

Test for Chapter 5

Take: 1 | 03/21/13

Directions:
Choose the best answer

1)

A firm in a competitive industry will try to produce the output level for which

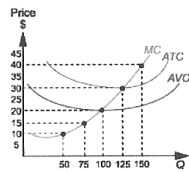
- average variable cost is at a minimum.
- average total cost is at a minimum.
- average fixed cost is at a minimum.
- marginal cost equals marginal revenue.

@ Wrong
73

2)

Examine the graph below. If the price for this firm's product is \$40, and the firm is maximizing profits, what is the firm's total revenue? Assume that the firm is a price taker.

- \$3750
- \$2000
- \$6000
- \$10000



3)

A profit-maximizing competitive firm sells its product for \$9. Its average total cost of producing this product is \$10. The firm's profit maximizing output level is 10 units. How much total profit does this firm earn?

- \$200
- \$200
- \$10
- None of the above.

4)

Many recreation parks shut down because in the off season

- off-season rates are below average total cost.
- off-season rates are below marginal cost.
- off-season revenue cannot cover variable cost.
- all of the above.

5)

When a firm shuts down, it has no costs to cover.

- true
- false

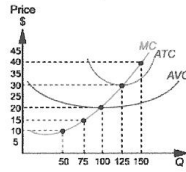
6)

The short-run market supply curve is

- the summation of the short-run supply curves of of all firms in the market.
- the summation of the supply curves of the three largest suppliers in the market.
- the average price and quantity supplied combinations of all firms in the market.
- the difference between the largest and smallest suppliers in a market.

7)

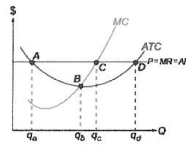
Examine the graph below. If the market price for this firm's product increases from \$20 to \$40, the firm will produce



- 150 units.
- 100 units.
- 50 units.
- 200 units.

8)

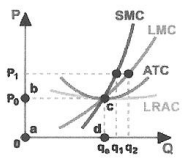
Examine the graph below. At point A,



- marginal cost is greater than marginal revenue.
- marginal revenue is greater than marginal cost.
- marginal revenue equals marginal cost.
- marginal revenue is greater than the price.

9)

Use the graph to answer the question. Point c represents the



- point of efficient scale.
- the long run cost-minimizing point.
- long run point of production.
- all of the above.

10)

A constant-cost industry has a long-run supply curve that is

- upward sloping.
- downward sloping.
- horizontal.
- U-shaped.

11)

If the price for a product falls below the lowest minimum marginal cost of all firms producing that product, which of the following statements is true?

- All firms producing that product will shut down.
- All firms producing that product will cut production in half.
- The most profitable firms producing that product will increase production and the rest will decrease production.
- All firms producing that product will increase production.

12)

Which of the following is not a barrier to entry for a market that exhibits market power?

- copyrights
- patents
- sole ownership of a strategic resource
- perfect competition

13)

Monopolistic competition is an industry structure in which

- all firms sell the same product.
- each firm has to react to what the others do.
- each firm tries to gain market power by slightly differentiating a similar product.
- the market has significant barriers to entry.

14)

Which statement is false?

- The opportunity cost of labor is often less than the explicit cost.
- Opportunity costs are real costs.
- Explicit costs are the only costs accounted for by accounting methodology.
- Monetary payment must be made before a cost is incurred.

15)

Jen runs her own plumbing business. Last year she earned \$100,000 in total revenue and paid \$65,000 to her employees and suppliers. Last year she received offers to work for other plumbers, the highest offer being \$40,000 per year. What is Jen's accounting profit?

- 0
- \$35,000
- \$5,000
- \$40,000

16)

A competitive firm cannot sell at a price _____ the market price because _____ will sell at the market price and the original firm will not sell any of its product

- below; competition below; firms
- above; competition above; the government

17)

If a firm's marginal product of labor increases, its marginal cost must also increase.

- true
- false

18)

Which of the following is not correct concerning competitive firms?

- A competitive firm takes price as given.
- A competitive firm can sell as many units of output as it likes at market price.
- A competitive firm cannot increase its revenue by selling more output.
- A competitive firm has a small share of the market.

19)

A price taker

- accepts the market price as given.
- can set its own price.
- can set the market price.
- has market power.

20)

Profit is defined as _____.

- $TC - TR$
- $TC + TR$
- $\frac{TR}{TC}$
- $TR - TC$

21)

In a competitive market,
 the market price is set by a firm that has market power.
 each competitive firm can set its own price.
 the market price is set by the forces of supply and demand.
 the market price is the sum of the individual firms' prices.

22)

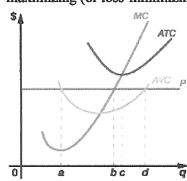
At the profit-maximizing level of output, the firm's marginal cost is
 increasing.
 zero.
 at a minimum.
 decreasing.

23)

Which of the following is not true about the slope of the total revenue curve for a perfectly competitive firm?
 It increases at a constant rate.
 It is the marginal revenue.
 It is constant.
 It equals the price for a competitive firm.

24)

In the following graph, which output level represents the competitive firm's profit-maximizing (or loss-minimizing) level of output?
 a
 b
 c
 d



25)

A firm's profit-maximizing level of output is 40 units. If the firm's total cost of production at that output level is \$3200, it can be generating a positive profit only if
 the marginal cost of 41st unit is less than the marginal cost of the 40th unit.
 its price equals marginal cost.
 the marginal cost of the 40th unit is less than \$80.
 its price is greater than \$80.

26)

The short-run market supply curve is constructed by the horizontal summation of _____ of the individual firms _____ the shut-down point.
 the marginal cost curves; below
 the marginal cost curves; above
 the average variable cost curves; below
 the average variable cost curves; above

27)

In the range where the market price is lower than the average variable cost for all the firms in the market, the short-run market supply curve

- is horizontal.
- is upward sloping.
- is downward sloping.
- does not exist.

28)

Which of the following is **not** true about the short-run market supply curve?

- It is upward sloping.
- It is a smooth curve when there are only a few firms in the market.
- It is the horizontal summation of the individual firms' short-run supply curves.
- It describes the total output of all the firms in the market at each price level.

29)

The short-run market supply curve does **not** shift when new firms enter the market.

- true
- false

30)

Long-run cost curves are always lower than short-run cost curves because the firm has the flexibility to change both labor and capital in the long run.

- true
- false