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

1) Perfect competition exists in an industry if
   A) the firm is always at the break-even point where it is earning only a normal profit.
   B) the firm chooses price to maximize profit.
   C) there are many firms producing a similar product, each of which may have unique features.
   D) there are many firms producing an identical product.

2) If the minimum efficient scale of a firm is small relative to the demand for the good, then
   A) firms have a minimum efficiency and could do better by producing more.
   B) there will be no economic profits for any small firms, so no new firms will enter.
   C) many small firms can enter the market.
   D) several large firms will enter the market thereby reducing competition.

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

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

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

6) A perfectly competitive firm’s marginal revenue
   A) is less than the market price of its product.
   B) decreases as the firm produces more output.
   C) increases as the firm produces more output.
   D) equals the market price of its product.
7) Which of the following statement is NOT a short-run decision?
   A) whether to produce or shut down  
   B) whether to enter or exit an industry  
   C) what quantity to produce  
   D) Both answers A and C are correct.

8) A firm is producing the profit-maximizing amount of output when it is producing where
   A) its MC curve crosses its ATC curve.  
   B) its MC curve crosses its MR curve.  
   C) its MC curve crosses its AVC curve.  
   D) its MC curve crosses its TR curve.

9) As long as it does not shut down, a perfectly competitive firm earns the maximum profit possible as long as it operates so that
   A) its marginal revenue equals its marginal cost.  
   B) market demand is inelastic.  
   C) its price exceeds its marginal revenue.  
   D) its price exceeds its average total cost.

<table>
<thead>
<tr>
<th>Quantity (pounds of cookies)</th>
<th>Total revenue (dollars)</th>
<th>Total cost, (dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>2</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>3</td>
<td>45</td>
<td>39</td>
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<tr>
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<td>60</td>
<td>58</td>
</tr>
<tr>
<td>5</td>
<td>75</td>
<td>81</td>
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</tbody>
</table>

10) The table above gives the total revenue and total cost for a perfectly competitive firm producing chocolate chip cookies. If the firm increases its output from 2 pounds of cookies to 3 pounds, the marginal revenue is ________ per pound of cookies.
   A) $11  
   B) $45  
   C) $30  
   D) $15

11) The table above gives the total revenue and total cost for a perfectly competitive firm producing chocolate chip cookies. If the firm increases its output from 2 pounds of cookies to 3 pounds, the marginal cost is ________ per pound of cookies.
   A) $39  
   B) $24  
   C) $15  
   D) $11

12) The table above gives the total revenue and total cost for a perfectly competitive firm producing chocolate chip cookies. If the firm is producing 1 pound of cookies, to maximize its profit it will
   A) shut down.  
   B) increase its output.  
   C) continue producing 1 pound of cookies.  
   D) decrease its output.
13) The table above gives the total revenue and total cost for a perfectly competitive firm producing chocolate chip cookies. If the firm is producing 4 pounds of cookies, to maximize its profit it will
   A) continue producing 4 pounds of cookies.
   B) increase its output.
   C) decrease its output.
   D) shut down.

14) 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) 210 units of output.
   C) 90 units of output.
   D) 130 units of output.

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

16) The figure above depicts the marginal revenue and costs of a perfectly competitive firm. When 170 units are produced, the
   A) firm is earning an economic profit.
   B) firm’s total costs are less than $2,720.
   C) firm has total revenue of $2,720.
   D) All of the above are true.
<table>
<thead>
<tr>
<th>Quantity</th>
<th>Total fixed cost, TFC (dollars)</th>
<th>Total variable cost, TVC (dollars)</th>
</tr>
</thead>
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<td>1250</td>
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</tbody>
</table>

17) The table above shows some of the costs for a perfectly competitive firm. The firm will produce 9 units of output if the price per unit is

18) The table above shows some of the costs for a perfectly competitive firm. If the price is $160 per unit, how many units of output will the firm produce?
A) 9  B) more than 10  C) 10  D) 8

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

20) A firm's shutdown point is the output and price at which the firm just covers its
A) total fixed cost.  B) marginal cost.  C) total cost.  D) total variable cost.

21) In the short run, a perfectly competitive firm **NEVER**
A) produces where \( MR = MC \).  B) incurs a loss greater than its total fixed costs.  C) earns a normal profit.  D) earns an economic profit.

22) In the short run, a perfectly competitive firm's economic profits
A) must be negative, that is the firm must incur an economic loss.  B) must be positive.  C) must equal zero, that is the firm must earn a normal profit.  D) might be positive, negative (an economic loss), or zero (a normal profit).
23) A perfectly competitive firm's short-run supply curve is
   A) its demand curve.
   B) its marginal revenue curve above the shutdown point.
   C) its marginal cost curve above the shutdown point.
   D) horizontal at the going price.

24) Suppose firms in a perfectly competitive industry are earning economic profits. As a result,
   I. new firms enter the industry.
   II. the market price falls.
   III. the economic profits of the existing firms eventually decreases.
   A) I, II and III
   B) I and II
   C) I and III
   D) II and III

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

1) D
   Topic: Perfect Competition
2) C
   Topic: How Perfect Competition Arises
3) C
   Topic: Economic Profit
4) C
   Topic: Price Takers
5) B
   Topic: Economic Profit and Revenue
6) D
   Topic: Marginal Revenue
7) B
   Topic: Short-Run Decisions
8) B
   Topic: Profit-Maximizing Output
9) A
   Topic: Profit-Maximizing Output
10) D
    Topic: Marginal Revenue
11) C
    Topic: Marginal Cost
12) B
    Topic: Marginal Analysis
13) C
    Topic: Marginal Analysis
14) A
    Topic: Marginal Analysis
15) B
    Topic: Marginal Analysis
16) D
    Topic: Economic Profits and Economic Losses in the Short Run
17) A
    Topic: Marginal Analysis
18) D
    Topic: Marginal Analysis
19) C
    Topic: Economic Profits and Losses in the Short Run
20) D
    Topic: Shutdown Point
21) B
    Topic: Shutdown Point
22) D
    Topic: Economic Profits and Economic Losses in the Short Run
23) C
    Topic: The Firm’s Short-Run Supply Curve
24) A
    Topic: Long-Run Adjustments; Entry
25) C

Topic: External Economies and Diseconomies