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ECO402Perfect Competition SOLVED MCQS FINAL TERM SOLVED DATA 100% SURE

1. A firm operating in a perfect market maximizes its profit by adjusting
   a. its output price until it exceeds average total cost as much as possible.
   b. its output price until it exceeds marginal cost as much as possible.
   c. its output until its marginal cost equals output price.
   d. its output until its average total cost is minimized.www.vchowk.com

   When answering the next 3 questions (2-4), refer to the graph below: www.vchowk.com

2. Assuming this firm maximizes profit, it will
   a. produce 0*A* at a price of *P*4.
   b. produce 0*D* at a price of *P*1.
   c. incur a total cost of *GC* times 0*C* at point I.
   d. do all the above.

3. Assuming this firm maximizes profit, it will
   a. procure 0*A* regardless of price.
   b. produce 0*A* only at price of *P*4.
   c. make a zero profit at price *P*2 (output 0*C*).
   d. make a profit of *KL* times 0*D* at price *P*1.

4. Assuming this firm maximizes profit, it will
   a. incur total fixed cost of *KL* at a price of *P*1.
   b. incur total variable cost of *HC* at a price of *P*2.
   c. supply varying quantities in the short run, depending on the price–quantities that one can read off on line *EI*.
   d. make a loss of *FM* times 0*B* at price *P*3.

5. In the short run, no firm operates with a loss, unless
   a. variable cost equals fixed cost.
   b. variable cost falls short of fixed cost.
   c. total revenue covers variable costs.
   d. total revenue covers fixed cost.

6. For a firm operating in a perfect market, its short-run supply is identical with the rising arm of
   a. its marginal-cost curve. www.vchowk.com
   b. its average-fixed-cost curve.
   c. its average-total-cost curve.
   d. none of the above.

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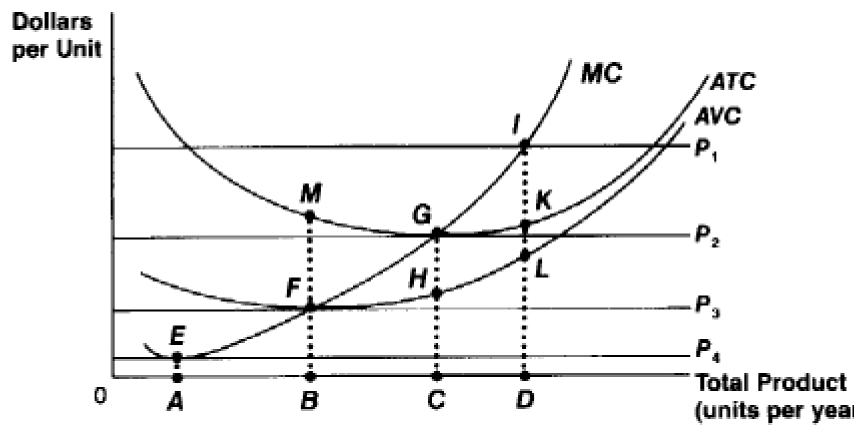


7. A good's short-run supply curve is shifted to the right by
   a. a fall in the good's price.
   b. a rise in the prices of inputs used to make the good.
   c. an improvement in the technology of making the good.
   d. none of the above.

8. Being a price taker in a market means that the seller
   a. charges each consumer the maximum that she will be3 able to pay for the product.
   b. has no choice but to charge the equilibrium price that results from the market supply and demand curves.
   c. takes her price from her average total cost curve.
   d. sells her products at different prices to different customers.

9. The statement that marginal cost = marginal revenue leads to profit maximization of loss minimization is true
   a. all the time.
   b. only in the long run.
   c. only if marginal cost is rising at the point of equality.
   d. only if average total cost is falling at the point of equality.

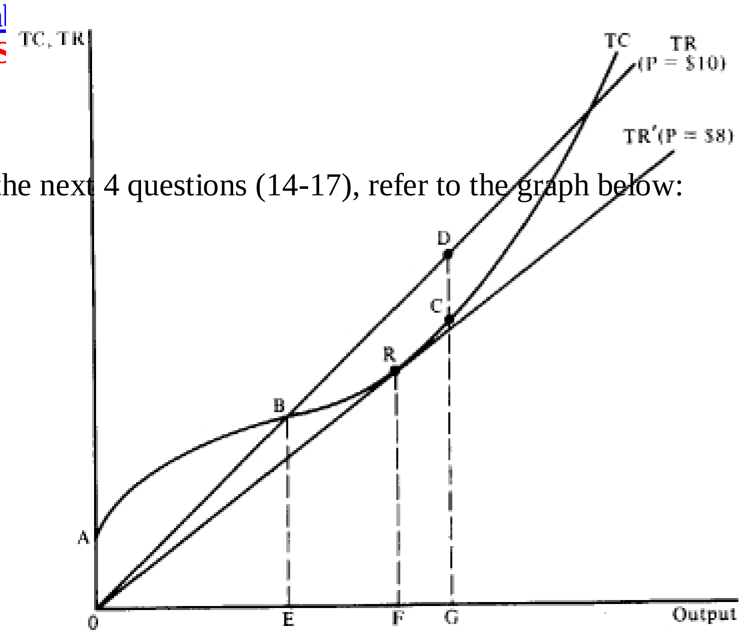
10. In perfect competition, when economic profits exist in the short run, they are very tenuous because
   a. costs will inevitably increase and eliminate profit.
   b. price will fall because market supply will increase.
   c. firms are driven to increase output in the short run to the point where average total cost will equal price.
   d. firms are driven in the short run to reduce output until average total cost equals price.

11. When a profit-maximizing firm is at its short-run optimum point,
   a. the average cost of the product is at its lowest possible point whether a profit is being made or not.
   b. the firm will be shut down if its price is less than the average fixed cost.
   c. the profit per unit of output will be at its maximum possible level.
   d. all the above will be true.
   e. none of the above will be true.

12. If a firm is producing where its SMC = price and the LMC is less that LAC, then it would do better in the long run by
   a. increasing output with its existing plant until LMC equals price.
   b. increasing plant size until LMC and SMC are identical and equal to price.
   c. decreasing plant size until LAC, SAC, and price are equal.
   d. doing nothing because it is already at the long-run profit maximizing point.

13. The competitive firm maximizes its profit by operating where
   a. average costs are at a minimum.
   b. total revenue is at a maximum.
   c. profit per unit is at a maximum.
   d. marginal cost equals price.

When answering the next 4 questions (14-17), refer to the graph below:



14. Assume that price is $10. The profit maximizing level of output for the firm is
    a. 0A.
    b. 0E.
    c. 0F.
    d. 0G.

15. At the profit maximizing level of output at a price of $10 the firm
    a. is making economic profit.
    b. is losing money.
    c. is making zero economic profit.
    d. none of the above.

16. When producing the profit-maximizing level of output at a price of $10,
    a. total fixed costs are 0A.
    b. total profits equal DC.
    c. average cost equals CG/0G.
    d. all of the above. www.vchowk.com

17. If price fell to $8,
    a. the firm would decrease production to 0F and would be operating at a loss.
    b. the firm would decrease production to 0F and would be earning a normal return.
    c. the firm would decrease production to 0E where it would break even.
    d. the firm would shut down.

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When answering the next 5 questions (18-22), refer to the graph below:

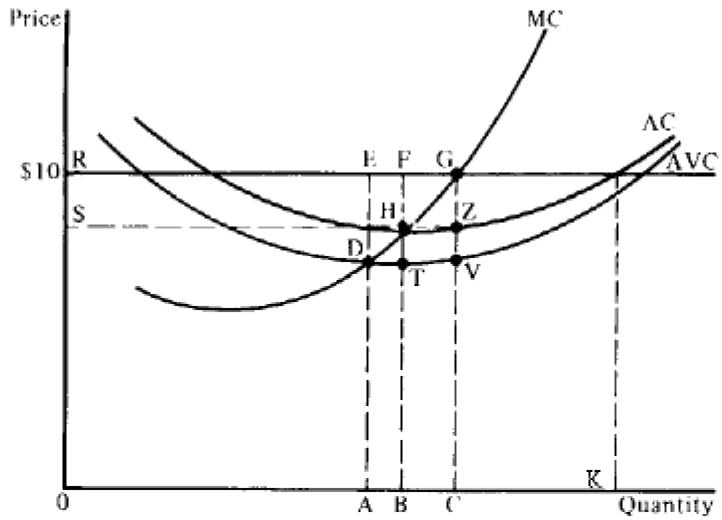
18. Assume price is $10. The profit maximizing level of output for the firm is
    a. 0A where marginal cost just covers AVC.
    b. 0B where average profit per unit is the greatest.
    c. 0C where marginal cost equals the $10 price.
    d. 0K where average cost equals avenge revenue and the firm earns a normal rate of return.

19. At the profit maximizing level of output, when price is $10,
    a. the firm X is earning economic profit.
    b. profits per unit are the greatest.
    c. average variable cost equals ZC.
    d. all of the above.

20. At output level 0C, profit per unit is equal to
    a. GZ.
    b. ZV.
    c. ED.
    d. GC. www.vchowk.com

21. At output level 0C, total profits equal
    a. FHSR.
    b. OSZC.
    c. GZSR.
    d. ORGC.

22. At output level 0C, average fixed cost is equal to
    a. ZV.
    b. GZ.
    c. ED.
    d. VC.


Price
MC
AC
AVC
$10
R
E
F
G
S
H
Z
D
T
V
0
A
B
C
K
Quantity

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23. For a competitive firm the demand curve
    a. is horizontal
    b. coincides with the marginal revenue curve.
    c. coincides with the average revenue curve.
    d. all of the above.

24. In the short run, if price falls, the firm will respond by
    a. shutting down.
    b. equating average variable cost to marginal revenue.
    c. reducing output along its marginal cost curve as long as marginal revenue exceeds average variable cost.
    d. none of the above.

25. In the short run, a competitive firm's supply curve is
    a. its average variable cost curve to the right of the marginal cost curve.
    b. its marginal cost curve above the average variable cost curve.
    c. its marginal cost curves above its average cost curve.
    d. the horizontal summation of the marginal cost curves.

26. In a constant cost competitive industry if price rises above its long-run equilibrium level, which of the following will not occur as the industry adjusts to a new LR equilibrium?
    a. New firms will enter the industry.
    b. Economic profit will be eliminated.
    c. Input prices will rise.
    d. Existing firms will increase production.

27. The term increasing cost industry is used to describe
    a. a firm with a rising average cost curve.
    b. an industry subject to decreasing returns to scale.
    c. an industry with a rising marginal cost curve.
    d. an industry in which the prices of one or more inputs are bid up as output expands.

28. Along the long-run supply curve, all of the following can vary except
    a. the level of profits.
    b. the number of firms in the industry.
    c. input prices.
    d. the level of input usage.

29. The short-run supply curve for a competitive industry is derived by
    a. horizontally summing the marginal cost curves for each firm in the industry.
    b. horizontally summing the average variable cost curves for each firm in the industry.
    c. vertically summing the marginal cost curves for each firm in the industry.
    d. none of the above.

30. Generally, supply is
    a. more elastic in the long run than in the short run.
    b. more elastic in the short run than in the long run.
    c. more elastic the more firms in the industry.
    d. more elastic the lower the input prices.

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