

Perfect Competitive Mkt Answers Quiz 9

EE211 Section 1 Quiz 9 (Nov 14, 2023)

Name _____ Last 4 digits ID _____

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

- A perfectly competitive firm
 - chooses its price to maximize profits.
 - sets its price to undercut other firms selling similar products.
 - takes its price as given by market conditions.
 - picks the price that yields the largest market share.
- When a perfectly competitive firm increases the quantity it produces and sells by 10 percent, its marginal revenue _____ and its total revenue rises by _____.
 - falls; less than 10 percent.
 - falls; exactly 10 percent.
 - stays the same; less than 10 percent
 - stays the same; exactly 10 percent
- A competitive firm maximizes profit by choosing the quantity at which
 - average total cost is at its minimum.
 - marginal cost equals the price.
 - average total cost equals the price.
 - marginal cost equals average total cost.
- A competitive firm's short-run supply curve is its _____ cost curve above its _____ cost curve.
 - average total-; marginal-
 - average variable-; marginal-
 - marginal-; average total-
 - marginal-; average variable-
- 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
 - keep producing in the short run but exit the market in the long run.
 - shut down in the short run but return to production in the long run.
 - shut down in the short run but exit the market in the long run.
 - keep producing both in the short run and in the long run.
- 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 ?
 - $P > MC$ and $P > ATC$
 - $P > MC$ and $P = ATC$
 - $P = MC$ and $P > ATC$
 - $P = MC$ and $P = ATC$

price taker

$$MC = MR$$

$$P = AR = MR$$

$$P = MC$$

IF $P < AVC$, Firm will shut down.

Negative profit in the SR.

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 ?

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

Positive profit in the SR

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