Principles of Microeconomics
Assignment 6 (Chapter 8)
Answer Sheet

Name ______________________ Class Day/Time__________________

Questions of this homework are in the next few pages. Please find the answer of the questions and fill in the blanks below. Turn in this answer sheet on the due date in class. Keep the remaining pages to study.

1. ________	**11. ________**
2. ________	**12. ________**
3. ________	**13. ________**
4. ________	**14. ________**
5. ________	**15. ________**
6. ________	**16. ________**
7. ________	**17. ________**
8. ________	**18. ________**
9. ________	**19. ________**
10. ________	**20. ________**

ECON 2106 Principles of Microeconomics
Assignment 6 (Chapter 8)

____ 1. When firms are said to be price takers, it implies that if a firm raises its price,
a. buyers will go elsewhere.
b. buyers will pay the higher price in the short run.
c. competitors will also raise their prices.
d. firms in the industry will exercise market power.

____ 2. In a competitive market, no single producer can influence the market price because
a. many other sellers are offering a product that is essentially identical.
b. consumers have more influence over the market price than producers do.
c. government intervention prevents firms from influencing price.
d. producers agree not to change the price.

Use the information for a competitive firm in the table below to answer the following questions.

Table 14-2

Quantity	Total Revenue	Total Cost
0	$0	$10
1	9	14
2	18	19
3	27	25
4	36	32
5	45	40
6	54	49
7	63	59
8	72	70
9	81	82

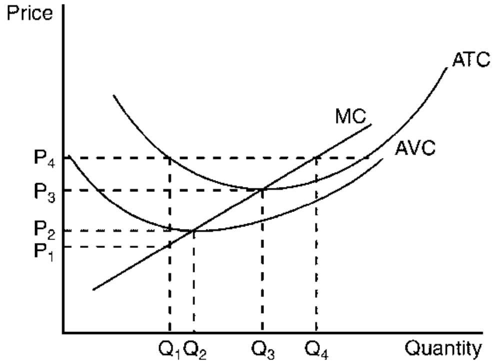
____ 3. Refer to Table 14-2. At which quantity of output is marginal revenue equal to marginal cost?
a. 3
b. 6
c. 8
d. All of the above are correct.

____ 4. Refer to Table 14-2. If this firm chooses to maximize profit it will choose a level of output where marginal cost is equal to
a. 6.
b. 7.
c. 8.
d. 9.

____ 5. Refer to Table 14-2. The maximum profit available to this firm is
a. $5.
b. $4.
c. $3.
d. $2.

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

Figure 14-2



____ 6. Refer to Figure 14-2. When price falls from P_3 to P_1, the firm finds that
a. it should produce Q_1 units of output.
b. it should produce Q_2 units of output.
c. it should produce Q_3 units of output.
d. it should shut down, i.e. produce 0 units of output.

____ 7. Refer to Figure 14-2. The firm can earn economic profit if
a. the price is at P_3.
b. the price is at P_4.
c. the price is at P_2.
d. the price is at P_1.

____ 8. Refer to Figure 14-2. The firm is currently producing Q_3 units of output, and the price has just gone up to P_4.
a. The firm should still produce Q_3 units of output because the profit has been maximized.
b. The firm shouldn't change Q_3 to Q_4 because it would earn less profit.
c. The Golden Rule is MR = MC. Since MR is not given, it's impossible to analyze profit.
d. The firm could earn more profit if it increases the production to Q_4.

____ 9. When marginal revenue is greater than marginal cost for a firm in a competitive market,
a. marginal cost must be falling.
b. the firm must be minimizing its losses.
c. there are opportunities to increase profit by increasing production.
d. the firm should decrease output to maximize profit.

____ 10. When a perfectly competitive firm makes a decision to shut down, it is most likely that
a. marginal cost is above average variable cost.
b. marginal cost is above average total cost.
c. price is below the minimum of average variable cost.
d. fixed costs exceed variable costs.

____ 11. Firms that shut down in the short run still have to pay their
a. variable costs.
b. fixed costs.
c. total cost.
d. All of the above are correct.

____ 12. A profit-maximizing firm in a competitive market produces small rubber balls. When the market price for small rubber balls falls below the minimum of its average total cost, but still lies above the minimum of average variable cost, the firm
a. will experience losses but it will continue to produce rubber balls.
b. will shut down.
c. will be earning both economic and accounting profits.
d. should raise the price of its product.

____ 13. A profit-maximizing firm will shut down in the short run when
a. price < average variable cost.
b. price < average total cost.
c. average revenue > marginal cost.
d. average revenue > average fixed cost.

____ 14. A firm's short-run supply curve is part of which of the following curves?
a. marginal revenue
b. average variable cost
c. average total cost
d. marginal cost

____ 15. In the long run, a profit-maximizing firm will choose to exit a market when
a. average fixed cost is falling.
b. variable costs exceed sunk costs.
c. marginal cost exceeds marginal revenue at the current level of production.
d. total revenue is less than total cost.

____ 16. 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 $11. Its marginal cost curve crosses the marginal revenue curve at an output level of 10 units. Then the firm experiences a
a. profit of more than $20.
b. profit of exactly $20.
c. loss of more than $20.
d. loss of exactly $20.

____ 17. At the profit-maximizing level of output,
a. marginal revenue = average total cost.
b. marginal revenue = average variable cost.
c. marginal revenue = marginal cost.
d. average revenue = average total cost.

____ 18. In a market that allows free entry and exit, the process of entry and exit ends when, for the typical firm in the market,
a. economic profit is zero.
b. total revenue is equal to average total cost.
c. average revenue exceeds marginal cost.
d. All of the above are correct.

____ 19. When new firms enter a perfectly competitive market,
a. profits of existing firms will fall.
b. entering firms will incur loss as soon as they enter.
c. existing firms will see their costs rise.
d. consumers will likely observe increasing prices.

____ 20. The entry of new firms into a competitive market will
a. increase market supply and increase market prices.
b. increase market supply and decrease market prices.
c. decrease market supply and increase market prices.
d. decrease market supply and decrease market prices.