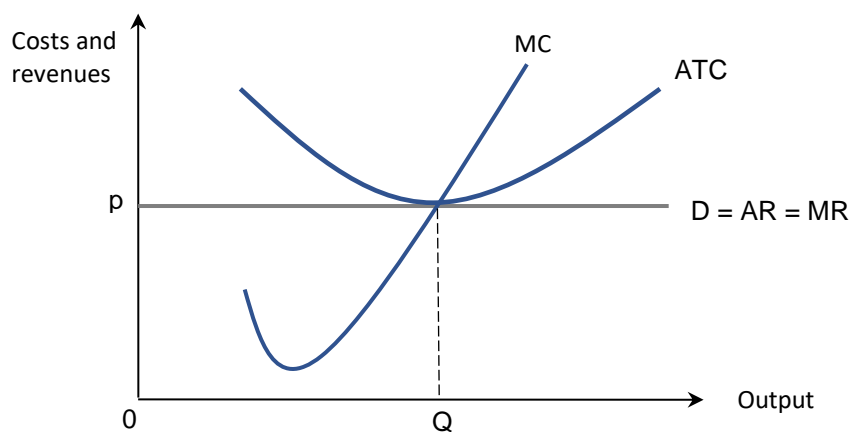


Perfect competition multiple choice questions

1 Which of the following is not a characteristic of perfect competition?

- A Perfect information
- B Homogeneous goods
- C Freedom of entry and exit
- D A small number of firms

2 The diagram below shows the costs and revenues for a business.

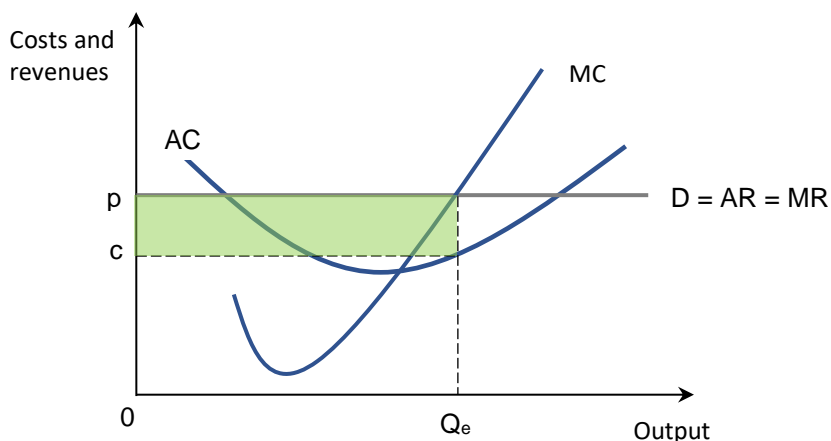


Which ONE of the following is the market structure shown in this diagram?

- A A monopolistically competitive firm
- B A firm which is a price maker
- C A perfectly competitive firm in the long run
- D A perfectly competitive firm in the short run



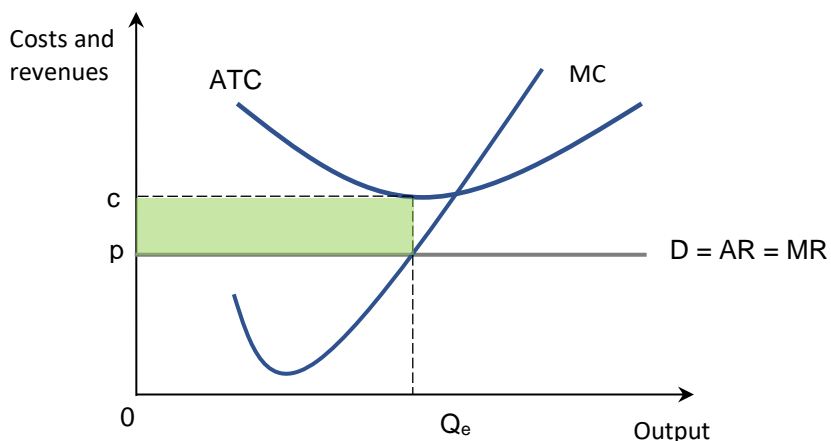
3 The diagram below shows the costs and revenues for a business.



What does the shaded area in the diagram represent?

- A Economic loss
- B Supernormal profit
- C Revenue earned by suppliers
- D Tax revenue

4 The diagram below shows the costs and revenues for a business.

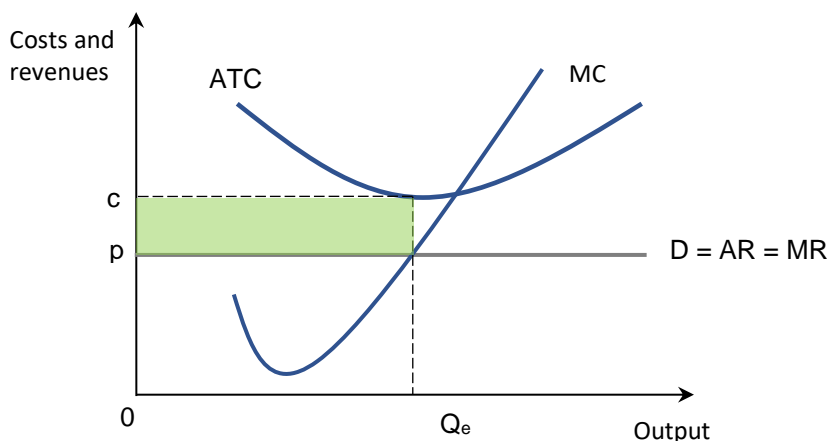


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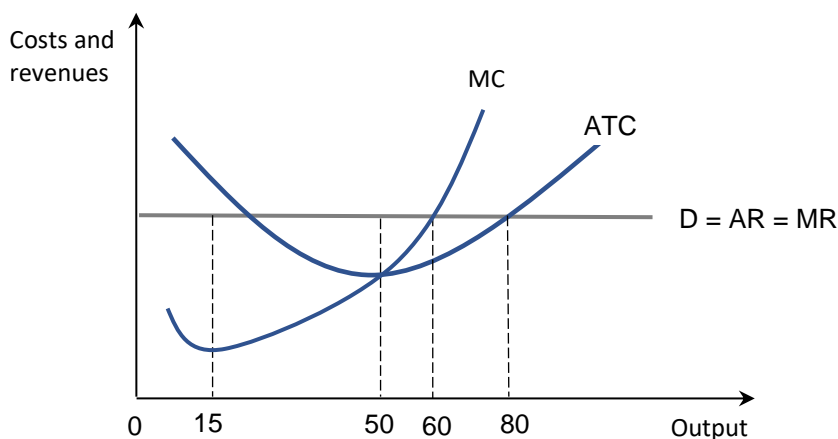
5 The diagram below shows the costs and revenues for a business.



Given the situation in the market, what will happen in this market in the long run?

- A Firms will leave the industry until supply of goods falls and normal profits are made .
- B Firms will enter the industry and the ATC curve will shift downwards due to economies of scale .
- C Firms will leave the industry and the industry will collapse .
- D Most firms will shut down .

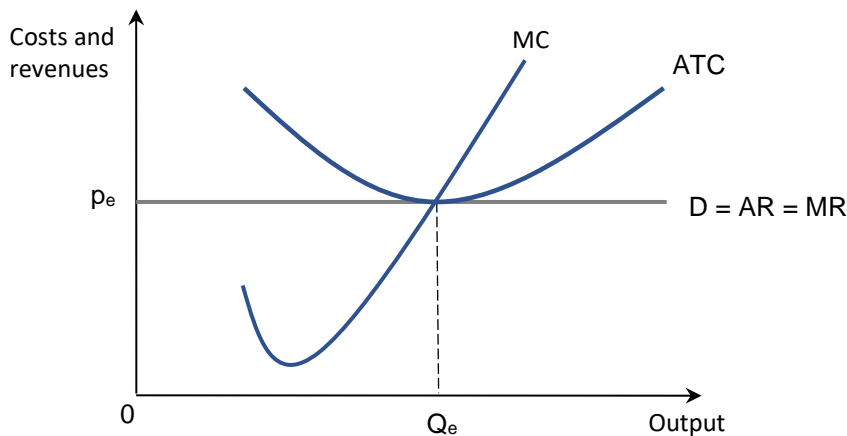
6 What is the profit-maximising level of output for the firm represented by the diagram below?



- A 10 units of output .
- B 50 units of output .
- C 60 units of output .
- D 80 units of output .



7 The diagram below represents a firm in a perfectly competitive industry, in the long run.

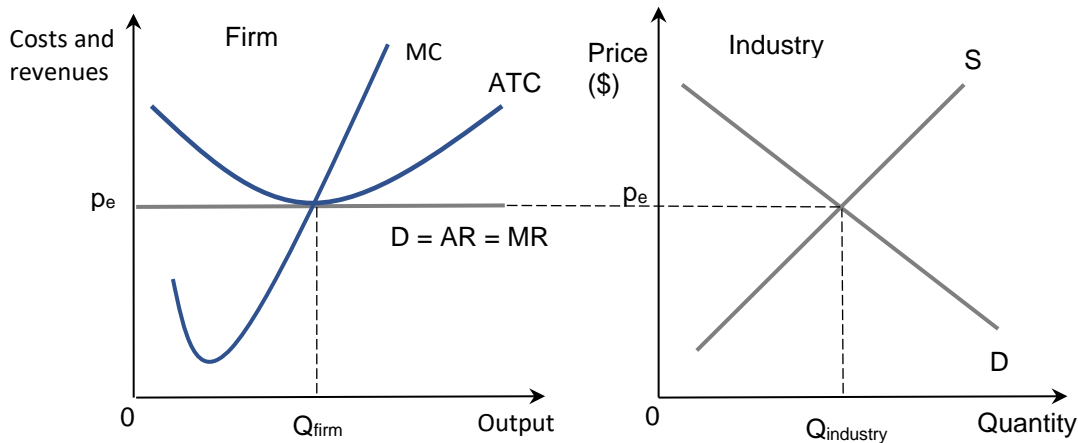


Which ONE of the following BEST describes why, in a perfectly competitive firm, the price = marginal revenue = average revenue?

- A Perfect knowledge means that firms have to charge the same price .
 - B There are a large number of firms in the market and consumers can bargain for a lower price .
 - C Goods are identical, knowledge of the market is perfect and firms face the same costs of production therefore all goods are priced the same .
 - D Firms can take advantage of economies of scale so produce at the minimum point on the average total cost (ATC) curve .
- 8 A firm in perfect competition is allocatively efficient because it produces
- A at the minimum point of the ATC curve. .
 - B at the minimum point of the AVC curve. .
 - C where $P = MC$. .
 - D where $MC = MR$. .
- 9 What is the role of supernormal profit in a perfectly competitive market?
- A It provides funds for investment in research and development .
 - B It signals to firms to enter the market .
 - C It allows firms to grow and perhaps merge with other firms .
 - D It provides funds for advertising and branding of the product .

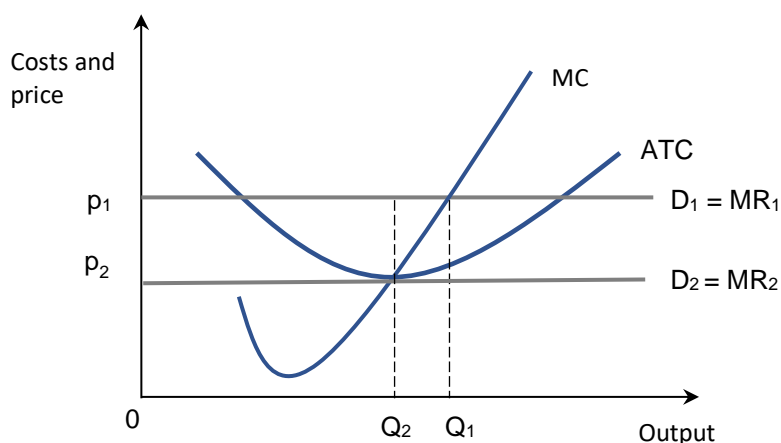


- 10 The diagrams above show a farm producing lettuces which is in perfect competition and the demand and supply curves for the entire lettuce industry.



Which ONE of the following can be correctly inferred from the diagrams?

- A Firms in perfectly competitive markets are price takers as they take the price determined by the industry .
 - B Firms in perfectly competitive markets are price makers .
 - C The quantity demanded in a perfectly competitive firm is the same as quantity demanded in the industry .
 - D Perfectly competitive firms can be dynamically efficient as they operate at the lowest point on their ATC curve .
- 11 The diagram below shows the costs and revenues for a business.



With reference to the diagram above, which ONE of the following is correct?

- A At p_2 the firm is making abnormal profit .
- B At p_1 the firm is allocatively efficient and productively inefficient .
- C The firm is in long run equilibrium at a price of p_2 .
- D The profit maximising firm produces Q_1 units of output in the long run .



- 12 Which ONE of the following is a disadvantage of perfect competition?
- A Firms are not likely to be statically efficient .
 - B Firms are not likely to be allocatively efficient .
 - C Firms are not likely to be productively efficient .
 - D Firms are not likely to be dynamically efficient .
- 13 A firm which is in a perfectly competitive market finds that MR is £2.00 and MC is £2.50. In order to maximise profits, which of the following is MOST likely to happen?
- A Price will be unchanged and output will rise .
 - B Price will be unchanged and output will fall .
 - C Price and output will both be unchanged .
 - D Prices will fall and output will rise .
- 14 Which of the following markets is closest to the model of perfect competition?
- A High street coffee shops .
 - B High street banks .
 - C Car manufacturing .
 - D Foreign exchange market .
- 15 A firm is operating in a perfectly competitive market and is making supernormal profits. What is the likely outcome for this firm in the long run?
- A It will leave the industry .
 - B The price of the product will rise .
 - C The firm's output will fall and the price will fall .
 - D Both the price and the firm's output will remain unchanged .

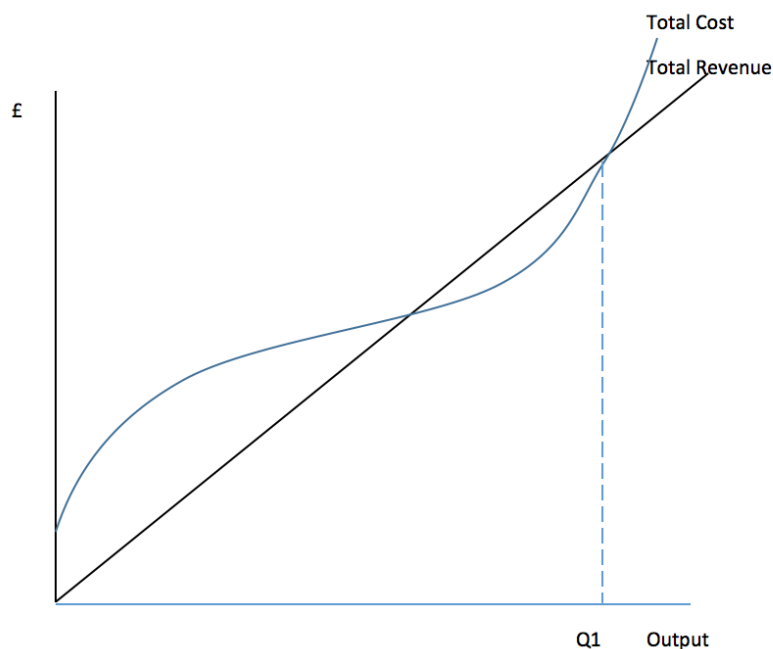


- 16 The following table provides information regarding the costs and revenues for a cotton producer:

No of tonnes	Total Revenue (£)	Total Cost (£)
7	70	55
8	80	60
9	90	70
10	100	85
11	110	105
12	120	130
13	120	160

In which range of output will profits be maximised?

- A 7 – 8 tonnes .
 - B 8 – 9 tonnes .
 - C 10 – 11 tonnes .
 - D 12 – 13 tonnes .
- 17 In the diagram below, a firm is operating at output Q1.

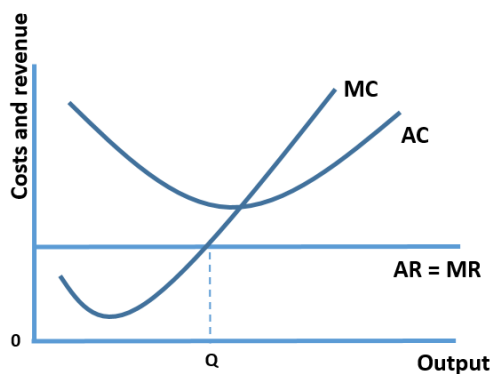


Which ONE of the following can be correctly inferred from this diagram?

- A The firm is in perfect competition in the short run .
- B The firm is in perfect competition in the long run .
- C The firm is in monopolistic competition in the short run .
- D The firm is in monopolistic competition in the long run .



18 The diagram below represents a firm operating in perfect competition in the short run.



Which ONE of the following must occur, in order for long-run equilibrium to be achieved?

- A Some firms must leave the industry .
- B More firms must enter the industry .
- C Incumbent firms must lower their price .
- D New entrants must charge a higher price than incumbent firms .

19 A firm in perfect competition faces the following costs and revenues:

MC: £2.00
 ATC: £2.25
 AFC: £0.50
 AR: £2.00

The BEST action for this firm, the other things being equal, would be to

- A close down in the short run. .
- B close down in the long run. .
- C increase output to sell more units. .
- D increase price to raise revenue. .

20 In long run equilibrium in perfect competition, it is only possible to make normal profits. Which of the following is the BEST explanation for this?

- A Products are homogeneous .
- B Consumers have perfect knowledge .
- C The market is contestable in the long run .
- D All of the above .

