

EE211 Section 1 Quiz 9 Answers

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.

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.

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-

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.

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 $P = ATC$

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 ?
- $P > MC$ and $P > ATC$
 - $P > MC$ and $P = ATC$
 - $P = MC$ and $P > ATC$
 - $P = MC$ 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?
- down in the short run, no change in the long run
 - up in the short run, no change in the long run
 - no change in the short run, down in the long run
 - no change in the short run, up in the long run

The market for fertilizer is perfectly competitive. Firms in the market are producing output but are currently incurring economic losses.

Answers: See your lecture note (Short-Run Negative profit scenario & transition from negative profits in the short run to zero profits in the Long-Run)

- How does the price of fertilizer compare to the average total cost, the average variable cost, and the marginal cost of producing fertilizer?
- Draw two graphs, side by side, illustrating the present situation for the typical firm and for the market.
- Assuming there is no change in either demand or the firm's cost curves, explain what will happen in the long run to the price of fertilizer, marginal cost, average total cost, the quantity supplied by each firm, and the total quantity supplied to the market.