Practice Questions Week 8 Day 1

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. The characteristics of a market that influence the behavior of market participants is (are) known as
   a. perfect competition
   b. market power
   c. barriers to entry
   d. market structure
   e. monopolistic competition

2. All of the following help define market structure, except one. Which is the exception?
   a. number of sellers
   b. barriers to entry
   c. barriers to exit
   d. standardization of product
   e. how firms are organized (i.e., as proprietorships, partnerships, or corporations)

3. All of the following are characteristics of a perfectly competitive market, except one. Which is the exception?
   a. a large number of sellers
   b. a standardized product
   c. no barriers to entry
   d. sellers can easily exit the market
   e. an intensive rivalry among the sellers

4. The number of sellers in a market is considered to be large when
   a. the total exceeds 100
   b. no single buyer can affect the price through his or her demand for the product
   c. they cannot be easily counted
   d. no single seller can affect the price by changing its level of output
   e. no seller controls more than 20 percent of the total market supply

5. Firms in a perfectly competitive market cannot influence
   a. the quantity of the good that they produce
   b. how much labor to use in production
   c. how much capital to employ in production
   d. the level of advertising that they use
   e. the price of the product they sell

6. A perfectly competitive firm
   a. can increase total revenue by raising its price
   b. can sell more goods by lowering its price
   c. can sell more goods by raising its price
   d. cannot increase sales or total revenue by changing its price
   e. typically tries to offer lower prices than rival firms

7. In a perfectly competitive market, the
   a. market demand curve is horizontal
   b. short-run market supply curve is horizontal
   c. short-run market demand curve slopes upward
   d. short-run market supply curve slopes downward
   e. market demand curve slopes downward
8. Ken's Lawn Service Co. operates in a perfectly competitive market. Why doesn't Ken try to increase his revenue by lowering his price below the prevailing market price?
   a. He can sell as much as he wishes to at the market price.
   b. He faces a perfectly inelastic demand curve, so a price change will have no impact on revenue.
   c. Government regulations prevent it.
   d. If he lowers his price, he will lose all his sales since he faces a horizontal demand curve.
   e. Agreements with other lawn service companies require him to sell at the market price.

9. If a firm is a price taker, then the demand curve it faces is perfectly
   a. elastic and above its marginal revenue curve
   b. elastic and the same as its marginal revenue curve
   c. elastic and below its marginal revenue curve
   d. inelastic and above its marginal revenue curve
   e. inelastic and the same as its marginal revenue curve

10. For a perfectly competitive firm,
    a. marginal revenue equals total revenue
    b. total revenue always exceeds total cost
    c. price always exceeds average total cost
    d. marginal cost equals average cost
    e. the marginal revenue curve and the demand curve are the same

11. Under perfect competition, the demand curve facing a firm and the firm's marginal revenue curve are
    a. vertical at the firm's chosen output level
    b. both vertical, but the demand curve is further to the right than the marginal revenue curve
    c. both vertical, but the marginal revenue curve is further to the right than the demand curve
    d. both horizontal at the level of the market price
    e. both horizontal, but the demand curve is above the marginal revenue curve
12. Figure 8-1 shows the marginal cost and average total cost curves for a perfectly competitive firm. If the market price is $10, then
   a. the firm earns $10 profit on each unit sold
   b. the firm earns $8 profit on each unit sold
   c. marginal revenue equals $10
   d. the firm is losing money in the short run
   e. marginal cost always equals marginal revenue

13. A firm can maximize profits in the short run by producing output where
   a. $\text{MC} = \text{MR}$ and the MC curve crosses the MR curve from above (as long as $P>AVC$)
   b. $\text{TC} = \text{TR}$
   c. $\text{MR} - \text{MC} = \text{TR} - \text{TC}$
   d. $\text{MC} = \text{MR}$ and the MC curve crosses the MR curve from below (as long as $P>AVC$)
   e. $\text{TR} = \text{TC}$ and the TC curve crosses the TR curve from below
14. **Figure 8-2** shows the total revenue and total cost data for a perfectly competitive firm. At what output level will the firm break even?
   a. 1  
   b. 2  
   c. 3  
   d. 4  
   e. 5

15. In short-run equilibrium, the perfectly competitive firm of **Figure 8-3** will produce
   a. zero units of output  
   b. 200 units of output  
   c. 275 units of output  
   d. 475 units of output  
   e. 575 units of output

**Table:**

<table>
<thead>
<tr>
<th>Output</th>
<th>Total Revenue</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$ 20</td>
<td>$ 40</td>
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<tr>
<td>2</td>
<td>$ 40</td>
<td>$ 60</td>
</tr>
<tr>
<td>3</td>
<td>$ 60</td>
<td>$ 70</td>
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<td>4</td>
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<td>$ 80</td>
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<td>5</td>
<td>$100</td>
<td>$ 85</td>
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<tr>
<td>6</td>
<td>$120</td>
<td>$110</td>
</tr>
</tbody>
</table>
16. In short-run equilibrium, the perfectly competitive firm of Figure 8-3 will charge
   a. $5
   b. $7
   c. $8
   d. $10
   e. more than $10

17. If a perfectly competitive firm like the one depicted in Figure 8-3 produces 575 units
   a. its profit will be larger than if it produces only 475
   b. its profit will be exactly the same as if it produces 475
   c. its profit will be smaller than if it produces only 475
   d. it will be forced to shutdown
   e. its profit will be smaller than if it produced 475 but it will still make a profit.

<table>
<thead>
<tr>
<th>Figure 8-4</th>
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<tbody>
<tr>
<td>Output</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>6</td>
</tr>
</tbody>
</table>

18. Figure 8-4 shows marginal cost for a firm in a perfectly competitive market. Suppose that the market price is $20. What is the profit-maximizing level of output?
   a. 0
   b. 1
   c. 4
   d. 5
   e. 6

19. A perfectly competitive firm produces in a market where the prevailing price is $25. At its current output level of 10,000 units, its average total cost equals $15. The firm is earning
   a. a total money profit of $100,000
   b. a total economic profit of $100,000
   c. a total money profit of $250,000
   d. a total economic profit of $250,000
   e. both a total money profit and a total economic profit of $100,000

20. If \( P > ATC \) for a perfectly competitive firm, then
   a. the firm could increase profit by lowering its price
   b. the firm could increase profit by raising its price
   c. the firm is producing too much output
   d. the firm is making a profit
   e. profits are zero in the short run
Practice Questions Week 8 Day 1
Answer Section

MULTIPLE CHOICE

1. D
2. E
3. E
4. D
5. E
6. D
7. E
8. A
9. B
10. E
11. D
12. C
13. D
14. D
15. D
16. D
17. C
18. D
19. B
20. D
Practice Questions Week 8 Day 2

Multiple Choice
Identify the choice that best completes the statement or answers the question.

Figure 8-7

1. Figure 8-7 shows cost curves for Penny's Parasols, a perfectly competitive firm. At which of the point would Penny's Parasols be certain to close down?
   a. A  
   b. B  
   c. C  
   d. D  
   e. E

2. Figure 8-7 shows cost curves for Penny's Parasols, a perfectly competitive firm. At which point(s) would Penny's Parasols endure economic losses, but continue to produce in the short run?
   a. D  
   b. F  
   c. A  
   d. C  
   e. E

3. Which point in Figure 8-7 represents a break-even situation for a perfectly competitive firm?
   a. A  
   b. B  
   c. C  
   d. D  
   e. E
4. At which point in Figure 8-7 would a perfectly competitive firm earn the same profit, or suffer the same loss, by producing rather than by shutting down?
   a. A
   b. B
   c. C
   d. D
   e. F

5. In short-run equilibrium, the perfectly competitive firm of Figure 8-8 will earn a total economic profit of
   a. zero
   b. $950
   c. $825
   d. $1,425
   e. $575

6. The difference between price and average total cost is
   a. a tax write off
   b. total economic profit (or loss)
   c. fixed cost
   d. the profit (or loss) per unit of output
   e. average variable cost

7. All of the following conditions, except one, will necessarily be satisfied when a perfectly competitive firm is in short-run equilibrium. Which condition is the exception?
   a. marginal revenue equals average total cost
   b. marginal cost crosses marginal revenue from below
   c. marginal revenue equals price
   d. price equals marginal revenue
   e. profit is maximized or loss is minimized
8. If a perfectly competitive firm cannot avoid economic losses, it should continue to operate in the short run as long as
   a. marginal revenue exceeds average fixed cost
   b. price exceeds average total cost
   c. the market price exceeds average total cost
   d. the marginal revenue is less than the average variable cost
   e. price exceeds average variable cost

9. Justina operates in a perfectly competitive market. Which of the following is her short-run supply curve?
   a. the MC curve above its point of intersection with the ATC curve
   b. the market supply curve
   c. the MC curve above its point of intersection with the AVC curve
   d. the market demand curve
   e. its MC curve

10. The perfectly competitive firm represented in Figure 8-10 has a short-run supply curve that follows the
    a. marginal cost curve
    b. vertical axis for prices less than $4.00 and follows the marginal cost curve for prices above $4.00
    c. vertical axis for prices less than $2.50 and follows the marginal cost curve for prices above $2.50
    d. vertical axis for prices less than $5.50 and follows the marginal cost curve for prices above $5.50
    e. horizonal axis for quantities less than 50 and follows the marginal cost curve for quantities above 50
11. In a perfectly competitive market, the equilibrium price
   a. is determined by all the buyers in the market but no single buyer is able to influence it
   b. is determined by all the sellers in the market but no single seller is able to influence it
   c. adjusts until the quantity supplied by all sellers is equal to the quantity demanded by all buyers
   d. is not influenced by the cost structure of the firms in the market
   e. is not influenced by the preferences of the consumers in the market

12. In the short run, the perfectly competitive market supply curve
   a. is indeterminate
   b. shows the total quantities of resources used by all firms in that market, given the market price of resources
   c. is the same as the individual supply curve of the dominant firm
   d. shows the sum of the quantities of output supplied by all firms in the market at each price
   e. is irrelevant to potential entrants

13. Perfectly competitive firms can earn an economic profit in the short run because
   a. entry of new firms does not occur instantaneously
   b. competitive firms always invest more to earn more
   c. competitive firms never suffer an economic loss
   d. price always equals average variable cost
   e. price always equals average total cost

14. In the short run in perfect competition,
   a. each firm can sell whatever quantity it wishes to sell at the market price
   b. the market demand curve cannot shift
   c. new firms will enter the market if existing firms are earning economic profits
   d. new firms will enter the market if existing firms are earning normal profits
   e. existing firms will exit the market if they are suffering losses

15. Tommy's Tires operates in a perfectly competitive market. If tires sell for $50 each and ATC = $40 per tire at the profit-maximizing output level, then in the long run
   a. more firms will enter the market
   b. some firms will exit from the market
   c. the equilibrium price per tire will rise
   d. average total costs must fall
   e. marginal revenue will rise

16. Suppose the market price exceeds the typical perfectly competitive firm's short-run average total cost. What will happen to this market in the long run?
   a. The market demand curve will shift to the left as firms exit.
   b. The market supply curve will shift to the left as firms exit.
   c. The market demand curve will shift to the right as firms enter.
   d. Both the market demand and supply curves will shift to the left as firms exit.
   e. The market supply curve will shift to the right as firms enter.

17. In the long run, the movement of firms into and out of a perfectly competitive market will influence price by
   a. shifting the market demand curve
   b. shifting the market supply curve
   c. making the market supply curve less elastic
   d. making the market demand curve less elastic
   e. shifting the supply curve for each firm in the market
18. In a perfectly competitive market, a given short-run equilibrium cannot persist into the long run unless the firms are earning (suffering):
   a. above-normal profits
   b. below-normal profits
   c. economic losses
   d. economic profits
   e. just enough profit to cover all the owners' opportunity costs

19. In a perfectly competitive market, firms will exit in the:
   a. short run if they are suffering economic losses
   b. short run if they are earning below-normal profit
   c. short run if price exceeds average total cost
   d. long run if they are earning above-normal profit
   e. long run if they are suffering economic losses

20. In a perfectly competitive market, the price is currently above the minimum of each firm's long-run average total cost curve. Which of the following statements is correct?
   a. The long-run average total cost curve will shift upward in the long run.
   b. Firms will alter their plant size in the short run.
   c. The market price will fall in the long run.
   d. The firms must be producing at an output level where price exceeds short-run marginal cost.
   e. The firms will earn above-normal profit in the long run.

21. In a perfectly competitive market, the driving force behind long-run economic change is:
   a. government intervention
   b. employment
   c. economic profit or loss
   d. management
   e. altruism

22. In the long-run equilibrium for a perfectly competitive market, firms will choose the level of output where:
   a. profit is minimized
   b. short-run average total cost is minimized
   c. long-run average total cost is minimized
   d. short-run profit is maximized
   e. long-run average fixed cost is minimized

23. When a perfectly competitive market is in long-run equilibrium, each firm's price equals:
   a. both marginal cost and average total cost
   b. marginal cost, but exceeds average total cost
   c. marginal cost, but falls below average total cost
   d. average total cost, but exceeds marginal cost
   e. average total cost, but falls below marginal cost.

24. In a long-run perfectly competitive equilibrium,:
   a. the typical firm will earn an economic profit
   b. price exceeds marginal cost
   c. barriers to entry are established by entrenched firms
   d. the typical firm will earn a normal profit
   e. marginal cost exceeds average cost
25. In long-run equilibrium, every perfectly competitive firm
   a. maximizes its output
   b. chooses its plant size and output level to operate at minimum long-run marginal cost
   c. chooses its plant size and output level to operate at minimum long-run average total cost
   d. earns an economic profit
   e. suffers an economic loss
Practice Questions Week 8 Day 2
Answer Section

MULTIPLE CHOICE

1. A
2. D
3. D
4. B
5. B
6. D
7. A
8. E
9. C
10. C
11. C
12. D
13. A
14. A
15. A
16. E
17. B
18. E
19. E
20. C
21. C
22. C
23. A
24. D
25. C
Practice Questions Week 8 Days 3 & 4

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. A monopoly is a
   a. large number of producers each with a small share of the total market output
   b. single seller of a product that typically has no close substitutes
   c. small group of producers with similar products
   d. single buyer of an input into production
   e. group of firms with incentives to cooperate

2. A monopoly is a
   a. price taker
   b. single buyer of an input into production
   c. firm facing a perfectly elastic demand curve
   d. group of firms controlling the price and output for an industry
   e. price setter

3. A monopoly exists because of
   a. barriers to entry
   b. the large number of buyers and sellers
   c. the absence of barriers to entry
   d. collusion among the dominant firms
   e. the absence of exclusive government franchises

4. Which of the following is a potential barrier to entry?
   a. a low market price
   b. a high market price
   c. a standardized product
   d. economies of scale
   e. diminishing marginal productivity

5. A natural monopoly is based on
   a. diseconomies of scale
   b. diseconomies of scope
   c. external diseconomies
   d. economic freedom
   e. economies of scale

6. Economies of scale act as a barrier to entry because
   a. one large firm can supply the market at a higher average cost than many small firms could
   b. firms are not allowed by law to sell output below average cost
   c. large firms can hire inputs at a higher price than smaller firms could
   d. firms will not compete with a larger firm when there are differences in marginal cost
   e. one large firm can produce the market output at a lower average cost than many small firms
7. Which of the following goods would be most likely to be produced by a monopoly?
   a. Lotso-Sugar brand cereal
   b. Pepsi
   c. margarine
   d. electricity
   e. Ford automobiles

8. Suppose that a monopoly is earning economic profits in the short run. As a result,
   a. no new firms will enter the industry because of barriers to entry
   b. the monopolist will increase its price and lower its output
   c. the market supply curve will shift to the right
   d. profits will fall as new firms enter the market
   e. the market demand curve will shift to the left

9. Patents and copyrights are designed to
   a. eliminate above-normal profit in the short run
   b. move monopoly prices closer to prices that would occur under perfect competition
   c. prevent the capitalization of monopoly profit
   d. allow a period of above-normal profit to encourage innovation
   e. limit a monopoly's rent-seeking activities

10. The U.S. Postal Service
    a. has its monopoly status guaranteed by government franchise
    b. enforces copyrights and patents in the United States.
    c. owes its monopoly status to network externalities
    d. is a monopoly because it controls a scarce resource
    e. has a horizontal average total cost curve

11. The demand curve faced by a monopolist is
    a. perfectly elastic
    b. perfectly inelastic
    c. undefined
    d. the market demand curve
    e. the sum of the demand curves for perfectly competitive firms in a similar industry

12. Absent an ability to price discriminate, if a monopoly wants to sell more output, it must
    a. raise its price
    b. lower its price
    c. increase barriers to entry
    d. obtain government permission
    e. negate its patent protection

13. The demand curve that a monopolist faces
    a. is steeper than the market demand curve
    b. is the same as its marginal revenue curve
    c. is controlled by the government
    d. does not exist
    e. is the same as the market demand curve

14. The monopoly's marginal revenue curve
    a. is equivalent to its demand curve
    b. lies below its demand curve
    c. is perfectly elastic
    d. is perfectly inelastic
    e. has a positive slope
15. To maximize profit, a monopolist should produce the level of output at which
   a. price equals marginal cost
   b. price equals marginal revenue and marginal cost
   c. price equals marginal revenue
   d. marginal revenue equals marginal cost
   e. price equals average total cost

16. As a price setter, a monopoly
   a. can establish any price it wants for each output level
   b. can sell any output level it wants for each price
   c. is constrained by the market demand curve
   d. can use its pricing policy to shift the market demand curve
   e. faces an upward-sloping demand curve for its output

Figure 9-2

17. For the monopolist in Figure 9-2, which point corresponds to the profit-maximizing level of output?
   a. A
   b. B
   c. C
   d. D
   e. E
18. **Figure 9-4** depicts a monopoly that does not price discriminate. What are the equilibrium price and output?
   a. there is no equilibrium under monopoly
   b. P’ and Q’
   c. P and Q
   d. P’ and Q
   e. P and Q’

19. Monopolies charge
   a. the highest possible price
   b. a price determined by cost
   c. the price consistent with the output level where total revenue equals total cost
   d. the price associated with the quantity at which marginal revenue equals marginal cost
   e. the price at which total revenue equals average total cost
20. Figure 9-5 shows the cost and demand curves facing a monopolist whose marginal cost is constant. The firm has no fixed costs. If it does not discriminate, it will produce
a. Q** units and charge price P'
b. Q* units and charge price P
c. between Q* and Q** units while charging a price between P and P'
d. between 0 and Q* units while charging price P
e. Q* units and charge price P'
21. The profit-maximizing monopoly in Figure 9-6 does not price discriminate. It will produce
   a. 0 units
   b. 225 units
   c. 350 units
   d. 500 units
   e. none of these

22. The profit-maximizing monopoly in Figure 9-6 will charge a single price of
   a. $2.50
   b. $3.50
   c. $5.00
   d. $5.75
   e. $3.00

23. A monopolist earns a profit whenever
   a. total revenue equals total cost
   b. marginal revenue equals marginal cost
   c. price exceeds average variable cost
   d. marginal revenue is positive
   e. price exceeds average total cost
24. What is the total profit (or loss) for the (single-price) monopolist shown in Figure 9-9?
   a. profit of cbgf
   b. loss of fcbg
   c. profit of egbd
   d. loss of edcf
   e. profit of edcf

25. In the short run, a monopoly should shut down whenever
   a. marginal revenue exceeds marginal cost
   b. price is less than average total cost
   c. total revenue is less than total cost
   d. price exceeds the ratio of marginal cost to average cost at the optimal output
   e. price is less than average variable cost everywhere
Practice Questions Week 8 Days 3 & 4
Answer Section

MULTIPLE CHOICE

1. B
2. E
3. A
4. D
5. E
6. E
7. D
8. A
9. D
10. A
11. D
12. B
13. E
14. B
15. D
16. C
17. C
18. B
19. D
20. B
21. C
22. C
23. E
24. E
25. E