Year 12 Economics Worksheet 9

Perfect Competition - Multiple Choice Questions

Answer the following questions by circling the best answer.

1. A perfectly competitive firm

A. chooses its price to maximise its profits.
B. takes its price as given by market conditions
C. picks the price that yields the largest market share.
D. sets its price to undercut other firms selling similar products.

2. A competitive firm maximises profit by choosing the quantity at which

A. average total cost is at its minimum.
B. marginal cost equals the price.
C. average total cost equals the price
D. Marginal cost equals average total cost.

3. A competitive firm's short run supply curve is its _______________ cost curve above its _______________ cost curve.

A. average total, marginal
B. average variable, marginal
C. marginal, average total
D. marginal, average variable

4. If a profit maximising, competitive is producing a quantity at which marginal cost is between average variable cost and average total cost, it will

A. keep producing both in the short run and in the long run.
B. shut down in the short run and exit the market in the long run.
C. shut down in the short run but return to production in the long run.
D. keep producing in the short run but exit the market in the long run.

5. In the long run equilibrium of a competitive market with identical firms, what is the relationship between price, P, marginal cost MC, and average total cost, ATC?

A. P > MC and P > ATC.
B. P > MC and P = ATC
C. P = MC and P > ATC
D. P = MC and P = ATC

6. In perfect competition, a firm that maximises its economic profit will sell its good

A. below the market price.

B. above the market price.

C. below the market price if its supply curve is inelastic and above the market price if its supply curve is elastic.
D. at the market price.

(6 marks)