LEBANESE AMERICAN UNIVERSITY
Business School
Beirut

Microeconomics
(ECO 201)

Exam III
Spring 2007

Name:

ID:

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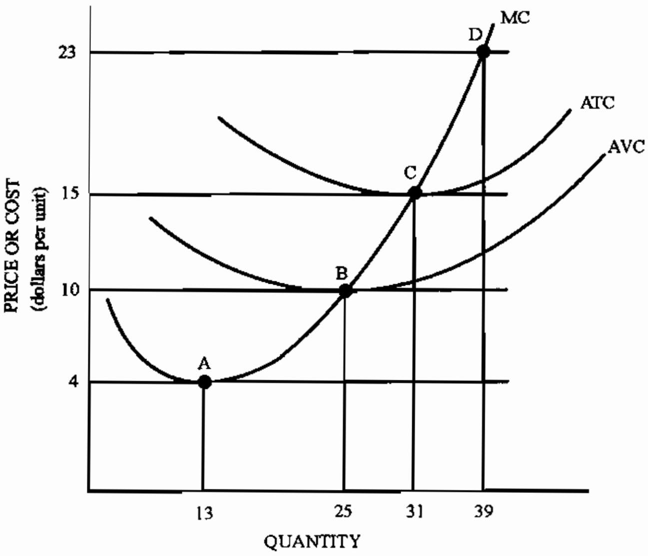
Section: 14 - MWF @ 13:00

Date: May 19, 2007

MULTIPLE CHOICE QUESTIONS: 44pts(22@2pts)

Figure 7.2



1. Refer to Figure 7.2 for a perfectly competitive firm. Which of the following statements is true for this firm between the prices of \$10 and \$15?

A) The firm is experiencing economic losses and should shutdown.
B) The firm is experiencing economic losses but should continue to produce.
C) The firm is experiencing economic profits because the market price is greater than the minimum AVC.
D) The firm is experiencing zero economic profits.

2. Refer to Figure 7.2 for a perfectly competitive firm. The law of diminishing returns takes effect at a rate of output greater than :

A) 13.
B) 25.
C) 39.
D) 31.

3. Refer to Figure 7.2 for a perfectly competitive firm. At a market price of \$23, total profits are maximized at an output of:

A) 31.
B) 13.
C) 39.
D) 25.

4. Refer to Figure 7.2 for a perfectly competitive firm. This firm should shutdown at any price below:
A) \$15.
B) \$4.
C) \$23.
D) \$10.

5. The entry of firms into a market:
A) Reduces the profits of existing firms in the market.
B) Shifts the market supply curve to the left.
C) Increases the equilibrium price.
D) All of the above.

6. Technological improvements cause:
A) Output to increase.
B) *ATC* to shift down.
C) *MC* to shift down.
D) All of the above.

7. If a perfectly competitive firm can sell 200 computers at \$700 each, in order to sell one more computer, the firm:
A) Can sell the 201st computer at \$700.
B) Cannot sell an additional computer at any price because the market is at equilibrium.
C) Can raise its price.
D) Must lower its price.

8. There are many wheat farmers, each of whom produces the same product. The wheat market can best be classified as:
A) Monopoly.
B) Oligopoly.
C) A perfectly competitive market.
D) Monopolistic competition.

9. Which of the following is consistent with long-run equilibrium for a perfectly competitive market?
A) Maximum technical efficiency is achieved.
B) Average total costs of production are minimized.
C) Economic profits are zero.
D) All of the above.

10. A firm experiencing economic losses will still continue to produce output in the short run as long as:
A) $MR = MC$.
B) Revenues are greater than total fixed cost.
C) Price is above average variable cost.
D) All of the above.

11. If a perfectly competitive firm is producing a rate of output for which MC exceeds price, then the firm:
A) Can increase its profit by decreasing output.
B) Must have an economic loss.
C) Is maximizing profit.
D) Can increase its profit by increasing output.

12. If an individual farmer in a perfectly competitive agricultural market raises price above the market price, the farmer will:
A) See other farmers follow the price rise.
B) Earn greater total profit.
C) Not sell any product.
D) Earn greater total revenue.

13. If economic profits are earned in a competitive market:
A) More firms will enter the market.
B) Equilibrium price will rise.
C) The market supply curve will shift to the left.
D) All of the above.

14. In a competitive market where firms are earning economic profits, which of the following should be expected as the industry moves to long-run equilibrium, *ceteris paribus*?
A) A higher price and more firms.
B) A higher price and fewer firms.
C) A lower price and more firms.
D) A lower price and fewer firms.

15. A firm should shut down production when:
A) $P >$ minimum AVC.
B) $P = MC$.
C) $P <$ minimum AVC.
D) $P =$ minimum ATC.

16. A perfectly competitive firm should expand output when:
A) $P > MC$.
B) $P < ATC$.
C) $P > ATC$.
D) $P < MC$.

17. As new firms enter a competitive market:
A) The market supply curve shifts to the left.
B) Profits for existing firms will increase.
C) The equilibrium market quantity falls.
D) The equilibrium market price falls.

18. Which of the following is a consequence of competition?
A) Zero economic profit in the long run.
B) Elimination of the least efficient firms.
C) An unrelenting squeeze on prices and profit.
D) All of the above.

19. At the profit-maximizing output for a perfectly competitive firm:
A) Total cost = total revenue.
B) Average revenue = average total cost.
C) Total revenue = price.
D) Marginal cost = price.

20. Which of the following characterizes a firm that is in long-run perfectly competitive equilibrium where profits are maximized?
A) Price equals marginal cost.
B) Zero economic profit.
C) P = minimum ATC.
D) All of the above.

21. For perfectly competitive firms, price:
A) And marginal revenue are not related.
B) Is greater than marginal revenue.
C) Is less than marginal revenue.
D) Is equal to marginal revenue.

22. Which of the following is true about the demand curve confronting a competitive firm?
A) Downward-sloping as in market demand.
B) Horizontal, as is market demand.
C) Horizontal, while market demand is downward-sloping.
D) Downward-sloping, while market demand is flat.

PROBLEM #1: 21pts (7 @ 3pts).

Refer to the table below, which represents the cost structure of a **typical perfectly competitive firm,** to answer the following questions.

Output Q	**Total Cost TC**	**Marginal Cost MC**
0	10	--
1	17	
2	26	
3	37	
4	50	
5	65	
6	82	
7	101	

1. If the **market price** were equal to **$15:**

    - How many units of output would the firm produce?

    - How much total profit would the firm earn?

2. If the **market price decreases to $11:**

    - How many units of output would the firm produce?

    - How much profit (or loss) would the firm earn?

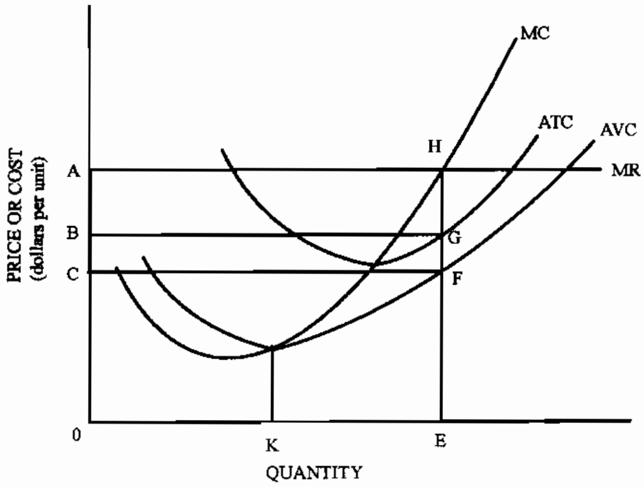
    - How much are fixed costs?

    - Should the firm stay in business? Explain.

    - Below which price would the firm shutdown? Explain.

PROBLEM#1: 21pts(7@3pts).

Figure 7.4



1. Refer to figure 7.4 for a perfectly competitive firm. The profit-maximizing rate of output would be equal to:
   A) OK B) OE C) OL D) OC

2. Refer to figure 7.4 for a perfectly competitive firm. The profit-maximizing price would be equal to:
   A) OC B) OB C) OA D) OE

3. Refer to Figure 7.4 for a perfectly competitive firm. At the profit-maximizing output, total revenues would be equal to:
   A) OAHE. B) OBGE. C) BAHG. D) CAHF.

4. Refer to Figure 7.4 for a perfectly competitive firm. At the profit-maximizing output, total costs would be equal to:
   A) OAHE. B) OBGE. C) OCFE. D) BAHG.

5. Refer to Figure 7.4 for a perfectly competitive firm. At the profit-maximizing output, total profits would be equal to:
   A) OAHE. B) OBGE. C) BAHG. D) CAHF.

6. Refer to Figure 7.4 for a perfectly competitive firm. The area CBGF is equal to:
   A) Average total cost. B) Average fixed cost. C) Marginal cost. D) Total fixed cost.

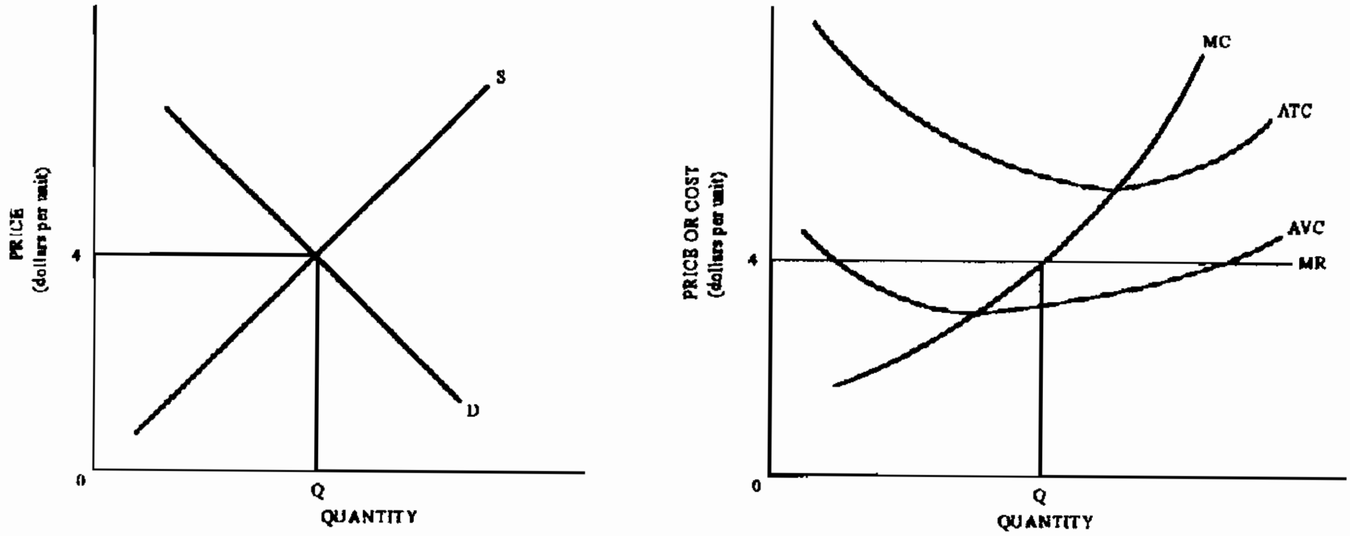
7. Refer to Figure 7.4 for a perfectly competitive firm. The area OCFE is equal to:

A) Total variable costs at the output K.
B) Total variable costs at the profit-maximizing output.
C) Average variable costs at the output E.
D) Total fixed cost.

PROBLEM #3: 21pts (7 @ 3pts).

Refer to figure 8.4, for a perfectly competitive firm and market to answer the questions below:

Figure 8.4



1. In the **short run, if the market price were equal to $4,** this firm would:

   A) Earn profit B) Breakeven C) Incur a loss

2. In the **short run,** if the **market price were equal to $4,** this firm should:

   A) Shutdown. B) Increase its price. C) Produce at a loss.

3. In the **short run**, if this firm were to increase its price above $4, the firm would:

   A) Increase TR. B) Decrease TR. C) TR become zero.

4. In the **long run**, what will happen to the number of firms in the industry?

   A) Increase. B) Decrease. C) Remain unchanged.

5. In the **long run**, what will happen to the market supply curve?

   A) Shift rightward. B) Shift leftward. C) Remain unchanged.

6. In the **long run,** what will happen to the market price?

   A) Increase. B) Decrease. C) Remain unchanged.

7. In the **long run,** what will happen to economic profits (or losses) in the industry?

   A) Increase. B) Decrease. C) Remain unchanged.