answer: B

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

20) When a firm is earning zero economic profits,

- | | |
|-------------------------------|--|
| A) accounting profit is zero. | B) total revenue is greater than total cost. |
| C) $P = ATC$. | D) P is greater than ATC . |

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

21) At the short-run break-even point, the firm is

- | | |
|------------------------------------|-----------------------|
| A) earning zero accounting profit. | B) losing money. |
| C) earning zero economic profit. | D) ready to shutdown. |

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

22) A perfectly competitive firm's short-run break-even output occurs

- | |
|--|
| A) at the minimum point of its average variable cost curve. |
| B) at the minimum point of its average total cost curve. |
| C) at the minimum point of its marginal cost curve. |
| D) at the intersection of its total cost curve and its marginal revenue curve. |

Answer: B

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Revised

- Question Status: Revised

- 25) Economic profits at the short-run break-even point are
- A) positive.
 - B) negative.
 - C) equal to zero.
 - D) indeterminate since they also depend on the size of the fixed costs.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

- 26) Accounting profits at a firm's break-even point are
- A) positive.
 - B) negative.
 - C) zero.
 - D) indeterminate since we need to know what demand is.

Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

- 27) At a perfectly competitive firm's short-run break-even price,
- A) $P = ATC$.
 - B) TR is more than TC .
 - C) the average cost is below the total revenue line.
 - D) $P > AVC$, but $P < AFC$.

Answer: A

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Revised

- 28) Suppose a perfectly competitive firm faces the following short-run cost and revenue conditions:
 $ATC = \$6.00$; $AVC = \$4.00$; $MC = \$3.50$; $MR = \$3.50$. The firm should
- A) increase output.
 - B) increase price.
 - C) remain at the same position.
 - D) shut down.

Answer: D

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

- 29) For a perfectly competitive firm, any price below its minimum AVC is a
- A) market price.
 - B) shutdown price.
 - C) profit maximizing price.
 - D) negative price.

Answer: B

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Revised

- 30) The firm will shut down in the short run if
- A) the price falls below its minimum AVC.
 - B) the market price rises unexpectedly.
 - C) $P = MC$.
 - D) $P = ATC$ at its minimum.

Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Revised

- 31) The short-run shutdown price occurs where price equals
- A) MC.
 - B) AVC at any point.
 - C) AVC at the minimum point.
 - D) AFC at the minimum point.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Revised

- 32) When a firm has an accounting profit that is negative, it
- A) will never produce output, even in the short run.
 - B) may still have economic profit.
 - C) has total revenue that is less than total cost.
 - D) cannot be producing where price equals marginal cost.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

- 33) In the short run, a firm should shut down when
- A) $P < AVC$.
 - B) $P > MC$.
 - C) $MR > MC$.
 - D) $MR = ATC$.

Answer: A

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Revised

- 34) If AVC is \$6 when $P = MC$, a firm
- A) will have positive economic profits if price is greater than \$6.
 - B) is producing too little output.
 - C) should shut down if price is less than \$6.
 - D) is experiencing economies of scale.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

35) A firm should never produce any output if

- A) $P < AVC$. B) $P < ATC$. C) $AR < ATC$. D) $MR < MC$.

Answer: A

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Revised

36) A firm earning economic losses should operate in the short run as long as

- A) the price per unit sold is greater than the average fixed cost per unit produced.
 B) the price per unit sold is greater than the average variable cost per unit produced.
 C) marginal revenue is at least the price per unit sold.
 D) the price per unit sold is equal to or greater than the marginal cost of production.

Answer: B

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

37) A firm that shuts down in the short run experiences losses equal to its

- A) total fixed costs.
 B) average variable costs.
 C) total variable costs.
 D) total variable costs minus its total fixed costs.

Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

38) The short-run shutdown price for a perfectly competitive firm is where price equals

- A) minimum ATC. B) AR.
 C) MR. D) minimum AVC.

Answer: D

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Previous Edition

39) The shutdown rule for a firm in a perfectly competitive industry is that the firm should cease production if

- A) $P < MC$. B) $P < ATC$. C) $P < AVC$. D) $P < AFC$.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Previous Edition

40) As long as price exceeds AVC, the firm is better off

- A) continuing production.
- B) closing.
- C) raising its price.
- D) cutting price.

Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

41) A firm will shut down in the short run when

- A) price is below average total costs at all possible rates of output.
- B) price is below average variable costs at all possible rates of output.
- C) price is below marginal cost at all possible rates of output.
- D) it is making a loss.

Answer: B

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Previous Edition

42) In the short run, which of the following is FALSE about the shutdown point?

- A) Total revenue is equal to total fixed cost.
- B) Total revenue is equal to total variable cost.
- C) Product price is equal to the minimum average variable cost.
- D) Price multiplied by quantity must be equal to minimum average variable cost multiplied by quantity.

Answer: A

Diff: 3

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Previous Edition

43) In the short run, the price at which a firm's total revenues equal its total costs is

- A) a point of positive profits.
- B) a no return price.
- C) the short-run shutdown point.
- D) the short-run break-even point.

Answer: D

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Previous Edition

44) At the short-run break-even price, the firm

- A) is earning positive economic profits.
- B) is earning negative economic profits.
- C) is making a normal rate of return on its capital investment.
- D) may be earning a positive or negative profit economic depending upon costs.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

- 45) If price is above average total costs, the firm
- A) is earning positive profits.
 - B) is earning negative profits.
 - C) is making a normal rate of return on its capital investment.
 - D) may be earning a positive or negative profit depending upon costs.

Answer: A

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 46) Below the short-run shutdown price, the firm
- A) is earning positive economic profits.
 - B) is earning negative economic profits.
 - C) is making a normal rate of return on its capital investment.
 - D) may be earning a positive or negative economic profits depending upon costs.

Answer: B

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 47) A firm will continue to produce in the short run even though economic profits are negative as long as
- A) the amount of the loss is no greater than the amount of fixed cost.
 - B) $MC = MR$.
 - C) it earned positive economic profits last year.
 - D) it has fixed obligations to pay.

Answer: A

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 48) A firm that shuts down in the short run experiences losses equal to
- A) zero.
 - B) total variable costs.
 - C) total fixed costs.
 - D) total marginal costs.

Answer: C

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 49) If there is no output for which product price is sufficient to cover variable costs,
- A) the firm should stay open in the short-run.
 - B) the firm should shut down in the short run.
 - C) the firm earns economic profits by staying open.
 - D) the firm should increase production.

Answer: B

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

- 50) A perfectly competitive firm faces a market clearing price of \$150 per unit. Average variable costs are at the minimum value of \$200 per unit at an output rate of 100 units. Marginal cost equals \$150 per unit at an output rate of 75 units. It can be concluded that the short-run profit-maximizing output rate is
- A) 75 units, at which the firm earns zero economic profits per unit sold.
 - B) 75 units, at which the firm earns \$50 in economic profits per unit sold.
 - C) 100 units, because marginal cost equals average variable costs.
 - D) 0 units, because price is less than average variable costs.

Answer: D

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 51) A perfectly competitive firm faces a market clearing price of \$150 per unit. Average total costs are at the minimum value of \$200 per unit at an output rate of 100 units. Average variable costs are at the minimum value of \$100 per unit at an output rate of 50 units. Marginal cost equals \$150 per unit at an output rate of 75 units. It can be concluded that the short-run profit-maximizing output rate is
- A) 75 units, at which the firm earns zero economic profits per unit sold.
 - B) 75 units, at which the firm earns negative economic profits per unit sold.
 - C) 75 units, at which the firm earns positive economic profits per unit sold.
 - D) 50 units, because price is less than average variable costs.

Answer: B

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: New

- 52) A perfectly competitive firm faces a market clearing price of \$150 per unit. Average total costs are at the minimum value of \$120 per unit at an output rate of 70 units. Marginal cost equals \$150 per unit at an output rate of 75 units. It can be concluded that the short-run profit-maximizing output rate is
- A) 75 units, at which the firm earns zero economic profits per unit sold.
 - B) 75 units, at which the firm earns negative economic profits per unit sold.
 - C) 75 units, at which the firm earns positive economic profits per unit sold.
 - D) 70 units, because price is less than average total costs.

Answer: C

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: New

- 53) A firm is currently producing at the point where $MC = MR$. The situation for the firm at this point is $P = \$5$, $Q = 100$, $ATC = \$6$, $AVC = \$4.50$. What do you recommend this firm do?
- A) Increase production above the current output rate, because $MC = MR$ at this rate of output.
 - B) Continue to produce the current output rate, because $P > AVC$.
 - C) Shut down, because $AVC > P$.
 - D) Shut down, because $ATC > P$.

Answer: B

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 54) A firm is currently producing at the point where $MC = MR$. The situation for the firm at this point is $P = \$5$, $Q = 100$, $ATC = \$6$, $AVC = \$5.50$. What do you recommend this firm do?
- A) Increase production above the current output rate, because $MC = MR$ at this rate of output.
 - B) Continue to produce the current output rate, because $P > AVC$.
 - C) Shut down, because $AVC > P$.
 - D) Shut down, because $ATC > P$.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 55) A firm that has positive economic profits has accounting profits that are
- A) zero.
 - B) positive.
 - C) negative.
 - D) indeterminate without more information.

Answer: B

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 56) A firm that has negative economic profits has accounting profits that are
- A) zero.
 - B) positive.
 - C) negative.
 - D) indeterminate without more information.

Answer: D

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 57) When a firm has economic profits equal to zero,
- A) the firm is earning a normal rate of return on investment.
 - B) the firm is not earning a normal rate of return on investment.
 - C) the firm should shut down.
 - D) the firm's accounting profits are also zero.

Answer: A

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 58) When a firm is at its short-run break-even point,
- A) economic profits are positive.
 - B) economic profits equal zero and the firm should shut down.
 - C) economic profits equal zero and the firm is earning a nominal rate of return on investment.
 - D) economic profits are negative but the firm should continue to produce because accounting profits are positive.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 59) The owner of a perfectly competitive firm that is earning economic losses in the short run
- A) should alter the rate of output in order to increase profitability.
 - B) should cut his own salary in order to reach the break-even point.
 - C) is actually losing more than he thinks because not all of the implicit costs have been considered.
 - D) is earning less than he would if he worked for someone else.

Answer: D

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 60) The owner of a perfectly competitive firm is currently earning an economic profit of zero. This owner
- A) should shut down since profits of zero are not good.
 - B) should raise the price of the product to increase profits.
 - C) is covering all of his fixed costs.
 - D) will continue producing in the short-run but will shut down in the long run if profits do not increase.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 61) In the short run, in a perfectly competitive market, a firm will shut down if
- A) $P < AVC$ for all levels of output.
 - B) $P < ATC$ for all levels of output.
 - C) $ATC > P > AVC$ for all levels of output.
 - D) $P > AFC$ for all levels of output.

Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Previous Edition

- 62) For a perfectly competitive firm facing the short-run break-even price,
- A) it has a negative accounting profit.
 - B) it has an economic profit of zero.
 - C) it should shut down.
 - D) it should expand production.

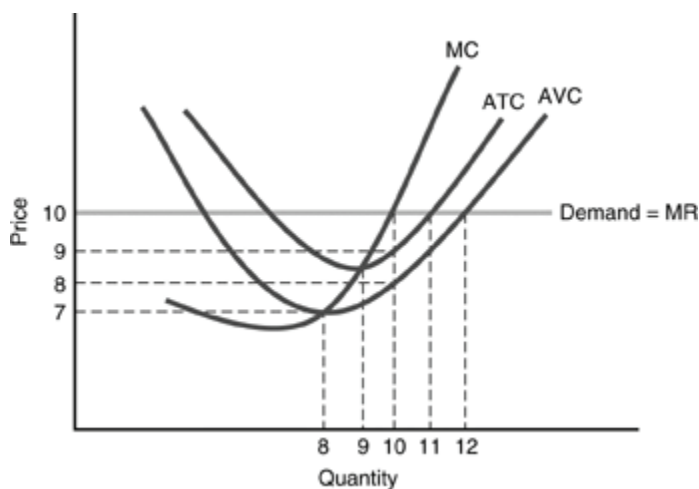
Answer: B

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition



- 63) In the above figure, if the market price is \$10, the firm
- A) produces 10 units.
 - B) produces 12 units.
 - C) shuts down operations.
 - D) produces 11 units.

Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 64) In the above figure, if the market price is less than \$7, the firm
- A) produces 10 units.
 - B) produces 8 units.
 - C) produces 0 units.
 - D) produces 11 units.

Answer: C

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Revised

- 65) In the above figure, if the market price is \$8, the firm
- A) continues to produce but at an economic loss.
 - B) continues to produce but at an economic profit.
 - C) shuts down operations.
 - D) produces 10 units.

Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: New

- 66) The short-run break-even price is
- A) the price at which a firm's total revenues exceed total costs.
 - B) the point at which the firm's total costs are maximized.
 - C) the price at which a firm's total revenues equal its total costs.
 - D) the point at which the firm's implicit costs are maximized.

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Previous Edition

- 67) If a firm shuts down in the short run,
- A) it will lose its operating costs.
 - B) its losses will be equal to zero.
 - C) it will incur its fixed costs.
 - D) it will incur only its explicit costs.

Answer: C

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 68) Suppose the price of an item in a perfectly competitive market is \$3. For a firm in this market, $MC = MR$ at an output of 100 units. The average total cost at this output level is \$4 per unit, and TVC is \$80. We may conclude that
- A) the firm should shut down because $TC > TR$.
 - B) the firm should continue to produce because $P > AVC$.
 - C) the firm should shut down because its TFC is \$320 and its TC is \$400.
 - D) the firm should shut down because other firms will enter the industry as the market is perfectly competitive.

Answer: B

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 69) Suppose a perfectly competitive firm can produce 20,000 bushels of corn a year at an output at which marginal cost equals marginal revenue. The market price of corn per bushel is \$1.00. The firm's total costs per year are \$50,000 and fixed costs per year are \$25,000. In the short run, this firm should
- A) shut down.
 - B) continue producing until the price of corn increases.
 - C) produce 20,000 bushels of corn because, although they are losing money, they are losing less than if they shut down.
 - D) produce 40,000 bushels to try to increase economic profit.

Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 70) Suppose a perfectly competitive firm can produce 20,000 bushels of corn a year at an output at which marginal cost equals marginal revenue. The market price of corn per bushel is \$2.00. The firm's total costs per year are \$50,000 and fixed costs per year are \$25,000. In the short run, this firm should
- A) shut down.
 - B) continue producing until the price of corn increases.
 - C) produce 20,000 bushels of corn because, although they are losing money, they are losing less than if they shut down.
 - D) produce 40,000 bushels to try to increase economic profit.

Answer: C

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 71) A firm's total explicit costs are \$1,000. Its total implicit costs are \$500, and it has a total revenue of \$2000. This firm receives
- A) an accounting profit only.
 - B) an economic profit only.
 - C) both an economic profit and an accounting profit.
 - D) neither an economic profit nor an accounting profit.

Answer: C

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 72) A firm's total explicit costs are \$1,000. Its total implicit costs are \$500, and it has a total revenue of \$1500. This firm receives
- A) an accounting profit only.
 - B) an economic profit only.
 - C) both an economic profit and an accounting profit.
 - D) neither an economic profit nor an accounting profit.

Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 73) A firm's total explicit costs are \$1,000. Its total implicit costs are \$500, and it has a total revenue of \$900. This firm receives
- A) an accounting profit only.
 - B) an economic profit only.
 - C) both an economic profit and an accounting profit.
 - D) neither an economic profit nor an accounting profit.

Answer: D

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

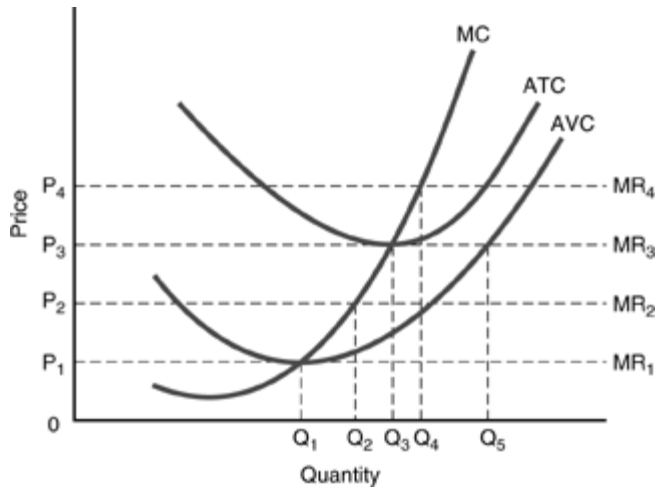
- 74) The break-even price for a perfectly competitive firm is the price that is equal to
 A) AVC. B) ATC. C) MC. D) MR

Answer: B

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

Question Status: Previous Edition



- 75) Using the above figure, the perfectly competitive firm in the diagram will earn an economic profit if the market price is
 A) P_1 . B) P_2 . C) P_3 . D) P_4 .

Answer: D

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 76) Using the above figure, the perfectly competitive firm should shut down if the market price is below
 A) P_1 . B) P_2 . C) P_3 . D) P_4 .

Answer: A

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 77) Using the above figure, the short-run break-even price for the perfectly competitive firm will be
 A) P_1 . B) P_2 . C) P_3 . D) P_4 .

Answer: C

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 78) Using the above figure, the price facing the perfectly competitive firm in the long run will be
 A) P_1 . B) P_2 . C) P_3 . D) P_4 .

Answer: C

Diff: 1

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 79) What is the short-run break-even price? What are economic profits at this price? Why would a firm be willing to operate permanently at this price?

Answer: The short-run break-even price is the price at which total revenue equals total costs, so that economic profits equal zero. The firm is willing to stay in business at zero economic profits because all opportunity costs are covered, including the opportunity costs of the entrepreneur's time and any other resources he or she brings into the firm. The zero economic profits are associated with a normal rate of return, and the entrepreneur cannot expect to do better anywhere else.

Diff: 2

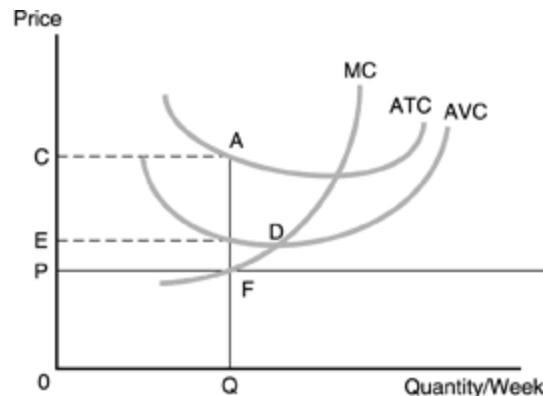
Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 80) What is the short-run shutdown price? Using a graph and a market price of P , show that losses are less when shutting down than when producing.

Answer:



The short-run shutdown price is the price that equals the minimum point on the short-run average variable cost curve. At any price lower than this the firm should shut down and produce nothing. In the above figure, the price is below the shutdown price. Its fixed costs equal area CADE, so if it shuts down, this area equals its losses. If it produces where $MR = MC$, the firm's losses are CAFP, which are more than the losses with shutting down.

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 81) "A firm should shut down immediately when it earns zero economic profits." Do you agree or disagree? Explain your answer.

Answer: Disagree. When a firm earns economic profits or breaks even, the price per unit of output sold still exceeds the average variable cost so that it is better off continuing to produce. The revenues in excess of variable costs can be used toward covering fixed costs. Only if the price per unit of output falls below the average variable cost that the firm should shut down.

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

- 82) When should a firm shut down? When should a firm go out of business?

Answer: A firm should shut down when the price per unit of output sold drops below the average variable cost per unit produced. The firm can shut down or stop producing in the short run, but it can still stay in business. In the long run, if the market price remains below the firm's shutdown point, then its owners should sell the firm's assets and go out of business.

Diff: 2

Topic: 23.6 The Short-Run Break-Even Price and the Short-Run Shutdown Price

AACSB: Analytic skills

Question Status: Previous Edition

23.7 The Supply Curve for a Perfectly Competitive Industry

- 1) Which of the following could generate economic profits for perfectly competitive firms in the short run, if they initially earn zero economic profits?

- | | |
|-------------------------------------|-------------------------------|
| A) A fall in demand | B) A unit tax on output |
| C) An increase in total fixed costs | D) A decrease in input prices |

Answer: D

Diff: 1

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Revised

- 2) A firm is currently producing an output at which price equals the minimum point on the average variable cost curve. If wage rates increase, the firm will

- A) increase its rate of output to make up for the higher variable costs.
B) shut down since it would no longer be covering its variable costs.
C) decrease its rate of output to offset the higher variable costs.
D) not make any changes since its current rate of output is still minimizing its losses.

Answer: B

Diff: 3

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Revised

- 3) The perfectly competitive seller's short-run supply curve is
- A) its entire marginal cost curve.
 - B) its marginal revenue curve.
 - C) the part of its marginal cost curve above the average variable cost curve.
 - D) the part of its marginal cost curve above the average total cost curve.

Answer: C

Diff: 1

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

Question Status: Revised

- 4) The rising portion of a perfectly competitive firm's marginal cost curve, above the intersection with AVC, is its
- A) demand curve.
 - B) economic profit.
 - C) supply curve.
 - D) accounting profit.

Answer: C

Diff: 1

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

Question Status: Previous Edition

- 5) In a perfectly competitive market, a firm's short-run supply curve is
- A) its total cost curve.
 - B) its marginal cost curve equal to or above the point of intersection with its average variable cost curve.
 - C) its average variable cost curve below the point of intersection with its total cost curve.
 - D) its total cost curve between the shutdown point and the break-even point.

Answer: B

Diff: 1

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

Question Status: Previous Edition

- 6) If price is below average variable costs at all rates of output, the quantity supplied by a perfectly competitive firm will equal
- A) zero.
 - B) the rate of output where price equals marginal cost.
 - C) the rate of output associated with the break-even point.
 - D) the rate of output where marginal revenue equals average fixed costs.

Answer: A

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

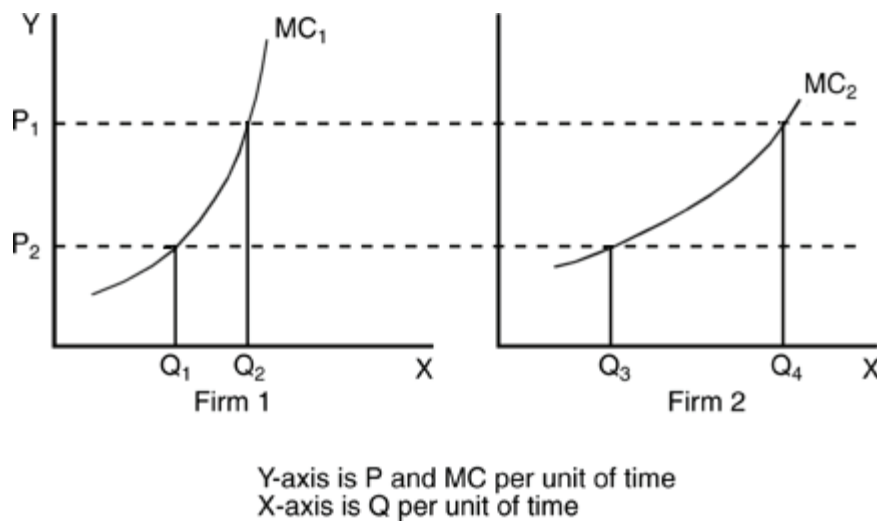
- 7) Assuming fixed factor prices, the short-run industry supply curve for a perfectly competitive industry is equal to the sum of the
- A) AVC curves above minimum AVC.
 - B) ATC curves above minimum ATC.
 - C) MC curves above minimum AVC.
 - D) MC curves above minimum ATC.

Answer: C

Diff: 1

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

Question Status: Previous Edition



- 8) In the above figure, assuming Firm 1 and Firm 2 are the sole producers in the industry, the industry quantity supplied at price P_1 is equal to

A) $Q_1 + Q_2$. B) $Q_1 + Q_3$. C) $Q_2 + Q_4$. D) $Q_4 - Q_2$.

Answer: C

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

- 9) In the above figure, assuming Firm 1 and Firm 2 are the sole producers in the industry, the industry quantity supplied at price P_2 is equal to

A) $Q_1 + Q_2$. B) $Q_1 + Q_3$. C) $Q_2 + Q_4$. D) $Q_4 - Q_2$.

Answer: B

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

- 10) A perfectly competitive industry's short-run supply curve is best described as

A) the upward sloping portion of the industry's marginal cost curve.
B) horizontal.
C) perfectly inelastic.
D) the horizontal summation of the individual firms' supply curves.

Answer: D

Diff: 1

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

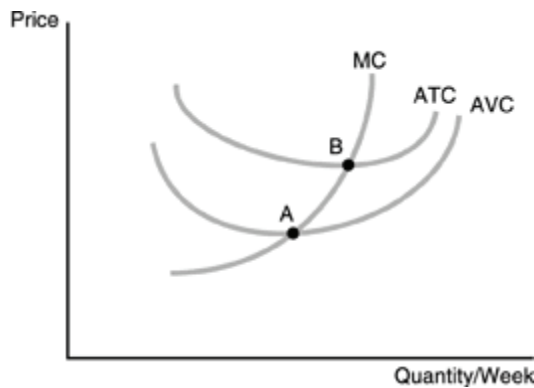
- 11) The short-run supply curve of a perfect competitor is
- A) its average variable cost curve.
 - B) its marginal revenue curve.
 - C) its entire marginal cost curve.
 - D) its marginal cost curve equal to or above the minimum point on its average variable cost curve.

Answer: D

Diff: 1

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

Question Status: Previous Edition



- 12) Refer to the above figure. The competitive firm's short run supply curve
- A) starts at A and goes along the MC curve as quantity increases.
 - B) starts at B and goes along the MC curve as quantity increases.
 - C) starts at A and goes along the AVC curve as quantity increases.
 - D) starts at B and goes along the ATC curve as quantity increases.

Answer: A

Diff: 1

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

- 13) A perfectly competitive firm is producing zero units of output in the short run. We know that price is
- A) below the minimum point of its average fixed cost curve.
 - B) below the minimum point of its average variable cost curve.
 - C) below the minimum point of its average total cost curve.
 - D) between the minimum points of its average total cost curve.

Answer: B

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

- 14) The short-run industry supply curve is found by
- A) taking the inverse of the industry demand curve.
 - B) horizontally summing the average total cost curve of all firms in the industry.
 - C) adding up the quantities supplied at each price by each firm in the industry.
 - D) adding up the quantities supplied at each price by each of the firms in the industry that are making a profit.

Answer: C

Diff: 1

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

Question Status: Previous Edition

- 15) The short-run industry supply curve slopes up because
- A) the firms eventually experience diseconomies of scale.
 - B) the law of diminishing marginal product applies in the short run.
 - C) wages increase as the industry increases output.
 - D) the higher price is needed to get more firms to enter the industry.

Answer: B

Diff: 3

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Factors that cause the short-run supply curve to change are factors that affect
- A) demand.
 - B) fixed costs.
 - C) variable costs.
 - D) the market but not the individual firm.

Answer: C

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

- 17) An increase in the productivity of labor causes
- A) quantity supplied by each firm in a competitive industry to decrease.
 - B) supply in a competitive industry to increase.
 - C) the market price to increase in a competitive industry.
 - D) the firm's supply curve to shift but has no effect on the industry supply curve.

Answer: B

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

- 18) If the wage rate increases and firms in a perfectly competitive industry are hiring labor, then
- A) the firms will quit using labor.
 - B) profits will increase.
 - C) market supply will decrease.
 - D) market price will decrease.

Answer: C

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

- 19) The short-run supply curve for a perfectly competitive firm is the portion of its
- A) ATC curve above the MC curve.
 - B) MC curve above the ATC curve.
 - C) ATC curve below the MC curve.
 - D) MC curve above its AVC curve.

Answer: D

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

Question Status: Previous Edition

- 20) The short-run supply curve for the perfectly competitive firm is the portion of its
- A) MC curve above the AVC curve.
 - B) MC curve above the AFC curve.
 - C) MC curve above the ATC curve.
 - D) MC curve above the MR curve.

Answer: A

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

Question Status: Previous Edition

- 21) Why does the industry short-run supply curve slope upward?

Answer: The industry short-run supply curve slopes up because the individual firms' short-run supply curves slope up. The perfect competitor's short-run supply curve slopes up because the marginal cost curve slopes up, and the marginal cost curve slopes up because of the law of diminishing marginal product. Hence, the industry short-run supply curve slopes up because of the law of diminishing marginal product.

Diff: 3

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

- 22) What determines the perfect competitor's supply curve? How is the industry supply curve found?

Answer: A supply curve shows the quantity supplied at various prices. The firm decides how much to supply at each price by equating price and marginal cost. Therefore, the marginal cost curve shows the quantity supplied at each price. However, at a price below the shutdown price, output is zero, so that portion of the marginal cost curve is not part of the supply curve. The industry supply curve is found by adding the quantities supplied of each firm for each price. It is the horizontal summation of the individual firms' supply curves.

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

- 23) "An industry's short-run supply curve is constructed by adding horizontally all the average variable cost curves of firms in that industry." Do you agree or disagree? Why?

Answer: Disagree. An industry's short-run supply curve is constructed by summing horizontally all of the individual firms' supply curves, which are their marginal cost curves (not average cost curves) above their respective minimum average variable cost points.

Diff: 2

Topic: 23.7 The Supply Curve for a Perfectly Competitive Industry

AACSB: Analytic skills

Question Status: Previous Edition

23.8 Price Determination Under Perfect Competition

- 1) A firm is currently producing at the rate of output at which total revenues just cover its total variable costs. If demand falls, the firm should
- A) lower both price and its rate of output.
 - B) shut down.
 - C) increase its rate of output to make up for the lower price.
 - D) not change its rate of output because it is still covering its variable costs.

Answer: B

Diff: 2

Topic: 23.8 Price Determination Under Perfect Competition

AACSB: Analytic skills

Question Status: Revised

- 2) A perfectly competitive industry's market or "going" price is established by
- A) the largest firm in the industry.
 - B) the largest purchaser of this industry's output.
 - C) each individual producing firm and reflects that firm's costs.
 - D) the forces of supply and demand.

Answer: D

Diff: 1

Topic: 23.8 Price Determination Under Perfect Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 3) A perfectly competitive industry's market price is found by
- A) finding the point on the market demand curve where the largest number of units will be purchased.
 - B) locating the intersection of the market demand and market supply curves.
 - C) the horizontal summation of all the industry firms' individual supply curves.
 - D) identifying the price at which each firm realizes its largest economic profit.

Answer: B

Diff: 1

Topic: 23.8 Price Determination Under Perfect Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Under perfect competition, the demand curve facing the firm is determined by
- A) the intersection of the industry demand and supply curves.
 - B) the tastes and preferences of consumers.
 - C) utility maximizing behavior on the part of consumers.
 - D) the willingness of the firm to supply the good.

Answer: A

Diff: 2

Topic: 23.8 Price Determination Under Perfect Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 5) The market demand curve in perfect competition is found by
- A) horizontally summing the supply curves of the individual firms in the industry.
 - B) horizontally summing the demand curves of the individual consumers.
 - C) utility maximizing behavior of the "representative consumer."
 - D) the interaction of supply and demand at the individual firm and consumer levels.

Answer: B

Diff: 2

Topic: 23.8 Price Determination Under Perfect Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 6) In a perfectly competitive market in which all firms are maximizing their economic profits, the demand and supply curves intersect at a price of \$8. From this we know that each
- A) firm's average total cost of producing the good is \$8.
 - B) firm's average variable cost of producing the good is \$8.
 - C) firm's marginal cost of producing the good is \$8.
 - D) firm is earning positive economic profits at a price of \$8 or more.

Answer: C

Diff: 3

Topic: 23.8 Price Determination Under Perfect Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 7) All of the following are true regarding perfectly competitive price determination EXCEPT
- A) the market price is determined by the interactions among all buyers (households) and firms.
 - B) the individual firm takes the market price as given.
 - C) the individual firm is known as a market price maker.
 - D) the individual firm's marginal revenue curve is horizontal at the market price.

Answer: C

Diff: 1

Topic: 23.8 Price Determination Under Perfect Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 8) How is the market clearing price established in a perfectly competitive industry?

Answer: The market clearing price is established by the forces of market supply and demand. Market demand is determined collectively by the buyers. Market supply is determined collectively by the suppliers. Even though each individual supplier or buyer has no control on the price of the product in a perfectly competitive industry, the interaction of all the buyers and suppliers determines the price.

Diff: 2

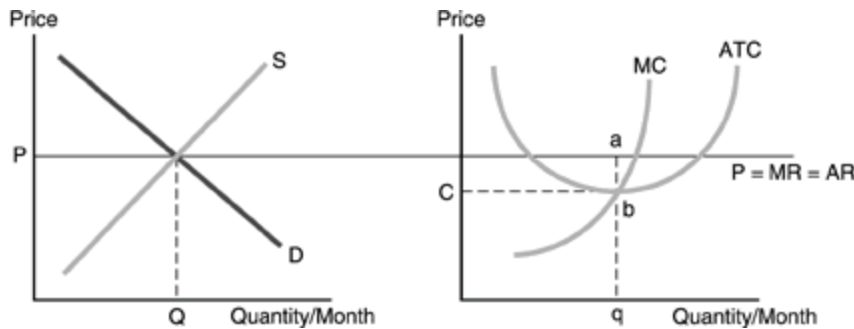
Topic: 23.8 Price Determination Under Perfect Competition

AACSB: Analytic skills

Question Status: Previous Edition

9) Using a graph, show a short-run equilibrium for the industry and the firm. Explain the graph.

Answer:



In the above figure, the industry demand and supply curves intersect vertically above Q, where Q is quantity produced and sold at price P. The firm takes P as given, and chooses to produce q units since this is where $MR = MC$. Average revenue at q is aq and average total cost is bq, so average profit is ab and total profit is Pabc.

Diff: 2

Topic: 23.8 Price Determination Under Perfect Competition

AACSB: Analytic skills

Question Status: Previous Edition

23.9 The Long-Run Industry Situation: Exit and Entry

1) Market signals

A) are ways of conveying information.

B) do not involve economic profits.

C) are best ignored by investors.

D) do not involve economic losses.

Answer: A

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Revised

2) What is the shape of the long-run supply curve in a decreasing-cost industry?

A) Horizontal

B) Increasing

C) Downward sloping

D) Upward sloping

Answer: C

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 3) In the long run when a perfectly competitive firm experiences positive economic profits,
- A) firms exit the industry, the market supply curve shifts rightward, and the market price falls.
 - B) firms enter the industry, the market supply curve shifts rightward, and the market price falls.
 - C) firms exit the industry, the market supply curve shifts leftward, and the market price rises.
 - D) firms enter the industry, the market supply curve shifts rightward, and the market price rises.

Answer: B

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: New

- 4) In the long run when a perfectly competitive firm experiences negative economic profits,
- A) firms exit the industry, the market supply curve shifts rightward, and the market price falls.
 - B) firms enter the industry, the market supply curve shifts rightward, and the market price falls.
 - C) firms exit the industry, the market supply curve shifts leftward, and the market price rises.
 - D) firms enter the industry, the market supply curve shifts rightward, and the market price rises.

Answer: C

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: New

- 5) If an industry has constant marginal and average costs, any shift in demand will eventually
- A) result in a higher equilibrium price.
 - B) be met by a smaller change in quantity supplied.
 - C) be met by an equal change in quantity supplied, and equilibrium price will not change.
 - D) make economic profits zero in the short run.

Answer: C

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Revised

- 6) In a perfectly competitive market, positive economic profits act to
- A) attract new entrants into the industry.
 - B) drive potential competitors away from the industry.
 - C) prevent reinvestment on the part of firms within the industry.
 - D) signal resource owners elsewhere not to invest their capital in this industry.

Answer: A

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 7) In a perfectly competitive market, if $P > ATC$ in the short run, there is apt to be
- A) entry of new firms into the market.
 - B) an accounting loss for existing firms.
 - C) an inward shift in the industry supply curve.
 - D) an upward pressure on price.

Answer: A

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 8) If a perfect competitor faces $P = ATC$ in the long run, the firm will
- A) earn economic profits.
 - B) earn economic losses.
 - C) leave the industry.
 - D) remain in the industry.

Answer: D

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The exiting of firms from a perfectly competitive industry occurs when
- A) opportunity costs cannot be covered.
 - B) $P = ATC$.
 - C) accounting profit is less than economic profit.
 - D) MR equals MC.

Answer: A

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 10) In a perfectly competitive industry, which of the following is a market signal to resource owners?
- A) Economic profits
 - B) Quality of goods
 - C) The level of exports in the country
 - D) The level of subsidies the industry receives

Answer: A

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Economic profits and losses are true market signals because they
- A) convey information in an asymmetrical fashion.
 - B) convey information about rewards people should anticipate experiencing by shifting resources from one activity to another.
 - C) convey information to public officials about where to encourage people to invest and what skills people should develop.
 - D) cause people to move into careers in both undesirable and desirable industries with equal ease.

Answer: B

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 12) A law that restricts plant closings will
- A) make the economy more efficient by slowing down the movement of resources to a more optimal rate.
 - B) make the economy more efficient by reducing poor decisions on the part of entrepreneurs.
 - C) prevent resources from flowing to their highest-valued uses.
 - D) allow profits and losses to provide a signaling function.

Answer: C

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 13) In a decreasing-cost industry, an increase in output will lead to
- A) an upward shift in the ATC curve.
 - B) an upward shift in the MC curve.
 - C) a reduction in long-run per-unit costs.
 - D) an increase in long-run per-unit costs.

Answer: C

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 14) In an increasing-cost industry, an increase in output will lead to
- A) an downward shift in the ATC curve.
 - B) an downward shift in the MC curve.
 - C) a reduction in long-run per-unit costs.
 - D) an increase in long-run per-unit costs.

Answer: D

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: New

- 15) If an industry's long-run per-unit costs increase as its output increases then
- A) the firm's long-run economic profits must be greater than zero.
 - B) the firm is most likely a decreasing-cost industry.
 - C) the firm is most likely an increasing-cost industry.
 - D) the firm is most likely a constant-cost industry.

Answer: C

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 16) If an industry's long-run per-unit costs decrease as its output increases then
- A) the firm's long-run economic profits must be less than zero.
 - B) the firm is most likely a decreasing-cost industry.
 - C) the firm is most likely an increasing-cost industry.
 - D) the firm is most likely a constant-cost industry.

Answer: B

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: New

- 17) If an industry's long-run per-unit costs are constant as its output increases then
- A) the firm's long-run economic profits must be greater than zero.
 - B) the firm is most likely a decreasing-cost industry.
 - C) the firm is most likely an increasing-cost industry.
 - D) the firm is most likely a constant-cost industry.

Answer: D

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: New

- 18) If a constant-cost, perfectly competitive industry experiences an increase in the demand for its product, we would expect
- A) only the market price of the good to increase.
 - B) both the market price and quantity supplied to increase.
 - C) decreases in the market price, but increases in quantity supplied.
 - D) only the quantity supplied of the product to increase.

Answer: D

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 19) A constant-cost industry is one in which
- A) output increases lead to productivity gains.
 - B) the marginal product of labor is constant.
 - C) there is no change in long-run per-unit costs, even as output varies.
 - D) each firm has a horizontal long-run average cost curve.

Answer: C

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 20) In an increasing-cost industry, an increase in industry output will
- A) lead to a higher market price.
 - B) lead to a lower market price.
 - C) shift each firm's average fixed cost curve down.
 - D) shift each firm's short run supply curve down.

Answer: A

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 21) In a decreasing-cost industry, an increase in industry output will
- A) lead to a higher market price.
 - B) lead to a lower market price.
 - C) shift each firm's average fixed cost curve up.
 - D) shift each firm's short run supply curve up.

Answer: B

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: New

- 22) A constant-cost industry
- A) is one in which an increase in demand is matched by a proportional increases in long-run supply.
 - B) generates increasing profits whenever demand increases because the new long-run equilibrium price is above the old price even though average costs have not changed.
 - C) has a horizontal long-run supply curve.
 - D) has a downward sloping long-run supply curve.

Answer: C

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 23) When economic profits in a perfectly competitive industry are positive,
- A) new firms will be attracted to the industry, and economic profits will decline to zero.
 - B) the industry is in equilibrium.
 - C) firms will increase output to earn even higher profits.
 - D) firms will increase prices while they have the opportunity.

Answer: A

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 24) In a perfectly competitive industry, any restrictions that prevent new firms from entering
- A) lead to negative profits.
 - B) guarantee that all existing firms will earn exactly a zero profit.
 - C) hinder economic efficiency.
 - D) reduce the average cost of production.

Answer: C

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Signals are
- A) used by economic decision-makers to inform others about their plans.
 - B) the method by which government planners inform economic decision-makers about the types of decisions they should make.
 - C) the method by which firms determine their profit maximizing quantity.
 - D) compact ways of conveying to economic decision makers information needed to identify industries where more resources are needed.

Answer: D

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 26) A true signal must
- A) convey information only.
 - B) convey information and direct the resource owners to act appropriately.
 - C) convey information about the long-run future.
 - D) explain in detail why something should be done.

Answer: B

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 27) Profits and losses are true signals because they
- A) convey information about true long-run profits.
 - B) cannot be misinterpreted by entrepreneurs.
 - C) convey information about where to place resources and reward people who act on the information.
 - D) reward people who make profits with even more profits and punish those who make losses with even more losses.

Answer: C

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Firms in a perfectly competitive industry are earning economic losses. This is
- A) a signal to entrepreneurs that some of the firms in the industry should exit and the resources of these firms should move into production of other goods.
 - B) a signal to entrepreneurs that additional resources should be brought into this industry in order to make it profitable.
 - C) a signal that the entrepreneurs are doing a poor job and should become workers for someone else.
 - D) a signal to government officials that a subsidy is needed for the firms in the industry.

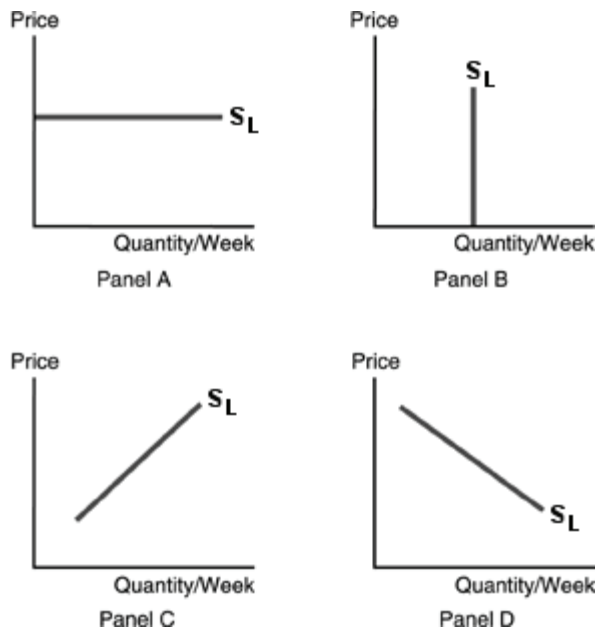
Answer: A

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition



- 29) Refer to the above figure. Which panel represents the long-run supply curve for a constant cost industry?

A) Panel A. B) Panel B. C) Panel C. D) Panel D.

Answer: A

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Refer to the above figure. Which panel represents the long-run supply curve for an increasing cost industry?

A) Panel A. B) Panel B. C) Panel C. D) Panel D.

Answer: C

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Refer to the above figure. Which panel represents the long-run supply curve for a decreasing cost industry?

A) Panel A. B) Panel B. C) Panel C. D) Panel D.

Answer: D

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Which of the following would tell us that resources are not flowing to their highest valued uses?
- A) Short-run economic profits
 - B) Short-run economic losses
 - C) Long-run economic profits
 - D) Some firms are just breaking even.

Answer: C

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Along an industry's long-run supply curve,
- A) economic profits are positive.
 - B) economic profits are zero.
 - C) entrepreneurs earn an above-average rate of return.
 - D) the number of firms is constant.

Answer: B

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Revised

- 34) If the long-run supply curve is upward sloping, we know that
- A) entrepreneurs are earning higher profits as output expands.
 - B) some input prices are increasing as the industry expands.
 - C) firms are getting larger as the industry contracts.
 - D) the law of diminishing marginal returns has set in.

Answer: B

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 35) An industry whose total output can be increased without a change in long-run per-unit costs is a(n)
- A) increasing-cost industry.
 - B) constant-cost industry.
 - C) break-even cost industry.
 - D) decreasing-cost industry.

Answer: B

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 36) An industry in which an increase in industry output is accompanied by an increase in long-run per-unit costs is a(n)
- A) increasing-cost industry.
 - B) constant-cost industry.
 - C) break-even cost industry.
 - D) decreasing-cost industry.

Answer: A

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 37) An industry in which an increase in output leads to a reduction in long-run per-unit costs is a(n)
- A) increasing-cost industry.
 - B) constant-cost industry.
 - C) break-even cost industry.
 - D) decreasing-cost industry.

Answer: D

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 38) Suppose a perfectly competitive industry is in long-run equilibrium. If a decrease in demand leads to a lower long-run price, we know that
- A) this is a decreasing-cost industry.
 - B) this is an increasing-cost industry.
 - C) some firms will be losing money in the long run.
 - D) after further adjustments, price will rise to its original level.

Answer: B

Diff: 3

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Suppose a perfectly competitive industry is in long-run equilibrium. If a decrease in demand leads to a higher long-run price, we know that
- A) this is a decreasing-cost industry.
 - B) this is an increasing-cost industry.
 - C) some firms will be losing money in the long run.
 - D) after further adjustments, price will fall to its original level.

Answer: A

Diff: 3

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: New

- 40) A perfectly elastic long-run supply curve indicates
- A) a decreasing-cost industry.
 - B) a constant-cost industry.
 - C) an increasing-cost industry.
 - D) that some input prices change as firms enter and exit the industry.

Answer: B

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 41) If the long-run supply curve is horizontal, we know that this is
- A) a decreasing-cost industry.
 - B) a constant-cost industry.
 - C) an increasing-cost industry.
 - D) a situation in which some input prices change as firms enter and exit the industry.

Answer: B

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 42) If the long-run supply curve slopes downward, we know that this is
- A) a decreasing-cost industry.
 - B) a constant-cost industry.
 - C) an increasing-cost industry.
 - D) a situation in which no input prices change as firms enter and exit the industry.

Answer: A

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 43) If the long-run supply curve slopes upward, we know that this is
- A) a decreasing-cost industry.
 - B) a constant-cost industry.
 - C) an increasing-cost industry.
 - D) a situation in which no input prices change as firms enter and exit the industry.

Answer: C

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 44) Consider an industry that is in long-run equilibrium. An increase in demand leads to an increase in the price of the good. We know that this is
- A) a decreasing cost industry.
 - B) a constant cost industry.
 - C) an increasing cost industry.
 - D) not a competitive industry.

Answer: C

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 45) Consider an industry that is in long-run equilibrium. An increase in demand leads to a decrease in the price of the good. We know that this is
- A) a decreasing cost industry.
 - B) a constant cost industry.
 - C) an increasing cost industry.
 - D) not a competitive industry.

Answer: A

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 46) Consider an industry that is in long-run equilibrium. An increase in demand leads to no change in the price of the good. We know that this is
- A) a decreasing cost industry.
 - B) a constant cost industry.
 - C) an increasing cost industry.
 - D) not a competitive industry.

Answer: B

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 47) An increasing-cost industry will have
- A) a perfectly elastic long-run supply curve.
 - B) a perfectly inelastic long-run supply curve.
 - C) an upward sloping supply curve in the long run.
 - D) an upward sloping demand curve in the long run.

Answer: C

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 48) A decreasing-cost industry will have
- A) a perfectly elastic long-run supply curve.
 - B) a perfectly inelastic long-run supply curve.
 - C) an upward sloping demand curve in the long run.
 - D) a downward sloping supply curve in the long run.

Answer: D

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 49) If an industry's long-run supply curve slopes downward, then the industry is
- A) a fixed-cost industry.
 - B) a constant-cost industry.
 - C) an increasing-cost industry.
 - D) a decreasing-cost industry.

Answer: D

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Previous Edition

- 50) A constant-cost industry will have
- A) a perfectly elastic long-run supply curve.
 - B) a perfectly inelastic long-run supply curve.
 - C) an upward sloping demand curve in the long run.
 - D) an upward sloping supply curve in the long run.

Answer: A

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 51) A perfectly competitive firm will not earn an economic profit in the long run, because
- A) it is a "price-maker."
 - B) it faces a perfectly inelastic demand curve.
 - C) there are no barriers to entry into the industry.
 - D) it produces differentiated products.

Answer: C

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 52) When a perfectly competitive firm experiences positive economic profits,
- A) the high barriers to entry prevent further competition.
 - B) existing firms exit the industry.
 - C) additional firms enter the industry.
 - D) firms have no incentive to exit or enter the industry.

Answer: C

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 53) In the long run when a perfectly competitive firm experiences negative economic profits,
- A) the high barriers to entry prevent further competition.
 - B) existing firms exit the industry.
 - C) additional firms enter the industry.
 - D) firms have no incentive to exit or enter the industry.

Answer: B

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: New

- 54) When a perfectly competitive firm experiences zero economic profits,
- A) the high barriers to entry prevent further competition.
 - B) existing firms exit the industry.
 - C) additional firms enter the industry.
 - D) firms have no incentive to exit or enter the industry.

Answer: D

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

55) The motive that drives firms to enter or exit an industry is

- A) utility.
- B) governmental.
- C) economic profit.
- D) accounting costs.

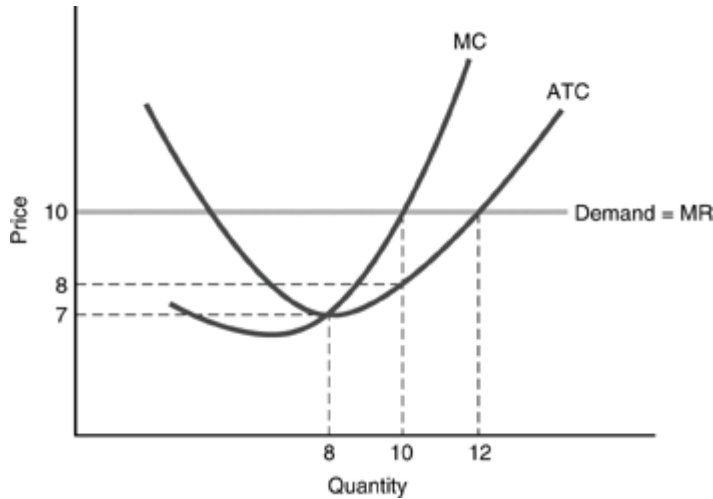
Answer: C

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition



56) If a firm is earning short-run economic profits shown in the above figure, in the long run

- A) firms exit the industry, the market supply curve shifts rightward, and the market price falls.
- B) firms enter the industry, the market supply curve shifts rightward, and the market price falls.
- C) firms exit the industry, the market supply curve shifts leftward, and the market price falls.
- D) firms enter the industry, the market supply curve shifts rightward, and the market price rises.

Answer: B

Diff: 3

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

57) Which of the following is the best example of a decreasing-cost industry?

- A) the health care industry
- B) the personal computer industry
- C) the college-education industry
- D) the oil industry

Answer: B

Diff: 1

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 58) If the costs of production do not increase as output increases in the long run in a perfectly competitive industry, then this is a

A) constant-return-to-scale industry. B) constant-competitive industry.
C) constant-cost industry. D) constant-price industry.

Answer: C

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Revised

- 59) The long-run supply curve in a constant-cost, perfectly competitive industry is

A) perfectly inelastic. B) upward sloping.
C) downward sloping. D) perfectly elastic.

Answer: D

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Revised

- 60) The long-run industry supply curve in a decreasing-cost, perfectly competitive industry is

A) negatively sloped. B) perfectly elastic.
C) positively sloped. D) perfectly inelastic.

Answer: A

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

Question Status: Revised

- 61) "Because a firm's supply curve slopes upward, the long-run supply curve of an industry must also slope upward." Do you agree or disagree? Explain.

Answer: Disagree. Even though a firm's supply curve slopes upward, the slope of the industry supply curve in the long run can be positive, negative or horizontal. An upward sloping industry supply curve reflects that an increase in industry output is accompanied by an increase in long-run average costs, while a downward sloping industry supply curve reflects a corresponding decrease in long-run average costs, and a horizontal industry supply curve reflects no change in long-run average costs.

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 62) What are signals? How do profits function as signals?

Answer: Signals are compact ways of conveying to economic decision makers information needed to make decisions. A signal not only conveys information, but also provides the incentive to react appropriately. Economic profits are such signals because they indicate to entrepreneurs where they should operate and provide the incentive in that the entrepreneurs' incomes are increased when they respond to the signals.

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

63) What determines whether the industry long-run supply curve is upward sloping or horizontal?

Answer: When firms enter and exit the industry, new resources are either drawn into the industry or are temporarily left unemployed. If these movements in resources cause resource prices to rise, then the industry will be an increasing-cost industry and have an upward sloping long-run supply curve. If these movements in resources do not affect resource prices, then the industry is a constant-cost industry and the long-run supply curve is horizontal.

Diff: 3

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Previous Edition

64) Explain what happens to the long-run supply curve of an industry when firm entry raises the price of inputs used in the industry.

Answer: When firm entry raises the price of inputs used in the industry, the average total cost curve and marginal cost curves shift upward. This in turn causes the firms' short-run supply curves to shift upward when there is an increase in market demand. As a result, the long-run industry supply curve slopes upward.

Diff: 2

Topic: 23.9 The Long-Run Industry Situation: Exit and Entry

AACSB: Analytic skills

Question Status: Revised

23.10 Long-Run Equilibrium

1) If a perfectly competitive firm has economic profits greater than zero, then we know that

- A) the firm's industry is not in long-run equilibrium.
- B) the firm's industry is in long-run equilibrium.
- C) the firm is producing at the bottom of the average total cost curve.
- D) the firm will reduce output.

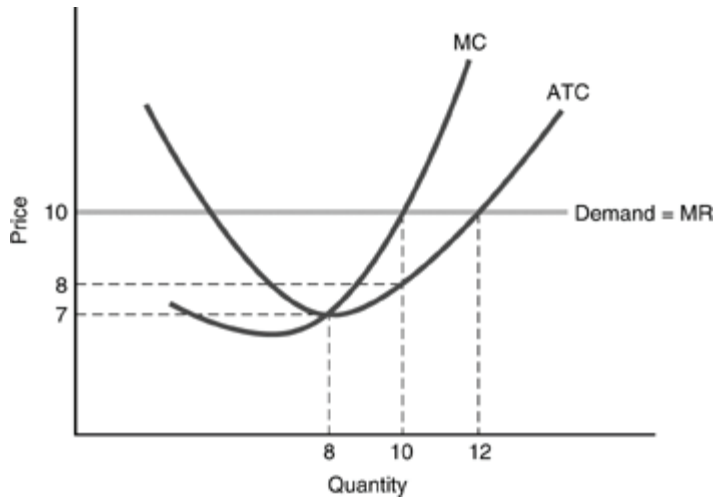
Answer: A

Diff: 1

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Revised



2) In the above figure, the long-run equilibrium price and output are

A) \$10 and 10.

B) \$10 and 12.

C) \$7 and 8.

D) \$8 and 10.

Answer: C

Diff: 2

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Revised

3) In the long run, a perfect competitor

A) earns positive profits but will not make losses.

B) earns positive economic profits.

C) earns zero economic profits.

D) produces at its shutdown point.

Answer: C

Diff: 2

Topic: 23.10 Long-Run Equilibrium

Question Status: Revised

4) In the long run, the price for a perfectly competitive firm

A) will be determined by the firm's supply and demand curves.

B) will allow for positive economic profits.

C) will equal marginal cost where marginal cost is at a minimum.

D) will equal the minimum average total cost.

Answer: D

Diff: 1

Topic: 23.10 Long-Run Equilibrium

Question Status: Revised

5) Which of the following is NOT correct for a perfectly competitive firm in long-run equilibrium?

- A) $SAC = LAC$
- B) $MR = P = AR$
- C) $MC = MR > LAC$
- D) $LAC = P$

Answer: C

Diff: 1

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

6) Which of the following is true in perfect competition at long-run equilibrium?

- A) $P = ATC = MC = MR$
- B) ATC is minimized
- C) economic profit is \$0
- D) all of the above

Answer: D

Diff: 1

Topic: 23.10 Long-Run Equilibrium

Question Status: Previous Edition

7) In the long run in a perfectly competitive industry,

- A) opportunity costs are negligible.
- B) economic profits will be zero.
- C) some firms will be experiencing economic losses.
- D) only entrepreneurs will earn more than their opportunity costs.

Answer: B

Diff: 1

Topic: 23.10 Long-Run Equilibrium

Question Status: Previous Edition

8) Which of the following is NOT true for a perfectly competitive firm in the long run?

- A) $MR = MC$
- B) $MC > LAC$
- C) Price = MC
- D) $SAC = LAC$

Answer: B

Diff: 1

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

9) Which of the following is NOT correct concerning perfectly competitive firms in the long run?

- A) Long-run economic profits are zero.
- B) Price equals minimum long-run average cost.
- C) Entrepreneurs earn the opportunity cost of their investment.
- D) The opportunity cost of capital is zero.

Answer: D

Diff: 1

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

10) In the long run, the perfectly competitive firm

- A) does not have a shut down price.
- B) earns only a normal profit.
- C) may produce even if it suffers a loss.
- D) earns an economic profit.

Answer: B

Diff: 1

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

11) For a firm in a perfectly competitive industry,

- A) short-run economic profits must be zero.
- B) short-run and long-run economic profits must be zero.
- C) short-run economic profits may be positive, but long-run economic profits must be zero.
- D) both short-run and long-run economic profits may be negative.

Answer: C

Diff: 1

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

12) Firms in a perfectly competitive industry are producing goods efficiently in the long run if each is producing at the minimum point of the

- A) AVC curve.
- B) MC curve.
- C) LAC curve.
- D) AFC curve.

Answer: C

Diff: 1

Topic: 23.10 Long-Run Equilibrium

Question Status: Previous Edition

13) In long-run equilibrium, the perfectly competitive firm will

- A) go out of business.
- B) produce to the point at which marginal cost is at its minimum.
- C) produce to the point at which marginal cost equals average total cost.
- D) produce on the upward sloping portion of its ATC curve.

Answer: C

Diff: 1

Topic: 23.10 Long-Run Equilibrium

Question Status: Previous Edition

14) Price equals the minimum of long-run average cost

- A) in a long-run equilibrium.
- B) in a short-run equilibrium as well as in a long-run equilibrium.
- C) whenever average revenue equals marginal cost.
- D) along a horizontal long-run supply curve, but not along an upward sloping long-run supply curve.

Answer: A

Diff: 2

Topic: 23.10 Long-Run Equilibrium

Question Status: Previous Edition

15) Which of the following is NOT a characteristic of a perfectly competitive long-run equilibrium?

- A) Firms are earning zero profits.
- B) Price equals marginal cost.
- C) Price equals long-run minimum average cost.
- D) Firms are producing on the downward sloping portions of their short-run average cost curves.

Answer: D

Diff: 2

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

16) For a perfectly competitive firm at its long-run equilibrium,

- A) $P = MR = MC = AC$.
- B) $P = MR > MC$.
- C) accounting profit must be zero.
- D) there are no opportunity costs to be concerned with.

Answer: A

Diff: 1

Topic: 23.10 Long-Run Equilibrium

Question Status: Previous Edition

17) If a perfectly competitive industry is in long-run equilibrium, then

- A) price equals average cost.
- B) price is greater than average cost and equal to marginal cost.
- C) all firms earn the same accounting profits.
- D) marginal cost is less than average cost.

Answer: A

Diff: 2

Topic: 23.10 Long-Run Equilibrium

Question Status: Previous Edition

18) When a perfectly competitive firm is in long-run equilibrium, economic profits

- A) are positive.
- B) are zero.
- C) are negative.
- D) may be positive, zero or negative depending upon costs.

Answer: B

Diff: 1

Topic: 23.10 Long-Run Equilibrium

Question Status: Previous Edition

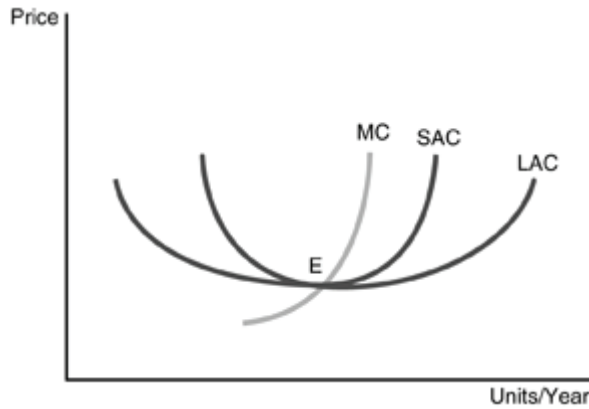
- 19) In a perfectly competitive market, a firm in long-run equilibrium will be operating
- A) to the right of the minimum of the long-run average cost curve.
 - B) to the left of the minimum of the long-run average cost curve.
 - C) at the minimum of the long-run average cost curve.
 - D) at the minimum of the marginal cost curve.

Answer: C

Diff: 1

Topic: 23.10 Long-Run Equilibrium

Question Status: Previous Edition



- 20) Refer to the above figure. A perfectly competitive firm that is in long-run equilibrium will be operating
- A) with positive economic profits.
 - B) at a quantity greater than point E.
 - C) at a quantity less than point E.
 - D) at point E.

Answer: D

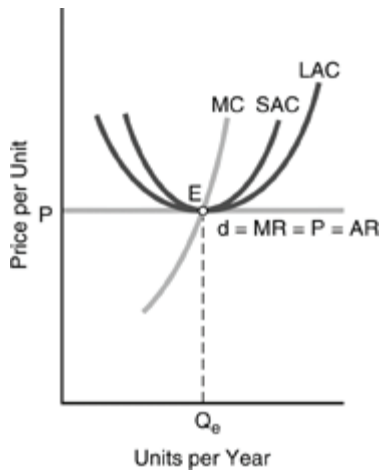
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Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

- 21) In reference to the long-run firm competitive equilibrium diagram, which of the following statements is INCORRECT?



- A) In the long run, the firm has no incentive to alter its scale of operations.
- B) Because profits must be zero in the long run, the firm's short-run average costs (SAC) must equal P at Q_e , which occurs at minimum SAC.
- C) In the long run, the firm operates where price, marginal revenue, marginal cost, short-run minimum average cost, and long-run minimum average cost all are equal.
- D) In the long run, this firm must be part of a constant-cost industry, because its marginal revenue curve is perfectly elastic.

Answer: D

Diff: 2

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

- 22) In a long-run equilibrium, a perfectly competitive firm's average total cost is
- A) minimized.
 - B) maximized.
 - C) zero.
 - D) equal to average fixed cost.

Answer: A

Diff: 1

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

- 23) In the long run, all firms in a perfectly competitive industry
- A) earn economic profits.
 - B) break even.
 - C) suffer economic losses.
 - D) sell differentiated products to earn economic profits.

Answer: B

Diff: 2

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

- 24) For a perfectly competitive firm at its long-run competitive equilibrium point,
 A) $P = AR = MR = LATC = SATC = MC$. B) $P = AR = MR = LATC > SATC = MC$.
 C) $P = AR = MR = MC = LATC = AVC$. D) $P > MR > AR > MC > LATC > SATC$.

Answer: A

Diff: 2

Topic: 23.10 Long-Run Equilibrium

Question Status: Revised

- 25) In a long-run perfectly competitive equilibrium,
 A) $P = MR = MC > ATC$. B) $P = MR > MC = ATC$.
 C) $P = MR = MC = ATC$. D) $P > MR > MC = ATC$.

Answer: C

Diff: 2

Topic: 23.10 Long-Run Equilibrium

Question Status: Previous Edition

- 26) If firms in a perfectly competitive industry are earning positive economic profits, then what will happen in the long run?

Answer: Economic profits provide incentives for entrepreneurs to start new firms and enter the industry. When entry of new firms takes place, the market supply curve shifts outward. The equilibrium quantity increases, and the market clearing price declines. This pushes economic profits back down toward zero. When economic profits return to zero, there is no longer an incentive for new firms to enter the industry, and a new long-run equilibrium will have been reached.

Diff: 2

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

- 27) "In the long run, a perfectly competitive firm's average total cost is always below the market clearing price." Agree or disagree? Why?

Answer: Disagree. In the long run, a perfectly competitive firm produces at an output rate at which the market clearing price equals short-run minimum average total cost and long-run minimum average total cost. If the firm's average total cost is below the market clearing price, its profits will lead to firm entry into the industry. As a result of firm entry, the market clearing price will decline. This process will continue until the market clearing price equals the firm's average total cost.

Diff: 1

Topic: 23.10 Long-Run Equilibrium

AACSB: Analytic skills

Question Status: Previous Edition

23.11 Competitive Pricing: Marginal Cost Pricing

- 1) Economic efficiency means
- A) the same as technical efficiency.
 - B) that all firms within a single competitive industry are producing at the same level of output.
 - C) that it is impossible to increase the output of any good without lowering the total value of the output of the economy.
 - D) that high-tech methods of production are the most efficient.

Answer: C

Diff: 1

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition

- 2) With marginal cost pricing,
- A) marginal benefits are usually less than marginal cost.
 - B) all opportunity costs will be covered in the short run.
 - C) the price charged is equal to the opportunity cost to society of producing one more unit of the good.
 - D) there cannot be any short-run economic profit.

Answer: C

Diff: 1

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

Question Status: Previous Edition

- 3) When marginal cost pricing occurs,
- A) price equals the additional cost society incurs in producing the next unit of an item.
 - B) the firm can only break even if it does not set price to marginal cost.
 - C) price equals average variable cost but exceeds average total cost.
 - D) the firm is at the shutdown point.

Answer: A

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

Question Status: Previous Edition

- 4) Competitive pricing is efficient because
- A) the price that consumers pay reflects the opportunity cost to society of producing the good.
 - B) firms make positive economic profits in long-run equilibrium.
 - C) average revenue equals average cost.
 - D) firms produce above the minimum efficient scale.

Answer: A

Diff: 1

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition

- 5) A market failure is a situation in which
- A) resources are being efficiently allocated, but some companies are forced to shut down.
 - B) the market equilibrium leads to either too many or too few resources going towards producing the good or service.
 - C) the government must take actions to correct the failures of the market in a particular industry.
 - D) there is no free entry or exit into an industry.

Answer: B

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

Question Status: Previous Edition

- 6) The opportunity cost to society of producing one more unit of the good is
- A) average cost.
 - B) marginal cost.
 - C) efficiency costing.
 - D) the optimal cost.

Answer: B

Diff: 1

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

Question Status: Previous Edition

- 7) When price equals marginal cost
- A) firms make zero profits.
 - B) firms make positive profits.
 - C) the industry is in long-run equilibrium.
 - D) the marginal benefits of consuming an extra unit of the good exactly equals the marginal cost to society of producing the good.

Answer: D

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

Question Status: Previous Edition

- 8) The value of total output decreases when labor leaves one industry and goes to another and capital leaves the second industry and goes to the first. This indicates that
- A) the first situation was not efficient.
 - B) the second situation is efficient.
 - C) price is greater than marginal cost.
 - D) it would be efficient to return to the first situation.

Answer: D

Diff: 3

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition

- 9) If markets are perfectly competitive, then the production of goods
- A) will use the least costly combination of resources.
 - B) will occur at an average total cost value that is above the minimum.
 - C) will require government intervention.
 - D) will always lead to business failures.

Answer: A

Diff: 1

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Perfectly competitive markets are efficient because
- A) they always reach equilibrium.
 - B) firms in the market are price takers.
 - C) the cost to society for producing the goods is exactly equal to the value that society places on the good.
 - D) the long run equilibrium assures that the prices of resources will not increase.

Answer: C

Diff: 1

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Suppose the perfectly competitive equilibrium occurs such that too many units of the good are produced. This is an example of
- A) marginal cost pricing.
 - B) market failure.
 - C) firms have not yet exited the industry.
 - D) greedy business people behaving in an inappropriate manner.

Answer: B

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Economic efficiency is indicated by
- A) $P = AVC$.
 - B) $MR = MC$.
 - C) $P = MR$.
 - D) $P = MC$.

Answer: D

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

Question Status: Previous Edition

- 13) A situation in which the price charged is equal to society's opportunity cost is known as
- A) market failure.
 - B) marginal monopoly pricing.
 - C) marginal profits.
 - D) marginal cost pricing.

Answer: D

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

Question Status: Previous Edition

- 14) A situation in which the price charged is greater than society's opportunity cost would lead to
- A) market failure.
 - B) marginal monopoly pricing.
 - C) marginal profits.
 - D) marginal cost pricing.

Answer: A

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

Question Status: New

- 15) A situation in which the price charged is greater than society's opportunity cost would lead to
- A) too little being produced.
 - B) too much being produced.
 - C) an efficient amount being produced.
 - D) marginal cost pricing.

Answer: A

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: New

- 16) A situation in which the price charged is less than society's opportunity cost would lead to
- A) too little being produced.
 - B) too much being produced.
 - C) an efficient amount being produced.
 - D) marginal cost pricing.

Answer: B

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: New

- 17) Which of the following best describes a situation of economic efficiency?
- A) A firm produces to the point at which $P = AVC$, with $MR < MC$.
 - B) A firm produces to the point at which $P = ATC$, with $MC < MR$.
 - C) A firm produces to the point at which $MR = AFC$, with $P = AVC$.
 - D) A firm produces to the point at which $MR = MC$, with $P = MC$.

Answer: D

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

Question Status: Previous Edition

- 18) A firm's long-run position under perfect competition is often said to be efficient because
- A) $P = AR > MC = AVC$.
 - B) $P = AR > MR = MC$.
 - C) $P = MR = AVC = AFC$.
 - D) $P = MR = MC = ATC$.

Answer: D

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

Question Status: Previous Edition

- 19) In a perfectly competitive market, if $P > MC$, then
- A) too little output is being produced.
 - B) too much output is being produced.
 - C) production is efficient, as the firm is earning profits.
 - D) the firm is paying a price for resources that is too high.

Answer: A

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition

- 20) In a perfectly competitive market, if $P < MC$, then
- A) too little output is being produced.
 - B) too much output is being produced.
 - C) production is efficient, as the firm is earning profits.
 - D) the firm is paying a price for resources that is too high.

Answer: B

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition

- 21) What is marginal cost pricing? Why is marginal cost pricing important?

Answer: Marginal cost pricing is a situation in which price equals the opportunity cost to society of producing one more unit of the good, which is the marginal cost of the good. It is efficient in the sense that it is impossible to increase the output of any good without lowering the value of the total output produced by the society as a whole.

Diff: 3

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Why would it be economically inefficient for a firm to charge the price of a good greater than its marginal cost?

Answer: When price equals marginal cost, the marginal benefit to consumers equals the opportunity cost to society of producing one more unit of the good. This condition is efficient because it is impossible to increase the output of that good without lowering the value of the total output produced in the economy. If a firm charges a price greater than its marginal cost, then the firm is producing too little as people value additional units more than the cost to society of producing them.

Diff: 3

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition

23) Why is the pricing outcome of a perfectly competitive firm efficient in economic sense?

Answer: A perfectly competitive firm sells its product at a price that equals the opportunity cost, or the marginal cost, to society of producing one more unit of the product. Because the price that consumers are willing to pay for the last unit of the good is the marginal benefit to them, the pricing outcome of a competitive firm implies that the marginal benefit to consumers equals the marginal cost to society of producing the last unit. This outcome is efficient because it is impossible to increase the output of any good without lowering the value of the total output produced in the economy.

Diff: 2

Topic: 23.11 Competitive Pricing: Marginal Cost Pricing

AACSB: Analytic skills

Question Status: Previous Edition