Problem Set 7 - Chapter 11 Practice - Due in class on June 18, 2019
No need to be handed in

Name____

1) Economic profit is the difference between total revenue and 1) ________
A) the normal profit. B) the costs of resources bought in markets.
C) opportunity costs of production. D) interest costs of production.

2) As long as it does not shut down, a profit-maximizing perfectly competitive firm will 2) ________
A) produce so that marginal revenue equals marginal cost.
B) never set its price equal to its marginal revenue.
C) always earn an economic profit.
D) produce so that price equals average cost.

3) A firm's basic goal is best described as 3) ________
A) maximizing total revenue. B) minimizing total cost.
C) maximizing sales. D) maximizing profit.

4) In the long run, a perfectly competitive firm can 4) ________
A) only make an economic profit.
B) only incur an economic loss.
C) make an economic profit, make zero economic profit, or incur an economic loss.
D) only make zero economic profit.

5) Which of the following is NOT an assumption of perfect competition? 5) ________
A) The price each firm sets differs from the prices set by the other firms.
B) There are many buyers.
C) There are many firms, each selling an identical product.
D) There are no restrictions on entry into the market.

6) In perfect competition, the elasticity of demand for the product of a single firm is 6) ________
A) infinite because many other firms produce identical products.
B) infinite because the firm produces a unique product.
C) zero because the firm produces a unique product.
D) zero because many other firms produce identical products.

7) The costs incurred even when no output is produced in the short-run are called 7) ________
A) totaal variable costs. B) marginal costs.
C) total fixed costs. D) external costs.

8) If firms in a perfectly competitive industry are making zero economic profit, then 8) ________
A) new firms will enter the industry, because the new entrants would be ensured of doing as well as in their best foregone alternative.
B) some of those firms will leave the industry, because firms cannot persistently go without making economic profit.
C) there is no incentive for either entry or exit.
D) some of the firms will temporarily shut down.

9) Which of the following is a characteristic of a perfectly competitive market? 9) ________
A) selling a standardized product B) all of the above
C) no barriers to entry D) a large number of firms in a market

10) A common source of diseconomies of scale is the 10) ______
A) diminishing marginal returns to land.
B) diminishing marginal returns to capital.
C) diminishing marginal returns to labor.
D) growing complexity of management and organizational structure.

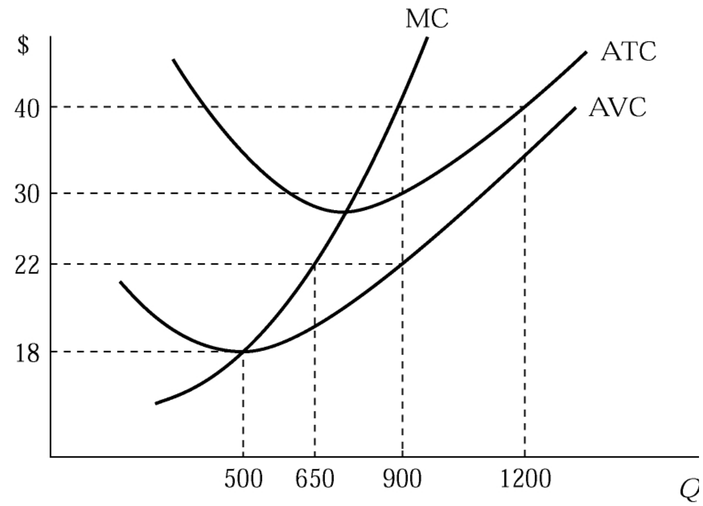


Figure 9.1

11) Figure 9.1 shows the cost structure of a firm in a perfectly competitive market. If the market price is $40, the firm's profit maximizing output level is: 11) ______
A) 500. B) 650. C) 900. D) 1,200.

12) Figure 9.1 shows the cost structure of a firm in a perfectly competitive market. If the market price is $40 and the firm is currently producing the profit maximizing output level, its total fixed cost is: 12) ______
A) $2,800. B) $5,200. C) $7,200. D) $9,000.

13) Figure 9.1 shows the cost structure of a firm in a perfectly competitive market. If the market price is $40 and the firm is currently producing the profit maximizing output level, the firm's profit is: 13) ______
A) $7,200. B) $9,000. C) $27,000. D) $36,000.

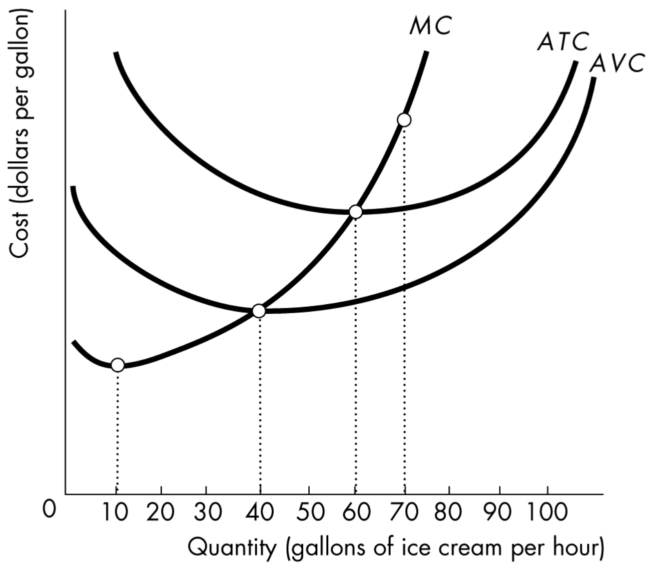
14) If, for a perfectly competitive firm, price exceeds the marginal cost of production, the firm should 14) ______
A) reduce its output.
B) increase its output.
C) lower the price.
D) keep output constant.

15) A perfectly competitive industry achieves allocative efficiency because 15) ______
A) goods and services are produced up to the point where the last unit provides a marginal benefit to consumers equal to the marginal cost of producing it.
B) goods and services are produced at the lowest possible cost.
C) it produces where market price equals marginal production cost.
D) firms carry production surpluses.

16) For the perfectly competitive firm: 16) ______
A) price always equals average variable cost.
B) price always equals marginal revenue.
C) price always equals average cost.
D) price always equals marginal cost.

17) If productive efficiency characterizes a market 17) _______

A) firms use the best technology available to produce the good.
B) the output is being produced at the lowest possible cost.
C) the marginal cost of production is minimized.
D) firms produce the goods that consumers desire most.



18) Based on the above figure, up to which level of output will Ike's Ice Cream Kitchen have increasing marginal returns? 18) _______

A) only at 0 gallons
B) up to 60 gallons
C) up to 40 gallons
D) up to 10 gallons

19) Some of the cost curves for Ike's Ice Cream Kitchen are given in the above figure. At which of the following levels of output will *AFC* be the lowest? 19) _______

A) at 40 gallons
B) at 70 gallons
C) at 0 gallons
D) at 10 gallons

20) Some of the cost curves for Ike's Ice Cream Kitchen are given in the above figure. At which of the following levels of output does the marginal product of labor equal the average product of labor? 20) _______

A) at 40 gallons
B) at 10 gallons
C) at 0 gallons
D) at 60 gallons

21) In the short run, if marginal product is at its maximum, then 21) _______

A) marginal cost is at its minimum.
B) average cost is at its minimum.
C) total cost is at its maximum.
D) average variable cost is at its minimum.

22) If a typical firm in a perfectly competitive industry is incurring losses, then 22) _______

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

Quantity (pizzas per hour)	Total cost, *TC* (dollars per hour)
0	10
1	18
2	30
3	48
4	70
5	98
6	120

23) Giuseppe's Pizza is a perfectly competitive firm. The firm's costs are shown in the table above. If the market price is $22, the firm will 23) _______
A) stay in the market in the long run.
B) incur an economic loss.
C) leave the market in the long run.
D) shut down.

24) As output increases 24) _______
A) average variable cost becomes smaller and smaller.
B) marginal cost increases continuously.
C) the difference between average total cost and average variable cost decreases.
D) the difference between average total cost and average variable cost becomes greater and greater.

25) In a perfectly competitive market, a permanent decrease in demand initially brings a lower price, economic 25) _______
A) profit, and exit from the market.
B) loss, and exit from the market.
C) profit, and entry into the market.
D) loss, and entry into the market.

26) For a perfectly competitive firm, which of the following is *not* true at profit maximization? 26) _______
A) Total revenue minus total cost is maximized.
B) Marginal revenue equals marginal cost.
C) Price equals marginal cost.
D) Market price is greater than marginal cost.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

27) A firm's goal is to maximize normal profit. 27) _______

28) In a perfect competitive industry, the firm is a price taker. 28) _______

29) Competition has driven the economic profits in the video rental business to zero. Surya Bacha, who owns a video rental business, would be better off leaving the industry for another alternative. 29) _______

30) Assume that the personal computer industry is perfectly competitive. The fact that the price of personal computers over the last decade has fallen despite increases in demand signifies that the industry is a decreasing-cost industry. 30) _______

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