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

1) Which of the following is NOT an assumption of perfect competition?
   A) each firm sells an identical product       B) many buyers
   C) many firms                               D) restricted entry into the industry

2) In perfect competition
   A) demand for the good or service is small relative to the minimum efficient scale of a single producer.
   B) demand for the good or service can be small relative to the minimum efficient scale of a single producer as long as the goods or services are not identical.
   C) the size of demand for the good or service relative to the minimum efficient scale of a single producer does not affect competition.
   D) demand for the good or service is large relative to the minimum efficient scale of a single producer.

3) The difference between a firm’s total revenue and its total opportunity cost is the firm’s
   A) normal profit.       B) marginal revenue.
   C) economic profit.     D) marginal profit.

4) In a perfectly competitive market,
   A) each firm sets its own price so that it is different from its competitors.
   B) each firm takes the good’s price as given to it by the market.
   C) an economic profit is certain.
   D) consumers are persuaded by advertising.

5) The firm’s goal is to
   A) maximize its normal profit.       B) maximize its economic profit.
   C) maximize its industry’s revenue.  D) maximize its total revenue.

6) For a perfectly competitive firm, price is the same as
   A) total revenue.       B) average variable cost.
   C) marginal revenue.    D) Both answers A and B are correct.

7) Marginal revenue is defined as
   A) total revenue divided by the total quantity sold.
   B) the change in total revenue that results from a one-unit increase in the quantity sold.
   C) the value of a firm’s sales.
   D) the total revenue from the total amount the firm sells.

8) Which of the following statement is NOT a short-run decision?
   A) whether to enter or exit an industry       B) what quantity to produce
   C) whether to produce or shut down           D) Both answers A and C are correct.

9) If marginal revenue exceeds marginal cost, to increase its profit the firm will
   A) increase its output.       B) keep its output the same.
   C) shut down.                D) decrease its output.
10) Bob’s Lawn Care Services is a perfectly competitive firm that currently mows 22 lawns a week. Bob’s short-run marginal cost is higher than the price he charges and increasing. Bob will increase his profit if he
A) charges a lower price. 
B) moves more than 22 lawns a week.
C) moves fewer than 22 lawns a week. 
D) charges a higher price.

11) The figure above depicts the marginal revenue and costs of a perfectly competitive firm. The firm’s profit is maximized when the firm produces
A) 170 units of output. 
B) 130 units of output. 
C) 90 units of output. 
D) 210 units of output.

12) The figure above depicts the marginal revenue and costs of a perfectly competitive firm. When the firm produces 170 units,
A) total revenue equals total cost.
B) total revenue is less than total cost.
C) marginal revenue equals marginal cost.
D) marginal cost is less than marginal revenue.

13) The figure above depicts the marginal revenue and costs of a perfectly competitive firm. The marginal cost of the last unit produced
A) $16 per unit. 
B) $4 per unit. 
C) $8 per unit. 
D) None of the above answers is correct.

14) In the short run, a perfectly competitive firm will earn an economic profit as long as
A) \( P > AVC \).
B) it maximizes its profit. 
C) \( P > AFC \). 
D) \( P > ATC \).

15) For a perfectly competitive firm, the shutdown point is
A) the price at which economic profit is zero.
B) the price at which total opportunity cost is zero.
C) the level of output at which price equals minimum average variable cost.
D) the level of output at which price equals minimum average total cost.
16) A firm’s shutdown point is the output and price at which the firm just covers its  
   A) marginal cost.            B) total variable cost.  
   C) total cost.              D) total fixed cost. 

<table>
<thead>
<tr>
<th>Quantity (pizzas per hour)</th>
<th>Total cost, TC (dollars per hour)</th>
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<tbody>
<tr>
<td>0</td>
<td>10</td>
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<tr>
<td>1</td>
<td>18</td>
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<td>2</td>
<td>30</td>
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<tr>
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<td>5</td>
<td>98</td>
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<tr>
<td>6</td>
<td>120</td>
</tr>
</tbody>
</table>

17) Giuseppe’s Pizza is a perfectly competitive firm. The firm’s costs are shown in the table above.  
   If the market price is $20, how much economic profit does the firm make?  
   A) $12            B) -$20            C) $0            D) -$10 

18) Giuseppe’s Pizza is a perfectly competitive firm. The firm’s costs are shown in the table above.  
   If the market price is $15, the firm will  
   A) stay in the industry in the long run.  
   B) shut down.  
   C) make an economic profit.  
   D) leave the industry in the long run. 

19) In the short run, a perfectly competitive firm’s economic profits  
   A) must be positive.  
   B) must be negative, that is the firm must incur an economic loss.  
   C) might be positive, negative (an economic loss), or zero (a normal profit).  
   D) must equal zero, that is the firm must earn a normal profit. 

20) A firm’s short-run supply curve is the same as  
   A) that portion of its marginal cost curve that lies above average fixed cost.  
   B) that portion of its marginal cost curve that lies above average total cost.  
   C) its entire marginal cost curve.  
   D) that portion of its marginal cost curve that lies above average variable cost. 

21) In the short run, an increase in demand for a product that is sold in a perfectly competitive market will  
   A) cause more firms to shut down.  
   B) increase the number of firms in the market.  
   C) increase the profits of existing firms in the market.  
   D) have no effect on the price.
22) In the long run, for a perfectly competitive market,
   A) if economic profit is equal to zero then there is no entry or exit of firms into or out of the market.
   B) if economic profit is greater than zero then some firms will enter the market and the market supply curve will shift rightward.
   C) if economic profit is less than zero then some firms will exit the market and the industry supply curve will shift leftward.
   D) All of the above answers are correct.

23) In the long-run equilibrium in a perfectly competitive industry, the economic profit of the firms is
   A) increasing. B) negative. C) zero. D) positive.

24) External economies and diseconomies explain the shape of
   A) the supply curve of the firm.
   B) the long-run average total cost curve of a firm.
   C) the short-run average total cost curve of a firm.
   D) the long-run industry supply curve.

25) If a perfectly competitive industry has external diseconomies, then the long-run supply curve is
   A) perfectly inelastic. B) positively sloped.
   C) perfectly elastic. D) negatively sloped.
Answer Key
Testname: MICRO QUIZ 5

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