Homework 7—Chapter 9

1) Which of the following is not an assumption of the theory of perfect competition?
A) There are many sellers and many buyers, none of which is large in relation to total sales or purchases.
B) Each firm produces and sells a differentiated product.
C) Buyers and sellers have all relevant information with respect to prices, product quality, and sources of supply.
D) There is easy entry and exit.

2) The theory of perfect competition generally assumes that
A) sellers act independently of other sellers, but buyers do not act independently of other buyers.
B) buyers act independently of other buyers, but sellers do not act independently of other sellers.
C) buyers and sellers act independently of other buyers and sellers.
D) neither buyers nor sellers act independently of other buyers and sellers.

3) In the theory of perfect competition,
A) sellers of the product are not influenced by other sellers and therefore have virtually complete control over the production and pricing of their product.
B) buyers of the product may have a preference as to whom they purchase from based on brand loyalty.
C) buyers and sellers of the product possess all relevant information about the product.
D) it can be quite expensive for a firm to enter this type of market, but once the firm is established, it will be a profitable venture.

4) A "price taker" is a firm that
A) does not have the ability to control the price of the product it sells.
B) does have the ability, although limited, to control the price of the product it sells.
C) can raise the price of the product (above the market price) and still sell some units of its product.
D) sells a differentiated product.
E) none of the above

5) The demand curve for a perfectly competitive firm
A) is downward sloping.
B) is upward sloping.
C) is perfectly horizontal.
D) is perfectly vertical.
E) may be downward or upward sloping, depending upon the type of product offered for sale.

6) The market demand curve in a perfectly competitive market is
A) downward sloping.
B) upward sloping.
C) perfectly horizontal.
D) perfectly vertical.
E) downward or upward sloping depending upon the type of product offered for sale.

7) For a perfectly competitive firm,
A) the marginal revenue curve and the demand curve coincide.
B) the marginal revenue curve and the marginal cost curve coincide.
C) the supply curve and the marginal revenue curve coincide.
D) the demand curve and the marginal cost curve coincide.
E) none of the above

8) For a perfectly competitive firm, profit is maximized at the level of output at which
A) P = MR = MC.
B) MR = AVC.
C) P = ATC.
D) P = MR = ATC.

9) If MR > MC, then
A) profits will be at their maximum.
B) the firm is producing too much of the good to be maximizing profits.
C) the firm can increase its profits or minimize its losses by increasing output.
D) the firm is necessarily incurring losses.

10) The perfectly competitive firm’s short-run supply curve is the
A) upward-sloping portion of its average total cost curve.
B) horizontal portion of its marginal revenue curve.
C) portion of its average variable cost curve that lies above the average fixed cost curve.
D) upward-sloping portion of its marginal cost curve.
E) portion of its marginal cost curve that lies above its average variable cost curve.

11) Which of the following conditions does not characterize long-run competitive equilibrium?
A) Economic profit is zero.
B) Price is greater than marginal cost.
C) No firm has an incentive to change its plant size.
D) No firm has an incentive to produce more or less output.
12) Why must profits be zero in long-run competitive equilibrium?
A) If profits are not zero, firms will enter or exit the industry.
B) If profits are not zero, firms will produce higher-quality goods.
C) If profits are not zero, marginal revenue will rise.
D) If profits are not zero, marginal cost will rise.

13) Resource allocative efficiency occurs when a firm
A) minimizes costs of production yet charges the highest possible price.
B) produces the quantity of output at which P exceeds ATC by the greatest amount.
C) produces the quantity of output at which P = MC.
D) produces the quantity of output at which P = ATC.
E) produces the quantity of output at which P = AVC.

14) In a perfectly competitive industry, there is a motive for __________ to advertise in order to induce a rightward shift of the demand curve.
A) the typical firm
B) the industry as a whole
C) both the typical firm and the industry as a whole
D) neither the typical firm nor the industry as a whole

15) In the short run, the best policy for a perfectly competitive firm is to
A) shut down its operation if price ever falls below average total cost.
B) produce and sell its product as long as price is greater than average variable cost.
C) shut down its operation if price falls between average total cost and average variable cost.
D) a and c
E) none of the above