Answers Quiz 9 part 1

EE211 Section 1[redacted]

Name__________________________________Last 4 digits ID __________________________

Answers all following questions. Provide full explanation with graphs (if necessary).

1. A perfectly competitive firm
   a. chooses its price to maximize profits.
   b. sets its price to undercut other firms selling similar products.
   c. takes its price as given by market conditions.
   d. picks the price that yields the largest market share.

   price taker

2. When a perfectly competitive firm increases the quantity it produces and sells by 10 percent, its marginal revenue ________________ and its total revenue rises by _____________.
   a. falls; less than 10 percent.
   b. falls; exactly 10 percent.
   c. stays the same; less than 10 percent
   d. stays the same; exactly 10 percent

3. A competitive firm maximizes profit by choosing the quantity at which
   a. average total cost is at its minimum.
   b. marginal cost equals the price.
   c. average total cost equals the price.
   d. marginal cost equals average total cost.

   MC = MR
   P = AR = MR
   P = MC

4. A competitive firm's short-run supply curve is its _____________cost curve above its ____________cost curve.
   a. average total-; marginal-
   b. average variable-; marginal-
   c. marginal-; average total-
   d. marginal-; average variable-

   If P < AVC, Firm will shut down.

5. If a profit-maximizing competitive firm is producing a quantity at which marginal cost is between average variable cost and average total cost, it will
   a. keep producing in the short run but exit the market in the long run.
   b. shut down in the short run but return to production in the long run.
   c. shut down in the short run but exit the market in the long run.
   d. keep producing both in the short run and in the long run.

   Negative profit in the SR.

6. In the long-run equilibrium of a competitive market with identical firms, what are the relationships among price P, marginal cost MC, and average total cost ATC?
   a. $P > MC$ and $P > ATC$
   b. $P > MC$ and $P = ATC$
   c. $P = MC$ and $P > ATC$
   d. $P = MC$ and $P = ATC$

   Zero profit

7. In the short-run equilibrium of a competitive market with identical firms, if new firms are getting ready to enter, what are the relationships among price P, marginal cost MC, and average total cost ATC?

Positive profit in the SR

    a. P > MC and P > ATC
    b. P > MC and P = ATC
    c. P = MC and P > ATC
    d. P = MC and P = ATC

8. Suppose pretzel stands in New York City are a perfectly competitive market in long-run equilibrium. One day, the city starts imposing a $100 per month tax on each stand. How does this policy affect the number of pretzels consumed in the short run and the long run?
    a. down in the short run, no change in the long run
    b. up in the short run, no change in the long run
    c. no change in the short run, down in the long run
    d. no change in the short run, up in the long run