

Chapter 14 Competitive Markets Practice Test

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. As a general rule, profit maximizing producers in a competitive market produce output at a point where
- marginal cost is decreasing.
 - marginal revenue is increasing.
 - marginal cost is increasing.
 - price is less than marginal revenue.
- _____ 2. Which of the following is not a characteristic of a competitive market?
- Firms are price takers.
 - There are many sellers in the market.
 - Goods offered for sale are largely the same.
 - Firms have difficulty entering the market.
- _____ 3. When buyers in a competitive market take the selling price as given, they are said to be
- free riders.
 - market entrants.
 - price takers.
 - monopolists.
- _____ 4. When a firm in a competitive market produces 10 units of output, it has a marginal revenue of \$5.00. What would be the firm's total revenue when it produces 3 units of output?
- \$15
 - \$50
 - \$65
 - cannot be determined from the information given
- _____ 5. A firm in a competitive market produces and sells 500 door knobs at a price of \$10 each. It then chooses to increase its output to 1,000 door knobs. After the increase in output, its price will
- decrease.
 - increase.
 - equal \$10.
 - fall below marginal revenue.
- _____ 6. When calculating marginal cost, what must the firm know?
- fixed cost
 - sunk cost
 - variable cost
 - all of the above
- _____ 7. The additional revenue a firm in a competitive market receives if it increases its production by one unit equals its
- average revenue.
 - price.
 - marginal revenue.
 - all of the above.

- _____ 8. Which of the following statements best reflects the production decision of a profit maximizing firm in a competitive market when price falls below the minimum of average variable cost?
- The firm will immediately stop production to minimize its losses.
 - The firm will continue to produce to attempt to pay fixed costs.
 - The firm will stop production as soon as it is able to pay its sunk costs.
 - The firm will continue to produce in the short run but will likely exit the market in the long run.
- _____ 9. A profit maximizing firm that is showing losses (negative profit) most likely faces which of the following conditions?
- $P < ATC$.
 - $P = MC$.
 - $P > AVC$.
 - All of the above.
- _____ 10. In the long run, a profit maximizing firm will choose to exit a market when
- fixed costs exceed sunk costs.
 - revenue from production is less than total costs.
 - average fixed cost is rising.
 - marginal cost exceeds marginal revenue at the current level of production.
- _____ 11. One of the most important determinants of the success of free-market capitalism is
- free entry and exit in markets.
 - government regulation of market participants.
 - enlightened governments selecting firms that should not be allowed to exit a market.
 - having a few large firms rather than thousands of small entrepreneurs.
- _____ 12. A profit-maximizing firm in a competitive market is able to sell its product for \$9. At its current level of output the firm's average total cost is \$10. Its marginal cost curve crosses the marginal revenue curve at an output level of 10 units. What is the total loss of this firm?
- more than \$10
 - exactly \$10
 - less than \$10
 - None of the above is necessarily correct.
- _____ 13. The entry and exit decisions of firms in a competitive market are signaled by
- high capital costs.
 - profits and losses.
 - low capital costs.
 - high or low demand for a firm's product.
- _____ 14. When a firm has little ability to influence market prices it is said to be in what kind of a market?
- A strategic market.
 - A competitive market.
 - A power market.
 - A thin market.

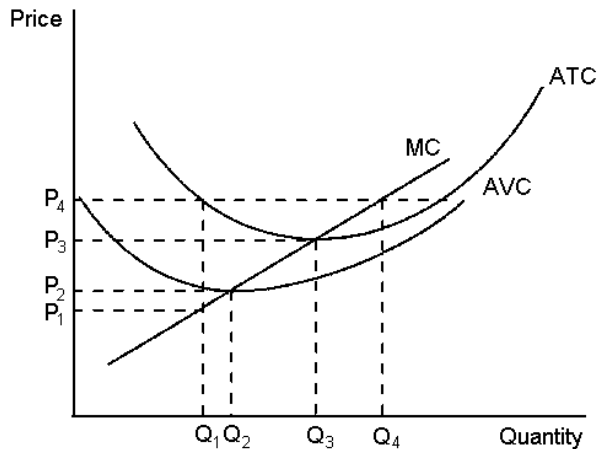
Table 14-1

Use the information in the table below to answer the following questions.

Quantity	Price
1	13
2	13
3	13
4	13
5	13
6	13
7	13
8	13
9	13

- ___ 15. Refer to Table 14-1. The price and quantity relationship in the table is most likely that faced by a firm in a
- a. monopoly.
 - b. concentrated market.
 - c. strategic market.
 - d. competitive market.
- ___ 16. Because the goods offered for sale in a competitive market are largely the same,
- a. there will be few sellers in the market.
 - b. there will be few buyers in the market.
 - c. sellers will have little reason to charge less than the going market price.
 - d. buyers will have market power.

Graph 14-2

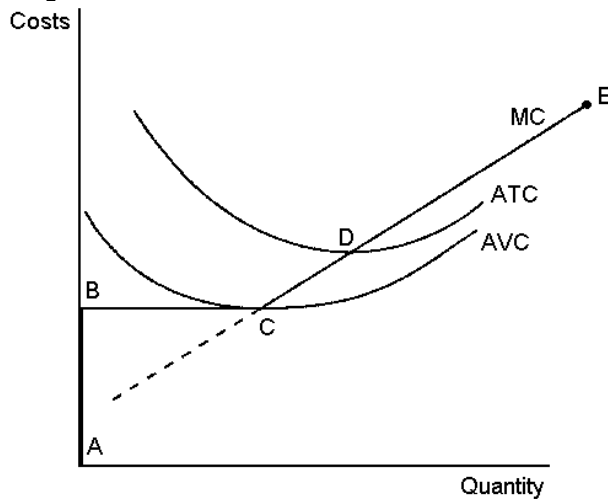


The graph shown depicts the cost structure for a firm in a competitive market. Use the graph to answer the following questions.

- ___ 17. Refer to Graph 14-2. When price rises from P_3 to P_4 , the firm finds that
- a. average revenue exceeds marginal revenue at a production level of Q_4 .
 - b. fixed costs are lower at a production level of Q_4 .
 - c. it can earn profits by increasing production to Q_4 .
 - d. profits are maximized at a production level of Q_3 .

- ___ 18. Refer to Graph 14-2. Which of the following statements best reflects the situation faced by the firm when price falls from P_4 to P_2 ?
- Marginal revenue is lower than marginal cost at the previous level of output, so it decreases production.
 - Marginal revenue is higher than marginal cost at the previous level of output, so it increases production.
 - Average total cost is lower than at the previous level of output so it increases production.
 - The firm will earn profit equal to $(P_4 - P_2) \times Q_2$.
- ___ 19. In 1999, sheepherders in the western United States slaughtered 10,000 sheep and buried them in large open pits rather than truck them to the market to be sold. This behavior is most likely explained by
- irrational behavior of sheepherders.
 - sheepherders making a shut down decision to save the variable cost of transporting sheep to a slaughter house.
 - sheepherders making an exit decision to recover the fixed cost of raising the sheep.
 - the rising marginal cost of producing sheep.

Graph 14-3



The figure shown depicts the cost structure of a profit maximizing firm in a competitive market. Use the figure to answer the following questions.

- ___ 20. Refer to Graph 14-3. Which line segment best reflects the short-run supply curve for this firm?
- ABC
 - BCD
 - CDE
 - DE