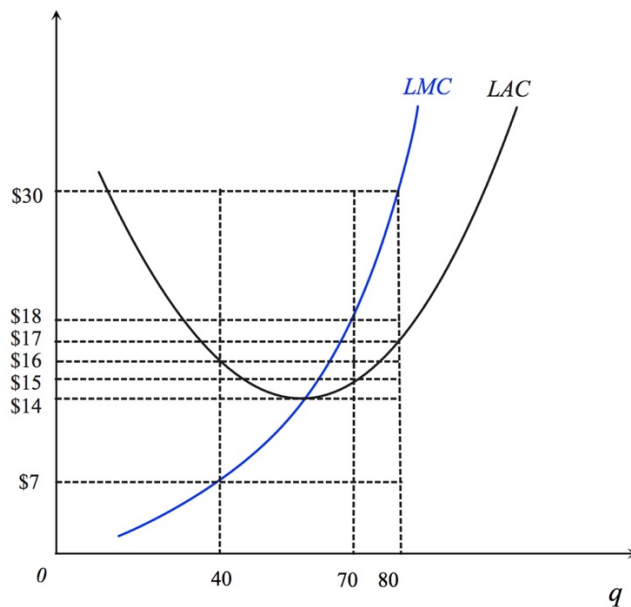


CB2400 Micro-Economics

Tick & Learn

Perfect Competition

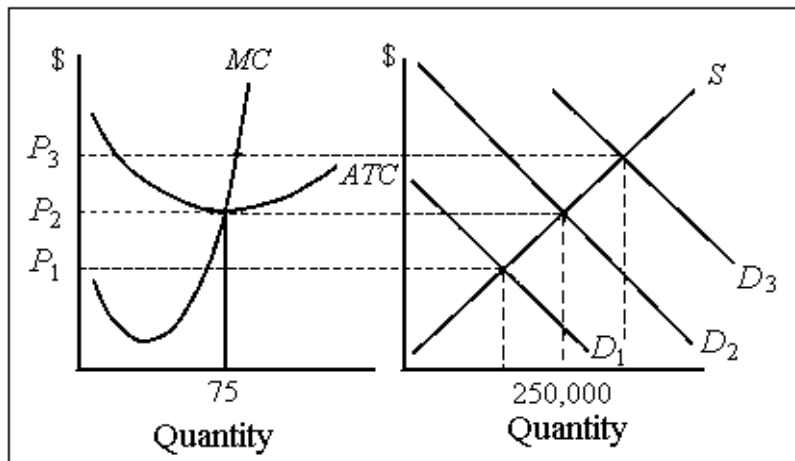


1. Consider a producer with cost functions in the above figure. Suppose this producer takes the market price and chooses its output level to maximize economic profit. When the market price is $P = \$30$, this producer will earn

- A) a profit of \$0
- B) a profit of \$1,040**
- C) a profit of \$1,050
- D) a profit of \$1,120

2. If, at the optimum level of output, a typical competitive firm's price is greater than its ATC , the firm

- A. should raise the price.
- B. should lower the price.
- C. should decrease output.
- D. will find that new firms are attracted to this industry in the long run.**
- E. should increase output.



3. Refer to the above figure. If all firms are identical, **in the long run (with free entry and exit)**, the equilibrium number of firms in the industry is
- A. 125,000.
 - B. 3,333.**
 - C. 2,500.
 - D. 3,000.
 - E. 250,000.
4. A firm in a long-run equilibrium state
- A. produces at the minimum of average variable cost.
 - B. produces at the minimum of marginal cost.
 - C. enjoys economies of scale.
 - D. makes no economic profit.**
 - E. None of the above.
5. Suppose a competitive industry is in long-run equilibrium. If the market demand curve shifts to the right, the market price
- A. decreases in the short and long run.
 - B. rises in the short run and falls in the long run.**
 - C. decreases in the short run and rises in the long run.
 - D. rises in the short and long run.
 - E. rises in the short run and rises more in the long run.

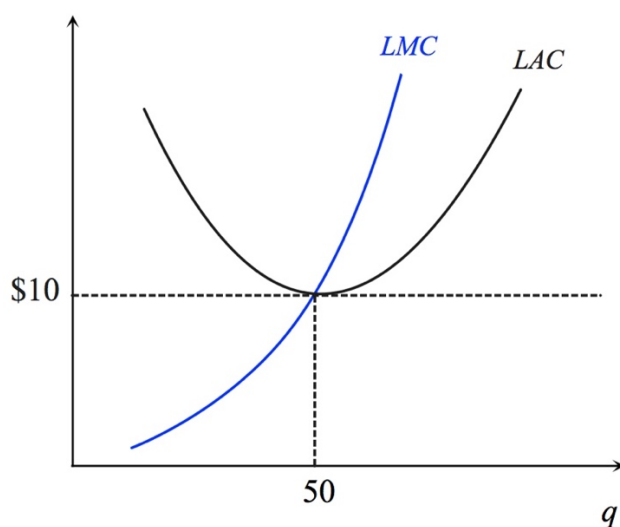
6. Suppose an industry with a number of small homogenous producers in perfect competition. All producers have a U-shaped long-run average cost curve and an upward sloping marginal cost curve. If the market demand curve shifts to the left,

- A) market price decreases in the long run (with free entry and exit).
- B) market price rises in the long run (with free entry and exit).
- C) some existing producers exit the market in the long run (with free entry and exit).**
- D) new producers enter the market in the long run (with free entry and exit).

Questions 7-8. Consider a constant-cost industry in perfect competition. The market demand function is

$$Q^d = 11000 - 100P,$$

and there are a number of homogenous producers that can freely enter and exit the market. Suppose all producers share the same long-run marginal cost function and the long-run average cost function in the following figure.



7. The long-run competitive equilibrium (with free entry and exit) price and total quantity are

- A) $P = 10, Q = 10,000$
- B) $P = 15, Q = 9,500$
- C) $P = 20, Q = 9,000$**
- D) $P = 25, Q = 8,500$

8. In the long-run competitive equilibrium, the number of producers active in the market is

- A) 100
- ☒ B) 200
- C) 300
- D) 400