

Exam

Name \_\_\_\_\_

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) A few sellers may behave if they operate in a perfectly competitive market is the market demand is: 1) \_\_\_\_\_  
A) unitary elastic. B) very elastic.  
C) highly inelastic. D) composed of many small buyers.
- 2) If any of the assumptions of perfect competition are violated, 2) \_\_\_\_\_  
A) there may still be enough competition in the industry to make the model of perfect competition usable.  
B) one must use the monopoly model instead.  
C) graphs with downward-sloping demand curves cannot be used to study the firm.  
D) graphs with flat demand curves cannot be used to study the firm.  
E) supply-and-demand analysis cannot be used to study the industry.
- 3) Marginal revenue, graphically, is 3) \_\_\_\_\_  
A) the slope of a line from the origin to a point on the total revenue curve.  
B) the horizontal intercept of a line tangent to the total revenue curve at a given point.  
C) the vertical intercept of a line tangent to the total revenue curve at a given point.  
D) the slope of a line from the origin to the end of the total revenue curve.  
E) the slope of the total revenue curve at a given point.
- 4) Marginal profit is negative when: 4) \_\_\_\_\_  
A) output exceeds the profit-maximizing level.  
B) marginal revenue is negative.  
C) profit is negative.  
D) total cost exceeds total revenue.
- 5) Suppose the state legislature in your state imposes a state licensing fee of \$100 per year to be paid by all firms that file state tax revenue reports. This new business tax: 5) \_\_\_\_\_  
A) increases marginal revenue.  
B) increases marginal cost.  
C) decreases marginal cost.  
D) decreases marginal revenue.  
E) none of the above

Consider the following diagram where a perfectly competitive firm faces a price of \$40.

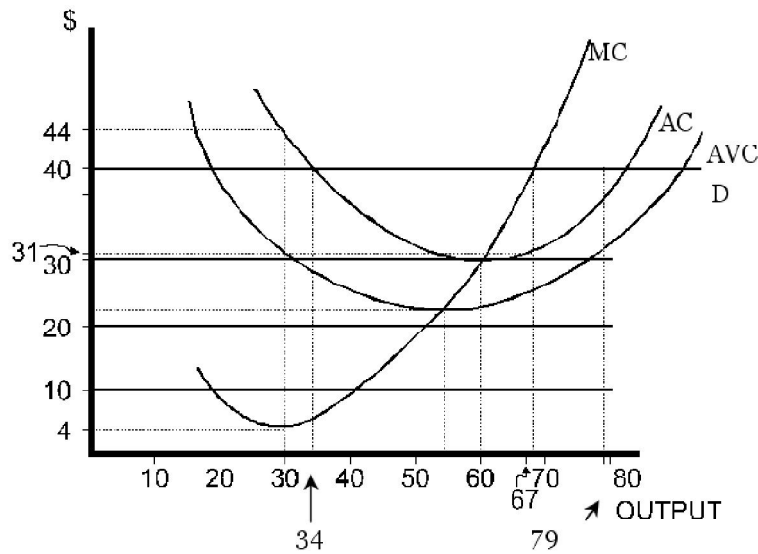


Figure 8.1

- 6) Refer to Figure 8.1. The firm earns zero profit at what output? 6) \_\_\_\_\_
- A) 60.
  - B) 0.
  - C) 67.
  - D) 34 and 79.
  - E) 54.
- 7) If a graph of a perfectly competitive firm shows that the  $MR = MC$  point occurs where  $MR$  is above  $AVC$  but below  $ATC$ , 7) \_\_\_\_\_
- A) the firm is covering explicit, but not implicit, costs.
  - B) the firm is earning negative profit, but will continue to produce where  $MR = MC$  in the short run.
  - C) the firm can cover all of fixed costs but only a portion of variable costs.
  - D) the firm is earning negative profit, and will shut down rather than produce that level of output.
  - E) the firm is still earning positive profit, as long as variable costs are covered.
- 8) Bette's Breakfast, a perfectly competitive eatery, sells its "Breakfast Special" (the only item on the menu) for \$5.00. The costs of waiters, cooks, power, food etc. average out to \$3.95 per meal; the costs of the lease, insurance and other such expenses average out to \$1.25 per meal. Bette should 8) \_\_\_\_\_
- A) continue producing in the short run, but plan to go out of business in the long run.
  - B) lower her output.
  - C) continue producing in the short and long run.
  - D) close her doors immediately.
  - E) raise her prices above the perfectly competitive level.

- 9) If price is between AVC and ATC, the best and most practical thing for a perfectly competitive firm to do is 9) \_\_\_\_\_
- A) lower prices to gain revenue from extra volume.
  - B) shut down immediately and liquidate the business.
  - C) continue operating, but plan to go out of business.
  - D) raise prices.
  - E) shut down immediately, but not liquidate the business.
- 10) In the short run, a perfectly competitive profit maximizing firm that has not shut down 10) \_\_\_\_\_
- A) is operating on the downward-sloping portion of its AVC curve.
  - B) is operating at the minimum of its AVC curve.
  - C) is not operating on its AVC curve.
  - D) can be at any point on its AVC curve.
  - E) is operating on the upward-sloping portion of its AVC curve.
- 11) In the short run, a perfectly competitive firm earning negative economic profit is 11) \_\_\_\_\_
- A) on the upward-sloping portion of its ATC curve.
  - B) at the minimum of its ATC curve.
  - C) above its ATC curve.
  - D) on the downward-sloping portion of its ATC curve.
- 12) In the short run, a perfectly competitive firm earning negative economic profit 12) \_\_\_\_\_
- A) is at the minimum of its AVC.
  - B) is on the downward-sloping portion of its AVC.
  - C) is on the upward-sloping portion of its AVC.
  - D) is not operating on its AVC.
  - E) can be at any point on its AVC.