Name________________________________

Optional make-up test- don't share answers- you may use your books, notes, videos for help.

AP Micro Perfect Competition Test

1. Suppose that price in a perfectly competitive industry decreases and it is now below minimum average total cost but remains above minimum average variable cost. Which of the following will occur in the short run?
(A) New firms will enter the industry.
(B) Firms will increase output so that marginal revenue equals the new price.
(C) Firms will produce the output at which average total cost is at a minimum.
(D) Firms will produce the output at which marginal cost equals the new price.
(E) Firms will not produce at all, since they will be unable to cover all their costs.

2. Which of the following will most likely lead to zero economic profits?
(A) Price floors
(B) Price discrimination
(C) External costs
(D) Free entry and exit of firms
(E) External benefits

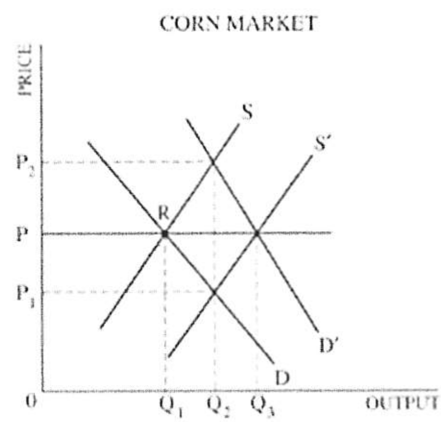
3. A firm is producing the allocatively efficient level of output if
(A) total revenue is equal to total cost
(B) marginal revenue is equal to marginal cost
(C) price is equal to average total cost
(D) price is equal to marginal cost
(E) price is equal to total cost

4 . The most profitable level of output for any firm operating in the short run is the level of output at which
(A) marginal revenue exceeds marginal cost by the highest amount
(B) marginal revenue equals marginal cost
(C) price exceeds average cost by the highest amount
(D) price equals average cost
(E) price equals marginal cost

5. If the perfectly competitive price is currently above minimum ATC, we can expect which of the following events in the long run?
A. Price rises as firms enter the industry.
B. Market equilibrium quantity rises as firms exit the industry.
C. Nothing. The industry is currently in long-run equilibrium.
D. Profits fall as the market price rises.
E. Price falls as firms enter the industry.

6. In perfect competition, a firm's marginal revenue equals its:
A. average revenue
B. total revenue
C. both (a) and (d).
D. price
E. supply curve

7 and 8 are based on the graph below showing the long-run adjustment of a constant-cost perfectly competitive industry.



7. Assume that the corn market is initially in long-run equilibrium at point R. What are the short-run and long-run prices of corn if more corn is used as a source of alternative energy?

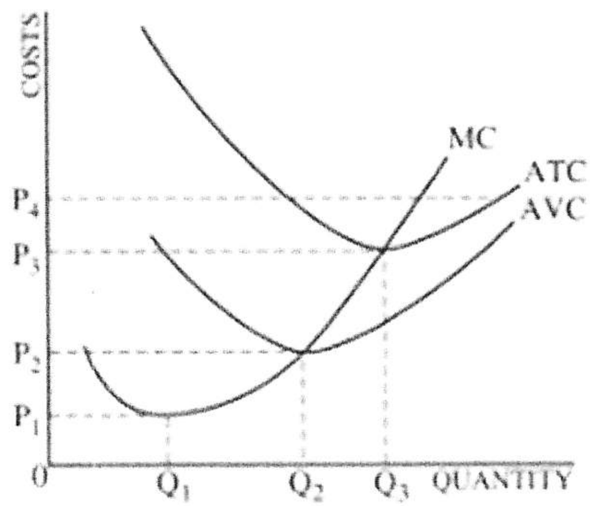
	Short Run	Long Run
(A)	P	P1
(B)	P	P2
(C)	P1	P2
(D)	P2	P1
(E)	P2	P

8. The long-run industry supply curve for corn is
(A) upward sloping
(B) downward sloping
(C) horizontal
(D) downward sloping at first and then upward sloping
(E) upward sloping at first and then downward sloping

9. All of the following are essential characteristics of a perfectly competitive industry EXCEPT:
(A) All products produced by the firms in the industry are homogeneous.
(B) All firms in the industry are price takers.
(C) All consumers and firms are completely aware of the prices at which transactions take place in the industry.
(D) There are barriers to entry into and exit from the industry.
(E) Price is equal to marginal revenue for every firm in the industry.

10. Which of the following indicates that a perfectly competitive firm is in long-run equilibrium?
(A) Price equals marginal cost.
(B) Price equals average revenue.
(C) Price equals marginal cost, which equals average total cost.
(D) Price equals average revenue, which equals marginal revenue.
(E) Price equals average fixed cost.

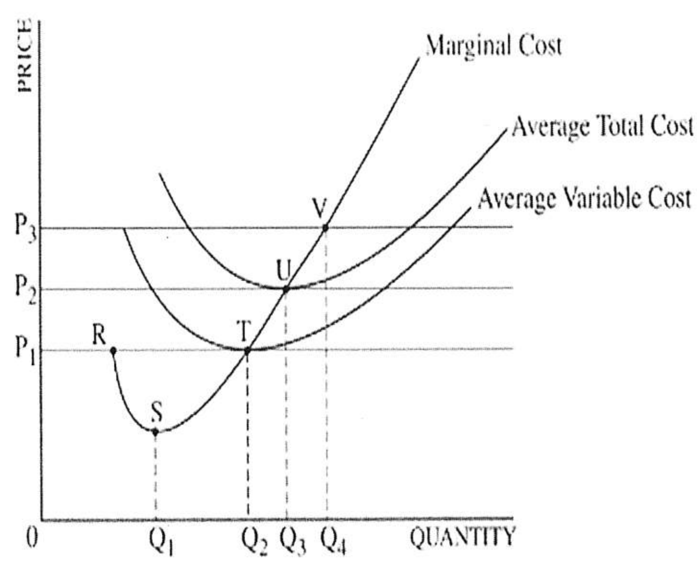
Questions 11 and 12 refer to the graph below for a representative firm in a perfectly competitive, constant-cost industry, which shows the firm's marginal cost (MC), average total cost (ATC) and average variable cost (AVC).



11. In the short run, the firm will realize an economic loss but will continue to produce if the price is
(A) below P1
(B) between P1 and P2
(C) below P2
(D) between P2 and P3
(E) between P3 and P4

12. Which of the following MUST be true in the long run?
(A) The equilibrium price will be P2, since that is where marginal cost equals minimum average variable cost.
(B) The equilibrium price will be above P3, since firms must make an economic profit to stay in business.
(C) If the price is above P2, new firms will enter the industry.
(D) If the price is above P3, new firms will enter the industry.
(E) If the price is above P4, firms will exit the industry.

13. Assume that, for a perfectly competitive firm, marginal cost equals average variable cost at $10, marginal cost equals average total cost at $15, and marginal revenue equals marginal cost at $12. On the basis of this information, the firm should
(A) close down in the short run
(B) operate in the short run, even though it will sustain a loss
(C) operate in the short run, because it will make an economic profit of $3 per unit
(D) operate in the long run, because it will make an economic profit of $3 per unit
(E) operate in the short run, but decrease output to decrease its cost



15. In the graph above, which of the following segments of the marginal cost curve lies entirely on the firm's short-run supply curve?
(A) TUV
(B) STU
(C) RSTU
(D) RSTUV
(E) RS

16. When a firm is producing zero output, total cost equals
A. Zero
B. Variable cost
C. Fixed cost
D. Average total cost
E. Marginal cost

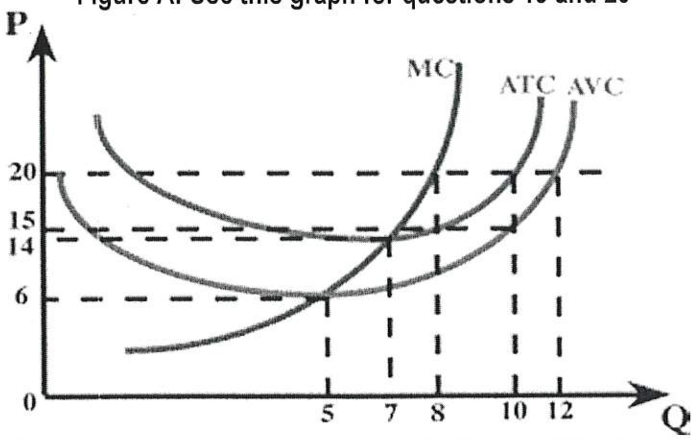
17. Which of the following statements is true?

I. Marginal cost is the change in total cost generated by one additional unit of output.
II. Marginal cost is the change in variable cost generated by one additional unit of output.
III. The marginal cost curve must cross the minimum of the average total cost curve.

A. I only
B. II only
C. III only
D. I and II
E. I, II and III

18. If we double our labor and wage costs and our output exactly doubles, what range are we in on our LRATC curve?
A. Diseconomies of scale
B. Constant returns to scale
C. Marginal cost
D. We are in the short run
E. Economies of scale

Figure A: Use this graph for questions 19 and 20



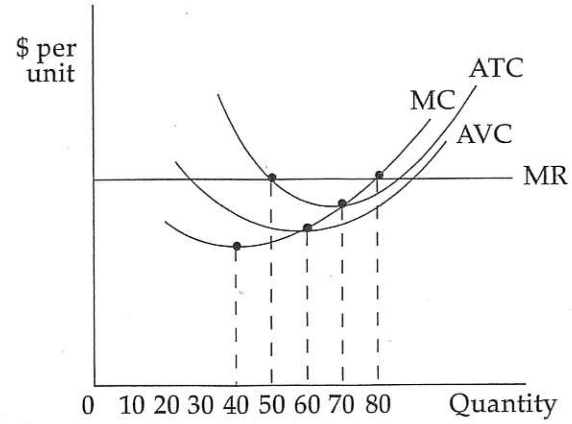
19. Consider the profit maximizing perfectly competitive firm shown in **Figure A.** If the market price is $20 the firm will produce:
   a. 5 units.
   b. 7 units.
   c. 8 units.
   d. 10 units.
   e. 12 units.

20. When the industry is in long run equilibrium the firm shown in **Figure A** will:
   a. produce an output of 10 units at a price of $20.
   b. produce an output of 5 units at a price of $10.
   c. produce an output of 8 units at a price of $15.
   d. produce an output of 7 units at a price of $14.
   e. produce an output of 12 units at a price of $20.

21. . Which of the following statements is true for a firm in a perfectly competitive industry?

(A) Total revenue increases and then decreases.
(B) Marginal revenue is decreasing.
(C) Average revenue is initially negative and then becomes positive.
(D) Marginal revenue is increasing.
(E) Average revenue equals marginal revenue.

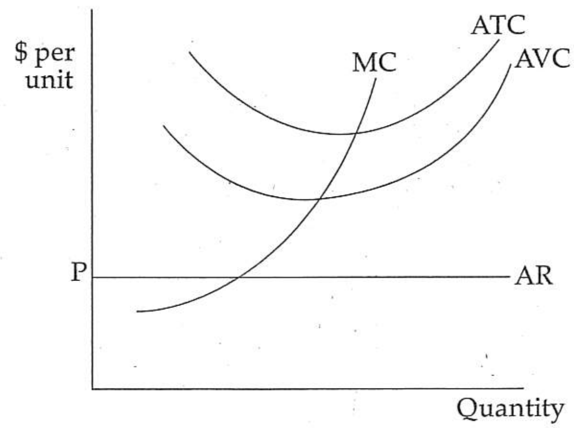
22.



. Given the cost and revenue curves in the figure above, how many units of output should be produced in order to maximize profit?

(A) 40
(B) 50
(C) 60
(D) 70
(E) 80

23.



.. A competitive firm facing the demand and cost curves in the figure above should

(A) shut down immediately
(B) produce where marginal cost equals marginal revenue
(C) stay open in the short run but not the long run
(D) stay open in the short run and long run
(E) produce where marginal cost equals average revenue

24. If prices fall below AVC, what should a firm decide to do?

(A) Differentiate products
(B) Raise prices
(C) Cut TFC
(D) Lay off workers
(E) Shut down

25. The profit-maximizing rule states that to maximize profits a firm should produce where

(A) MR = MC
(B) MR > MC
(C) MR < MC
(D) MB > MC
(E) MB = MC

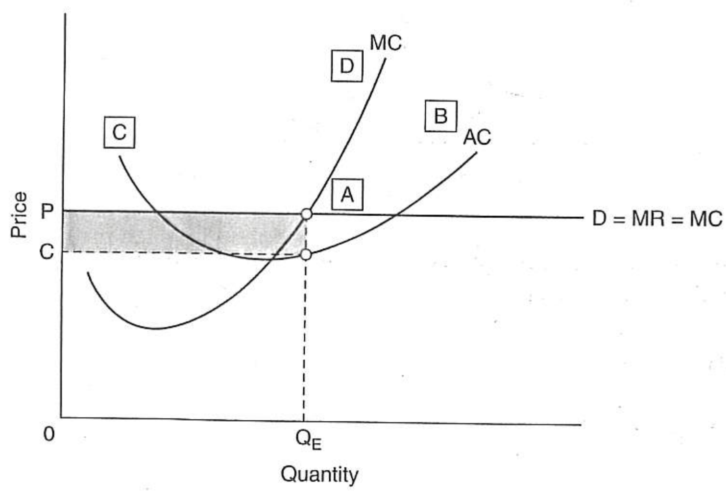
26. When there is zero incentive for more firms to enter a perfectly competitive market, it is said that the market has reached

(A) constant returns to scale
(B) economies of scale
(C) diseconomies of scale
(D) long-run equilibrium
(E) none of the above

27. If new firms enter the market, what is most likely to occur?

(A) The cost curve will shift upward.
(B) Total revenue will increase.
(C) The cost curve will shift downward.
(D) Market power decreases.
(E) None of the above

Use the following graph



28

Which box represents the profit-maximizing point for a perfectly competitive firm?

(A) A
(B) B
(C) C
(D) D
(E) None of the above

29 Imagine a perfectly competitive market. If the market price of the product is $15 and the marginal cost is also $15, which of the following is true?

(A) The firm is making zero profit.
(B) Many firms will soon leave the market.
(C) Many firms will join together to increase profit through collusive pricing.
(D) The firm is profit maximizing.
(E) All of the above

30 For a perfectly competitive market, the best way to maximize profit is

(A) MR = MC
(B) MRP < W
(C) AFC = MB
(D) MC > MB
(E) none of the above

31 In a perfect competition, if P > ATC, which of the following will take place in the long run?

(A) Price decreases as more firms exit the market.
(B) Price decreases as more firms enter the market.
(C) Price increases as more firms enter the market.
(D) Profits decrease as price increases.
(E) None of the above

32 Mr. Ray is a business owner of a competitive firm. He is trying to decide whether to shut down his firm in the short run. Which factors should Mr. Ray analyze to help in his decision?

(A) Average variable cost and marginal revenue
(B) Total revenue and total cost
(C) Total fixed cost and total revenue
(D) Price and average total cost
(E) Price and marginal benefit

33 All of the following are long-run production decisions EXCEPT

(A) an auto-repair shop decides to increase the size of its garage
(B) a school decides to hire more teaching assistants due to an increase in the school population
(C) a firm increases the number of its plants
(D) a school decides to add more classrooms and a new performing arts center
(E) a firm decides to close 5% of its plants

34 More firms entering a market, a decrease in price, and a decrease in long-run profits are a result of

(A) several firms earning an economic profit on a good or service
(B) the characteristics of monopolistic competition
(C) the characteristics of an oligopoly
(D) several firms not earning an economic profit on a good or service in the short run
(E) the prisoner's dilemma

35 If an increase in technology in a perfectly competitive firm only lowers the firm's costs of production, what will the effect be?

	Price	Quantity	Profit
(A)	decrease	decrease	decrease
(B)	decrease	increase	increase
(C)	no change	decrease	increase
(D)	no change	increase	increase
(E)	increase	increase	increase

36 What would be the outcome if an increase in technology lowers a firm's cost of production under a monopoly?

(A) The price will increase.
(B) Consumer surplus will decrease.
(C) The price of the good will decrease.
(D) The price of the good will remain the same.
(E) The price of the good will decrease, and the quantity demanded will increase.

37 Measuring efficiency through allocation of resources is best expressed in which formula?

(A) P = MC
(B) P = AR
(C) MB > MC
(D) MB = MC
(E) P = ATC

38 The freedom of entry and exit for a perfectly competitive market guarantees

(A) each firm knows how each other is planning its production
(B) no cheating on a firm's part to produce an additional unit of output
(C) economic profits will be zero in the long run
(D) economic profits will be greater than accounting profits
(E) economic profits will exceed marginal revenue

39 Producing to where MR = MC in a perfectly competitive market ensures

(A) the government will not intervene with regulations
(B) the ease of entry and exit in the market
(C) product differentiation
(D) earning an economic profit in the long run
(E) production efficiency in the long run

40 If price equals marginal revenue, which equals marginal cost, which equals average total cost, all in the long run, what type of market structure would this be?

(A) Monopolistic competition
(B) Monopoly
(C) Natural monopoly
(D) Oligopoly
(E) Perfect competition