Sample Exam Questions/Chapter 12

Use the following to answer question 1:

**Figure: Short-Run Costs**

![Short-Run Costs Diagram]

1. (Figure: Short-Run Costs) Look at the figure Short-Run Costs. At the given price, the most profitable level of output occurs at quantity:
   A) N.
   B) P.
   C) S.
   D) T.

2. In the model of perfect competition:
   A) the consumer is at the mercy of powerful firms that can set prices wherever they prefer.
   B) individual firms can influence the price, but only slightly.
   C) no individual or firm has enough power to have any impact on price.
   D) the price is determined by how many years are left in the product's patent.
3. (Figure: The Perfectly Competitive Firm II) Look at the figure The Perfectly Competitive Firm II. If this firm's MR curve is $MR_1$, the firm will maximize profit by producing ________ units of output and its economic profit will be ________.

A) $Q_1$; positive  
B) $Q_2$; negative  
C) $Q_3$; positive  
D) $Q_4$; negative

Use the following to answer question 4:

Figure: Revenues, Costs, and Profits for Tomato Producers
4. (Figure: Revenues, Costs, and Profits for Tomato Producers) Look at the figure
Revenues, Costs, and Profits for Tomato Producers. The market for tomatoes is
perfectly competitive, and an individual tomato farmer faces the cost curves shown in
the figure. The market price of a bushel of tomatoes is $18. At the profit-maximizing
quantity of output in the figure, the farmer's total revenue is _______, total cost is
_______, and profit is ________.
A) $90; $14; $76
B) $90; $70; $20
C) $30; $42; –$12
D) $48; $56; –$8

5. In the short run, if \( AVC < P < ATC \), a perfectly competitive firm:
A) produces output and earns an economic profit.
B) produces output and incurs an economic loss.
C) does not produce output and earns an economic profit.
D) does not produce output and earns zero economic profit.

Use the following to answer question 6:

**Figure: A Perfectly Competitive Firm in the Short Run**

![Diagram of a perfectly competitive firm](image)
6. (Figure: A Perfectly Competitive Firm in the Short Run) Look at the figure A Perfectly Competitive Firm in the Short Run. The firm's total cost of producing its most profitable level of output is:
   A) \( BS \).
   B) \( DK \).
   C) 0\(FKD\).
   D) 0\(ESB\).

7. Suppose that the market for candy canes operates under conditions of perfect competition, that it is initially in long-run equilibrium, and that the price of each candy cane is $0.10. Now suppose that the price of sugar rises, increasing the marginal and average total costs of producing candy canes by $0.05. Based on the information given, we can conclude that in the short run a typical producer of candy canes will be making:
   A) an economic profit.
   B) zero economic profit.
   C) negative economic profits.
   D) The answer is impossible to determine based on the information given.

8. Suppose Sarah's pottery studio is charging the market price, which is just higher than her minimum average total cost. This means that Sarah:
   A) is breaking even.
   B) should shut down immediately.
   C) is earning a small economic profit.
   D) is incurring a small economic loss.

Use the following to answer question 9:

<table>
<thead>
<tr>
<th>Table: Variable Costs for Lawns</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quantity of Lawns</strong></td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>10</td>
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<td>40</td>
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9. (Table: Variable Costs for Lawns) Look at the table Variable Costs for Lawns. During the summer Alex runs a lawn-mowing service, and lawn-mowing is a perfectly competitive industry made up of 100 identical firms. The table shows his variable costs for lawn-mowing and the number of lawns mowed. Alex's fixed cost is $1,000 for the mower. His variable costs include fuel, his time, and mower parts. If the price for mowing a lawn is $40, how much is Alex's total revenue at the profit-maximizing output?

A) $1,000  
B) $1,200  
C) $500  
D) $1,500

10. Perfectly competitive industries are characterized by:

A) few sellers and many buyers.  
B) consumers who can differentiate between the products of different producers.  
C) goods that are standardized.  
D) a few producers who make up most of the market share of the industry.

11. In perfect competition, the assumption of easy entry and exit implies that:

A) in the long run all firms in the industry will earn zero economic profits.  
B) in the short run all firms in the industry will earn positive economic profits.  
C) in the short run all firms in the industry will earn zero economic profits.  
D) in the long run all firms in the industry will earn positive economic profits.

Use the following to answer question 12:

<table>
<thead>
<tr>
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<tbody>
<tr>
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   A) –$10.00
   B) $10.00
   C) $23.33
   D) –$20.00

13. The shut-down price is:
   A) the price at which economic profit is zero.
   B) the minimum of the $AVC$ curve.
   C) the intersection of the $MC$ and $ATC$ curves.
   D) the minimum of the $AFC$ curve.

14. If firms are making positive economic profits in the short run, then in the long run:
   A) the short-run industry supply curve will shift leftward.
   B) firms will enter the industry.
   C) industry output will rise and the price will rise.
   D) firms will leave the industry.

15. In the short run, if $P = ATC$, a perfectly competitive firm:
   A) produces output and earns zero economic profit.
   B) produces output and earns an economic profit.
   C) produces output and incurs an economic loss.
   D) does not produce output and incurs an economic loss.

16. Marginal revenue is a firm's:
   A) ratio of the change in total revenue to the change in output.
   B) ratio of average revenue to total revenue.
   C) profit per unit times the number of units sold.
   D) increase in profit when it sells an additional unit of output.

17. For a firm in a perfectly competitive market:
   A) marginal revenue equals total revenue.
   B) marginal revenue equals market price.
   C) net revenue equals price.
   D) net revenue equals marginal revenue.
18. A perfectly competitive firm will continue producing in the short run as long as it can cover its:
   A) total cost.
   B) average fixed cost.
   C) variable cost.
   D) fixed cost.

Use the following to answer question 19:

**Figure: The Perfectly Competitive Firm**

![Graph showing price and output](image)

19. (Figure: The Perfectly Competitive Firm) Look at the figure The Perfectly Competitive Firm. The figure shows a perfectly competitive firm that faces demand curve $d$, has the cost curves shown, and maximizes profit. The firm's economic profit in the long run will be:
   A) $0.
   B) $250.
   C) $275.
   D) $300.
20. (Table: Soybean Cost) Look at the table Soybean Cost. The costs of production of a perfectly competitive soybean farmer are given in the table. If the market price of a bushel of soybeans is $15, what will be the farmer's short-run maximum profit?
   A) $75
   B) $69
   C) $6
   D) $5

21. Use the following to answer question 21:

**Figure: Cost Curves for Corn Producers**
21. (Figure: Cost Curves for Corn Producers) Look at the figure Cost Curves for Corn Producers. The market for corn is perfectly competitive, and an individual corn farmer faces the cost curves shown in the figure. If the price of a bushel of corn in the market is $14, then the farmer will produce ________ of corn and earn an economic ________ equal to _________.

A) 4 bushels; profit; $0
B) 4 bushels; profit; just less than $80 per bushel
C) 2 bushels; profit; $0
D) 2 bushels; loss; just more than $80 per bushel

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A) –$10
B) –$300
C) $300
D) –$1,000
Answer Key

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