Practice for Chapter 12

1) Which of the following is *not* a characteristic of a perfectly competitive market structure?
A) There are a very large number of firms that are small compared to the market.
B) All firms sell identical products.
C) There are no restrictions to entry by new firms.
D) There are restrictions on exit of firms.

2) Which of the following is the best example of a perfectly competitive industry?
A) wheat production B) steel production
C) electricity production D) airplane production

3) The price of a seller's product in perfect competition is determined by
A) the individual seller. B) a few of the sellers.
C) market demand and market supply. D) the individual demander.

4) Both buyers and sellers are price takers in a perfectly competitive market because
A) the price is determined by government intervention and dictated to buyers and sellers.
B) each buyer and seller knows it is illegal to conspire to affect price.
C) both buyers and sellers in a perfectly competitive market are concerned for the welfare of others.
D) each buyer and seller is too small relative to others to independently affect the market price.

5) An individual seller in perfect competition will not sell at a price lower than the market price because
A) demand for the product will exceed supply.
B) the seller would start a price war.
C) the seller can sell any quantity she wants at the prevailing market price.
D) demand is perfectly inelastic.

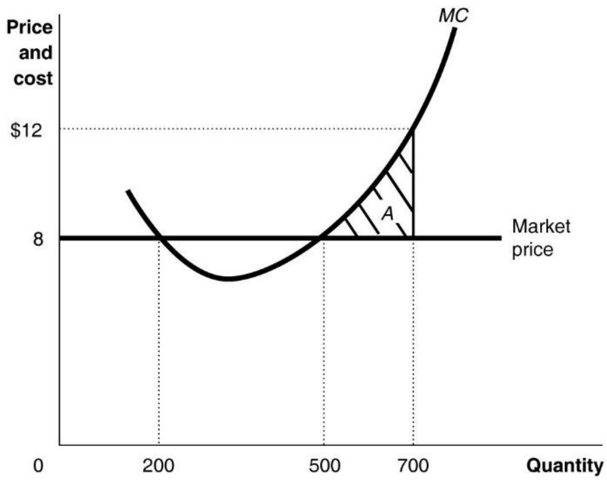
6) A perfectly competitive firm faces a demand curve that is
A) horizontal. B) vertical.
C) perpendicular to the quantity axis. D) perfectly inelastic.

7) If a perfectly competitive firm raises the price it charges to consumers, which of the following is the most likely outcome?
A) The firm's revenue will not change because some consumers will refuse to pay the higher price.
B) The firm will not sell any output.
C) The firm's total revenue will increase only if the demand for its product is inelastic.
D) The firm's total revenue will increase only if the demand for its product is elastic.

8) Which of the following describes the difference between the market demand curve for a perfectly competitive industry and the demand curve for a firm in this industry?
A) The market demand curve is a horizontal line; the firm's demand curve is downward sloping.
B) The market demand curve is downward sloping; the firm's demand curve is a vertical line.
C) The market demand curve can not have a constant slope; the firm's demand curve has a slope equal to zero.
D) The market demand curve is downward sloping; the firm's demand curve is a horizontal line.

9) Suppose the equilibrium price in a perfectly competitive industry is $10 and a firm in the industry charges $12. Which of the following will happen?
A) The firm will sell more output than its competitors. B) The firm's revenue will increase.
C) The firm will not sell any output. D) The firm's profits will increase.

Figure 1



10) ***Refer to Figure 1.*** If the firm is producing 700 units
A) it is making a profit. B) it is making a loss.
C) it should cut back its output to maximize profit.
D) it should increase its output to maximize profit.

11) ***Refer to Figure 1.*** If the firm is producing 200 units
A) it breaks even. B) it is making a loss.
C) it should cut back its output to maximize profit.
D) it should increase its output to maximize profit.

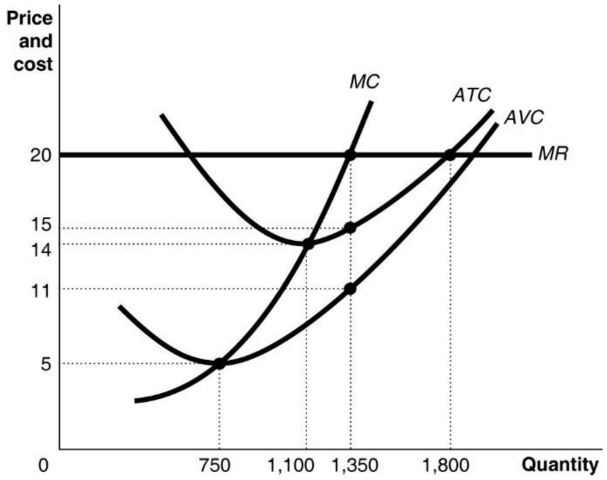
12) ***Refer to Figure 1.*** If the firm is producing 500 units
A) it is making a profit. B) it is making a loss.
C) it should maintain its output to maximize profit.

D) it should increase its output to maximize profit.

13) ***Refer to Figure 1.*** If the firm is producing 500 units, what is the amount of its profit or loss?
A) profit of $280
B) loss equivalent to the area *A*
C) profit equivalent to the area *A*
D) There is insufficient information to answer the question.

14) ***Refer to Figure 1.*** If the firm is charging a price of $12 per unit
A) it breaks even.
B) it is making a profit.
C) it is selling 700 units.
D) it is not selling any output.

Figure 2



15) ***Refer to Figure 2.*** If the market price is $20, what is the firm's profit-maximizing output?
A) 750 units
B) 1,100 units
C) 1,350 units
D) 1,800 units

16) ***Refer to Figure 2.*** If the market price is $20, what is the amount of the firm's profit?
A) $5,400
B) $6,750
C) $8,100
D) $16,200

17) ***Refer to Figure 2.*** The firm's manager suggests that the firm's goal should be to maximize average profit. In that case, what is the output level and what is the average profit that will achieve the manager's goal?
A) Q = 1,350 units, average profit = $5
B) Q = 1,100 units, average profit = $6
C) Q = 1,350 units, average profit = $9
D) Q = 1,800 units, average profit = $20

18) If a typical firm in a perfectly competitive industry is earning profits, then
A) all firms will continue to earn profits.

B) new firms will enter in the long run causing market supply to decrease, market price to rise, and profits to increase.

C) new firms will enter in the long run causing market supply to increase, market price to fall, and profits to decrease.

D) the number of firms in the industry will remain constant in the long run.

19) If a typical firm in a perfectly competitive industry is incurring losses, then

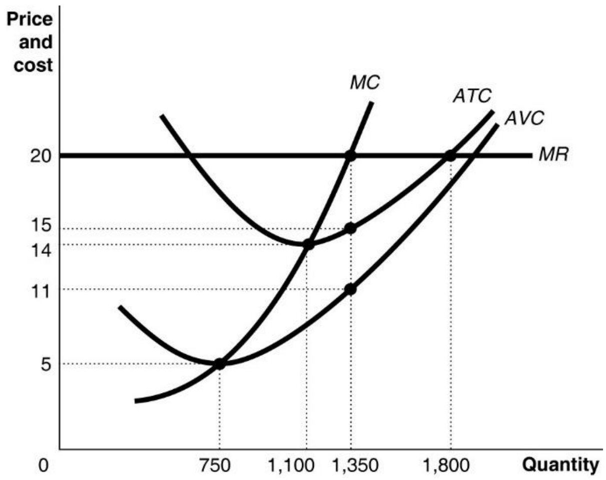
A) all firms will continue to lose money.

B) some firms will exit in the long run, causing market supply to decrease and market price to rise increasing profits for the remaining firms.

C) some firms will exit in the long run, causing market supply to decrease and market price to fall increasing losses for the remaining firms.

D) some firms will enter in the long run, causing market supply to increase and market price to rise increasing profit for all firms.

Figure 3



20) ***Refer to Figure 3.*** Suppose the prevailing price is $20 and the firm is currently producing 1,350 units. In the long-run equilibrium

A) there will be fewer firms in the industry and total industry output decreases.

B) there will be more firms in the industry and total industry output increases.

C) there will be fewer firms in the industry but total industry output increases.

D) there will be more firms in the industry and total industry output remains constant.