

# Economics test bank chapter 14 flashcard

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Chapter 14 Firms in Competitive Markets Multiple Choice 1. A FIRM HAS MARKET POWER IF IT CAN | a. | maximize profits. | | b. | minimize costs. | | c. | influence the market price of the good it sells. | | d. | hire as many workers as it needs at the prevailing wage rate. | ANS: CPTS: 1DIF: 1REF: 14-0 NAT: AnalyticLOC: Perfect competitionTOP: Market power MSC: Definitional 2. A book store that has market power can | a. | influence the market price for the books it sells. | | b. | minimize costs more efficiently than its competitors. | | c. | reduce its advertising budget more so than its competitors. | | d. ignore profit-maximizing strategies when setting the price for its books. | ANS: APTS: 1DIF: 1REF: 14-0 NAT: AnalyticLOC: Perfect competitionTOP: Market power MSC: Applicative 3. The analysis of competitive firms sheds light on the decisions that lie behind the | a. | demand curve. | | b. | supply curve. | | c. | way firms make pricing decisions in the not-for-profit sector of the economy. | | d. | way financial markets set interest rates. | ANS: BPTS: 1DIF: 1REF: 14-0 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive 4. For any competitive market, the supply curve is closely related to the | a. preferences of consumers who purchase products in that market. | | b. | income tax rates of consumers in that market. | | c. | firms' costs of production in that market. | | d. | interest rates on government bonds. | ANS: CPTS: 1DIF: 1REF: 14-0 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive 5. Suppose a firm in each of the two markets listed below were to increase its price by 20 percent. In which pair would the firm in the first market listed experience a dramatic decline in sales, but the firm in the second market listed would not? | a. | corn and soybeans | | b. gasoline and restaurants | | c. | water and cable

television | | d. | spiral notebooks and college textbooks | ANS: DPTS: 1DIF: 2REF: 14-0 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Applicative 6. Suppose a firm in each of the two markets listed below were to increase its price by 30 percent.

In which pair would the firm in the first market listed experience a dramatic decline in sales, but the firm in the second market listed would not? | a. | oil and natural gas | | b. | cable television and gasoline | | c. | restaurants and MP3 players | | d. | movie theaters and ballpoint pens | ANS: BPTS: 1DIF: 2REF: 14-0

NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Applicative What is a Competitive Market? 1. A KEY CHARACTERISTIC OF A COMPETITIVE MARKET IS THAT | a. | government antitrust laws regulate competition. | | b. | producers sell nearly identical products. | | c. | firms minimize total costs. | | d. | firms have price setting power. | ANS: BPTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Definitional 2. Which of the following is not a characteristic of a competitive market? | a. | Buyers and sellers are price takers. | | b. | Each firm sells a virtually identical product. | c. | Entry is limited. | | d. | Each firm chooses an output level that maximizes profits. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Definitional 3. Which of the following is a characteristic of a competitive market? | a. | There are many buyers but few sellers. | | b. | Firms sell differentiated products. | | c. | There are many barriers to entry. | | d. | Buyers and sellers are price takers. | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Definitional

4. Who is a price taker in a competitive market? | a. buyers only | | b. | sellers only | | c. | both buyers and sellers | | d. | neither buyers nor sellers |

ANS: CPTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP:

Competitive markets MSC: Definitional 5. Competitive markets are

characterized by | a. | a small number of buyers and sellers. | | b. | unique products. | | c. the interdependence of firms. | | d. | free entry and exit by

firms. | ANS: DPTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect

competitionTOP: Competitive markets MSC: Definitional 6. A market is

competitive if |(i) | firms have the flexibility to price their own product. | |(ii) |

each buyer is small compared to the market. | |(iii) | each seller is small

compared to the market. | | a. |(i) and (ii) only | | b. |(i) and (iii) only | | c. (ii)

and (iii) only | | d. |(i), (ii), and (iii) | ANS: CPTS: 1DIF: 2REF: 14-1 NAT:

AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive

7. A firm that has little ability to influence market prices operates in a | a. |

competitive market. | | b. | strategic market. | | c. | thin market. | | d. | power

market. | ANS: APTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect

competitionTOP: Competitive markets MSC: Definitional 8. In a competitive

market, the actions of any single buyer or seller will | a. have a negligible

impact on the market price. | | b. | have little effect on market equilibrium

quantity but will affect market equilibrium price. | | c. | affect marginal

revenue and average revenue but not price. | | d. | adversely affect the

profitability of more than one firm in the market. | ANS: APTS: 1DIF: 2REF:

14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC:

Interpretive 9. In a competitive market, the actions of any single buyer or

seller will | a. | discourage entry by competitors. | | b. | influence the profits

of other firms in the market. | | c. | have a negligible impact on the market price. | | d. None of the above is correct. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive

10. Because the goods offered for sale in a competitive market are largely the same, | a. | there will be few sellers in the market. | | b. | there will be few buyers in the market. | | c. | only a few buyers will have market power. | | d. | sellers will have little reason to charge less than the going market price. | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive

11. Which of the following is not a characteristic of a perfectly competitive market? a. | Firms are price takers. | | b. | Firms have difficulty entering the market. | | c. | There are many sellers in the market. | | d. | Goods offered for sale are largely the same. | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive

12. Which of the following is not a characteristic of a perfectly competitive market? | a. | Firms are price takers. | | b. | Firms can freely enter the market. | | c. | Many firms have market power. | | d. | Goods offered for sale are largely the same. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive

3. Free entry means that | a. | the government pays any entry costs for individual firms. | | b. | no legal barriers prevent a firm from entering an industry. | | c. | a firm's marginal cost is zero. | | d. | a firm has no fixed costs in the short run. | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive

14. Which of the following industries is most likely to exhibit the characteristic of free entry? | a. | nuclear power | | b. | municipal water and sewer | | c. dairy

farming | | d. | airport security | ANS: CPTS: 1DIF: 2REF: 14-1 NAT:

AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Applicative

15. Which of the following industries is most likely to exhibit the characteristic of free entry? | a. | cable television | | b. | satellite radio | | c. | mineral mining | | d. t-shirt silkscreening | ANS: DPTS: 1DIF: 2REF: 14-1 NAT:

AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Applicative

16. Which of the following industries is least likely to exhibit the characteristic of free entry? | a. | restaurants | | b. | municipal water and sewer | | c. | soybean farming | | d. | selling running apparel | ANS: BPTS: 1DIF: 2REF: 14-1

NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC:

Applicative 17. Which of the following industries is least likely to exhibit the characteristic of free entry? | a. | selling running apparel | | b. | wheat farming | | c. | yoga studios | | d. | satellite radio | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC:

Applicative 8. When buyers in a competitive market take the selling price as given, they are said to be | a. | market entrants. | | b. | monopolists. | | c. | free riders. | | d. | price takers. | ANS: DPTS: 1DIF: 1REF: 14-1 NAT:

AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Definitional

19. 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. | ANS: APTS: 1DIF: 2REF: 14-1

NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC:

Interpretive 20. Which of the following statements best reflects a price-taking firm? | a. | If the firm were to charge more than the going price, it would sell none of its goods. | | b. | The firm has an incentive to charge less than the market price to earn higher revenue. | | c. | The firm can sell only a limited amount of output at the market price before the market price will fall. | | d. | Price-taking firms maximize profits by charging a price above marginal cost. | ANS: APTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect

competitionTOP: Competitive markets MSC: Interpretive 1. Why does a firm in a competitive industry charge the market price? | a. | If a firm charges less than the market price, it loses potential revenue. | | b. | If a firm charges more than the market price, it loses all its customers to other firms. | | c. | The firm can sell as many units of output as it wants to at the market price. | | d. | All of the above are correct. | ANS: DPTS: 1DIF: 2REF: 14-1 NAT:

AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive 22. 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. | ANS:

APTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive 23. A competitive firm would benefit from charging a price below the market price because the firm would achieve |(i) | higher average revenue. | |(ii) | higher profits. | |(iii) | lower total costs. | | a. |(i) only | | b. |(ii) and (iii) only | | c. |(i), (ii), and (iii) | | d. | None of

the above is correct. | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive 24. Which of the following characteristics of competitive markets is necessary for firms to be price takers? | (i) | There are many sellers. | (ii) | Firms can freely enter or exit the market. | (iii) | Goods offered for sale are largely the same. | a. | (i) and (ii) only | | b. | (i) and (iii) only | | c. | (ii) only | | d. | (i), (ii), and (iii) | ANS:

BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP:

Competitive markets MSC: Interpretive 25. Suppose a firm in a competitive market reduces its output by 20 percent. As a result, the price of its output is likely to | a. | increase. | | b. | remain unchanged. | | c. | decrease by less than 20 percent. | | d. | decrease by more than 20 percent. | ANS: BPTS: 1DIF:

2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets

MSC: Analytical 26. The Doris Dairy Farm sells milk to a dairy broker in Prairie du Chien, Wisconsin. Because the market for milk is generally considered to be competitive, the Doris Dairy Farm does not | a. | choose the quantity of milk to produce. | | b. | choose the price at which it sells its milk. | | c. | have any fixed costs of production. | | d. | set marginal revenue equal to marginal cost to maximize profit. | ANS: BPTS: 1DIF: 2REF: 14-1

NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC:

Interpretive 27. The Doris Dairy Farm sells milk to a dairy broker in Prairie du Chien, Wisconsin. Because the market for milk is generally considered to be competitive, the Doris Dairy Farm does not choose the | a. | quantity of milk to produce. | | b. | price at which it sells its milk. | | c. | profits it earns. | | d. |

All of the above are correct. | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive 28. In a



competitive market, | a. | no single buyer or seller can influence the price of the product. | b. | there are only a small number of sellers. | | c. | the goods offered by the different sellers are unique. | | d. | accounting profit is driven to zero as firms freely enter and exit the market. | ANS: APTS: 1DIF: 1REF:

14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC:

Interpretive 29. Which of the following statements regarding a competitive

market is not correct? | a. | There are many buyers and many sellers in the

market. | | b. | Because of firm location or product differences, some firms

can charge a higher price than other firms and still | | | maintain their sales

volume. | | c. Price and average revenue are equal. | | d. | Price and marginal

revenue are equal. | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect

competitionTOP: Competitive markets MSC: Interpretive 30. Which of the

following statements regarding a competitive market is not correct? | a. |

There are many buyers and many sellers in the market. | | b. | Firms can

freely enter or exit the market. | | c. | Price equals average revenue. | | d. |

Price exceeds marginal revenue. | ANS: DPTS: 1DIF: 2REF: 14-1 NAT:

AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive

31. One of the defining characteristics of a perfectly competitive market is |

a. a small number of sellers. | | b. | a large number of buyers and a small

number of sellers. | | c. | a similar product. | | d. | significant advertising by

firms to promote their products. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT:

AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Definitional

32. Which of the following firms is the closest to being a perfectly

competitive firm? | a. | a hot dog vendor in New York | | b. | Microsoft

Corporation | | c. | Ford Motor Company | | d. the campus bookstore | ANS:

APTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP:

Competitive markets MSC: Applicative 33. Which of the following firms is the closest to being a perfectly competitive firm? | a. | the New York Yankees | | b. | Apple, Inc. | | c. | DeBeers diamond wholesalers | | d. | a wheat farmer in Kansas |

ANS: DPTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP:

Competitive markets MSC: Applicative 34. Firms that operate in perfectly competitive markets try to | a. | maximize revenues. | | b. | maximize profits. | | c. | equate marginal revenue with average total cost. | | d. | All of the above are correct. |

ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive 35. A seller in a competitive market can | a. | sell all he wants at the going price, so he has little reason to charge less. | | b. | influence the market price by adjusting his output. | | c. | influence the profits earned by competing firms by adjusting his output. | | d. | All of the above are correct. |

ANS: APTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC:

Interpretive 36. A seller in a competitive market | a. | can sell all he wants at the going price, so he has little reason to charge less. | | b. | will lose all his customers to other sellers if he raises his price. | | c. | considers the market price to be a "take it or leave it" price. | | d. | All of the above are correct. |

ANS: DPTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP:

Competitive markets MSC: Interpretive 7. In a perfectly competitive market, | a. | no one seller can influence the price of the product. | | b. | price exceeds marginal revenue for each unit sold. | | c. | average revenue exceeds marginal revenue for each unit sold. | | d. | All of the above are correct. |

ANS: APTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP:

Competitive markets MSC: Interpretive 38. For a firm in a competitive market, an increase in the quantity produced by the firm will result in | a. | a decrease in the product's market price. | | b. | an increase in the product's market price. | | c. | no change in the product's market price. | d. | either an increase or no change in the product's market price depending on the number of firms in the market. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT:

AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive

39. If Cathy's Coffee Emporium sells its product in a competitive market, then | a. | the price of that product depends on the quantity of the product that Cathy's Coffee Emporium produces and sells | | | because Cathy's Coffee Emporium's demand curve is downward sloping. | | b. | Cathy's Coffee Emporium's total revenue must be proportional to its quantity of output. | | c. | Cathy's Coffee Emporium's total cost must be a constant multiple of its quantity of output. | | d. | Cathy's Coffee Emporium's total revenue must be equal to its average revenue. | ANS: BPTS: 1DIF: 3REF: 14-1 NAT:

AnalyticLOC: Perfect competitionTOP: Total revenue MSC: Analytical 40.

Changes in the output of a perfectly competitive firm, without any change in the price of the product, will change the firm's | a. | total revenue. | | b. | marginal revenue. | | c. | average revenue. | | d. | All of the above are correct. | ANS: APTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Total revenue MSC: Analytical 41.

If a firm in a perfectly competitive market triples the quantity of output sold, then total revenue will | a. | more than triple. | | b. | less than triple. | | c. | exactly triple. | | d. | Any of the above may be true depending on the firm's

labor productivity. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Total revenue MSC: Analytical 42. When a competitive firm doubles the quantity of output it sells, its | a. | total revenue doubles. | | b. | average revenue doubles. | | c. | marginal revenue doubles. | | d. | profits must increase. | ANS: APTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Total revenue

MSC: Analytical 43. If a firm in a competitive market doubles its number of units sold, total revenue for the firm will | a. | more than double. | | b. | double. | | c. | increase but by less than double. | | d. | may increase or decrease depending on the price elasticity of demand. | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Total revenue MSC: Analytical Table 14-1 | Quantity | Price | | 0 |\$5 | | 1 |\$5 | | 2 |\$5 | | 3 |\$5 | 4 |\$5 | | 5 |\$5 | | 6 |\$5 | | 7 |\$5 | | 8 |\$5 | | 9 |\$5 | 44. Refer to Table 14-1. The price and quantity relationship in the table is most likely a demand curve faced by a firm in a | a. | monopoly. | | b. | concentrated market. | | c. | competitive market. | | d. | strategic market. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Analytical 45. Refer to Table 14-1.

Over which range of output is average revenue equal to price? | a. | 1 to 5 units | | b. | 3 to 7 units | | c. | 5 to 9 units | | d. | Average revenue is equal to price over the entire range of output. | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Average revenue MSC: Analytical 46. Refer to Table 14-1. Over what range of output is marginal revenue declining? | a. | 1 to 6 units | | b. | 3 to 7 units | | c. | 7 to 9 units | | d. |

Marginal revenue is constant over the entire range of output. | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Marginal revenue MSC: Analytical 47. Refer to Table 14-1. If the firm doubles its output from 3 to 6 units, total revenue will | a. | increase by less than \$15. | | b. | increase by exactly \$15. | c. | increase by more than \$15. | | d. | Total revenue cannot be determined from the information provided. | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Total revenue MSC: Applicative Table 14-2 The table represents a demand curve faced by a firm in a competitive market. | Price | Quantity | |\$4 | 0 | |\$4 | 1 | |\$4 | 2 | |\$4 | 3 | |\$4 | 4 | |\$4 | 5 | 48. Refer to Table 14-2. A firm operating in a competitive market maximizes total revenue by producing | a. | 2 units. | b. | 3 units. | | c. | 4 units. | | d. | as many units as possible. | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Total revenue MSC: Applicative 49. Refer to Table 14-2. For a firm operating in a competitive market, the average revenue from selling 3 units is | a. |\$12. | | b. |\$4. | | c. |\$3. | | d. |\$1. 25. | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Average revenue MSC: Applicative 50. Refer to Table 14-2. For a firm operating in a competitive market, the marginal revenue from selling the 3rd unit is | a. |\$12. | | b. |\$4. | | c. |\$3. | | d. |\$1. 25. | ANS: BPTS: 1DIF: 3REF: 14-1

NAT: AnalyticLOC: Perfect competitionTOP: Marginal revenue MSC: Applicative Table 14-3 | Quantity | Total Revenue | | 0 |\$0 | | 1 |\$7 | | 2 |\$14 | | 3 |\$21 | | 4 |\$28 | 51. Refer to Table 14-3. For a firm operating in a competitive market, the price is | a. |\$0. | | b. |\$7. | | c. |\$14. | | d. |\$21. |

ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Applicative 52.

Refer to Table 14-3. For a firm operating in a competitive market, the marginal revenue is | a. |\$0. | | b. |\$7. | | c. |\$14. | | d. |\$21. | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Marginal revenue MSC: Applicative 53. Refer to Table 14-3. For a firm operating in a competitive market, the average revenue is | a. |\$21. | | b. |\$14. | | c. |\$7. | | d. |\$0. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Average revenue MSC: Applicative Table 14-4 | Quantity | Total Revenue | | 0 |\$0 | | 1 |\$15 | 2 |\$30 | | 3 |\$45 | | 4 |\$60 | 54. Refer to Table 14-4. For a firm operating in a competitive market, the price is | a. |\$45. | | b. |\$30. | | c. |\$15. | | d. |\$0. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Applicative 55. Refer to Table 14-4. For a firm operating in a competitive market, the marginal revenue is | a. |\$45. | | b. |\$30. | | c. |\$15. | | d. |\$0. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Marginal revenue MSC: Applicative 56.

Refer to Table 14-4. For a firm operating in a competitive market, the average revenue is | a. |\$45. | | b. |\$30. | | c. |\$15. | | d. |\$0. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Average revenue MSC: Applicative Table 14-5 | Quantity | Total Revenue | | 12 |\$132 | | 13 |\$143 | | 14 |\$154 | | 15 |\$165 | | 16 |\$176 | 57. Refer to Table 14-5.

The price of the product is | a. |\$9. | | b. |\$11. | | c. |\$13. | | d. |\$15. | ANS: BPTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP:

Competitive markets MSC: Applicative 58. Refer to Table 14-5. The average revenue when 14 units are produced and sold is | a. |\$9. | | b. |\$11. | | c. |\$13. | | d. |\$15. | ANS: BPTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Average revenue MSC: Analytical

59. Refer to Table 14-5. The marginal revenue of the 12th unit is | a. |\$9. | | b. |\$10. | | c. |\$11 | | d. The marginal revenue cannot be determined without knowing the total revenue when 11 units are sold. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Marginal revenue MSC: Analytical

Table 14-6 The following table presents cost and revenue information for a firm operating in a competitive industry. | COSTS | REVENUES | | Quantity | Total | Marginal | Quantity | Price | Total | Marginal | | Produced | Cost | Cost | Demanded | Revenue | Revenue | | 0 |\$100 | — | 0 |\$120 | | — | | 1 |\$150 | | 1 |\$120 | | | 2 |\$202 | | 2 |\$120 | | | 3 |\$257 | | 3 |\$120 | | | 4 |\$317 | | 4 |\$120 | | | 5 |\$385 | | 5 |\$120 | | | 6 |\$465 | | 6 |\$120 | | | 7 |\$562 | | 7 |\$120 | | | 8 |\$682 | | 8 |\$120 | | | 60. Refer to Table 14-6. What is the total revenue from selling 7 units? | a. \$120 | | b. |\$490 | | c. |\$562 | | d. |\$840 | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Total revenue MSC: Applicative

61. Refer to Table 14-6. What is the total revenue from selling 4 units? | a. |\$120 | | b. |\$257 | | c. \$317 | | d. |\$480 | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Total revenue MSC: Applicative

62. Refer to Table 14-6. What is the marginal revenue from selling the 3rd unit? | a. |\$55 | | b. |\$120 | | c. |\$137 | | d. |\$140 | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Marginal revenue MSC: Applicative

63. Refer to Table 14-6. What is the average revenue when 4

units are sold? | a. |\$60 | | b. |\$120 | | c. |\$125 | | d. |\$197 | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Average revenue

MSC: Applicative 64. Which of the following statements is correct? a. | For all firms, marginal revenue equals the price of the good. | | b. | Only for competitive firms does average revenue equal the price of the good. | | c. | Marginal revenue can be calculated as total revenue divided by the quantity sold. | | d. | Only for competitive firms does average revenue equal marginal revenue. | ANS: DPTS: 1DIF: 3REF: 14-1 NAT: AnalyticLOC: Perfect

competition TOP: Average revenue | Marginal revenueMSC: Interpretive 65.

Suppose a firm in a competitive market earned \$1,000 in total revenue and had a marginal revenue of \$10 for the last unit produced and sold. What is the average revenue per unit, and how many units were sold? | a. \$5 and 50 units | | b. |\$5 and 100 units | | c. |\$10 and 50 units | | d. |\$10 and 100 units | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP:

Average revenue MSC: Applicative 66. Which of the following statements regarding a competitive firm is correct? | a. | Because demand is downward sloping, if a firm increases its level of output, the firm will have to charge a lower | | price to sell the additional output. | | b. If a firm raises its price, the firm may be able to increase its total revenue even though it will sell fewer units. | | c. | By lowering its price below the market price, the firm will benefit from selling more units at the lower price than | | it could have sold by charging the market price. | | d. | For all firms, average revenue equals the price of the good. | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect

competitionTOP: Average revenue MSC: Analytical 67. Suppose a firm in a competitive market produces and sells 150 units of output and earns \$1,800



in total revenue from the sales. If the firm increases its output to 200 units, the average revenue of the 200th unit will be | a. less than \$12. | | b. | more than \$12. | | c. |\$12. | | d. | Any of the above may be correct depending on the price elasticity of demand for the product. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Average revenue MSC: Analytical

68. Suppose a firm in a competitive market produces and sells 150 units of output and earns \$1,800 in total revenue from the sales. If the firm increases its output to 200 units, total revenue will be | a. |\$2,000. | | b. |\$2,400. | | c. |\$4,200. | | d. | We do not have enough information to answer the question. | ANS: BPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Total revenue MSC: Analytical 69.

Firms operating in competitive markets produce output levels where marginal revenue equals | a. | price. | | b. | average revenue. | | c. | total revenue divided by output. | | d. | All of the above are correct. | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competition TOP: Marginal revenue | Average revenueMSC: Applicative 70. For a competitive firm, | a. | total revenue equals average revenue. | | b. | total revenue equals marginal revenue. | | c. | total cost equals marginal revenue. | | d. | average revenue equals marginal revenue. | ANS: DPTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect competition TOP: Marginal revenue | Average revenueMSC: Definitional 71.

Suppose that a firm operating in perfectly competitive market sells 100 units of output. Its total revenues from the sale are \$500. Which of the following statements is correct? |(i) | Marginal revenue equals \$5. | |(ii) | Average

revenue equals \$5. | (iii) | Price equals \$5. | a. (i) only | b. (iii) only | c. (i) and (ii) only | d. (i), (ii), and (iii) | ANS: DPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competition

TOP: Marginal revenue | Average revenueMSC: Analytical 72. Suppose that a firm operating in perfectly competitive market sells 200 units of output at a price of \$3 each. Which of the following statements is correct? (i) | Marginal revenue equals \$3. | (ii) | Average revenue equals \$600. | (iii) | Average revenue exceeds marginal revenue, but we don't know by how much. | a. (i) only | b. (iii) only | c. (i) and (ii) only | d. (i), (ii), and (iii) | ANS: APTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competition TOP: Marginal

revenue | Average revenueMSC: Analytical 73. Suppose that a firm operating in perfectly competitive market sells 300 units of output at a price of \$3 each. Which of the following statements is correct? (i) | Marginal revenue equals \$3. | (ii) | Average revenue equals \$100. | (iii) | Total revenue equals \$300. | a. (i) only | b. (iii) only | c. (i) and (ii) only | d. (i), (ii), and (iii) | ANS: APTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competition TOP:

Marginal revenue | Average revenueMSC: Analytical 74. Suppose that a firm operating in perfectly competitive market sells 400 units of output at a price of \$4 each. Which of the following statements is correct? (i) | Marginal revenue equals \$4. | (ii) | Average revenue equals \$100. | (iii) | Total revenue equals \$1,600. | a. (i) only | b. (iii) only | c. (i) and (iii) only | d. (i), (ii), and (iii) | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect

competition TOP: Marginal revenue | Average revenueMSC: Analytical 75. For a firm operating in a competitive industry, which of the following statements is not correct? | a. | Price equals average revenue. | b. | Price equals

marginal revenue. | | c. | Total revenue is constant. | | d. | Marginal revenue is constant. | ANS: CPTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competition

TOP: Marginal revenue | Average revenueMSC: Interpretive 76. For a firm in a perfectly competitive market, the price of the good is always | a. | equal to marginal revenue. | | b. | equal to total revenue. | | c. | greater than average revenue. | | d. | equal to the firm's efficient scale of output. | ANS: APTS:

1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Marginal

revenue MSC: Interpretive 77. Suppose a firm in a competitive market

produces and sells 8 units of output and has a marginal revenue of \$8.00.

What would be the firm's total revenue if it instead produced and sold 4 units of output? | a. | \$4 | | b. | \$8 | | c. | \$32 | | d. | \$64 | ANS: CPTS: 1DIF: 2REF: 14-1

NAT: AnalyticLOC: Perfect competitionTOP: Marginal revenue MSC:

Applicative 78. Whenever a perfectly competitive firm chooses to change its

level of output, its marginal revenue | a. | increases if  $MR < ATC$  and

decreases if  $MR > ATC$ . | | b. | does not change. | | c. | increases. | | d. |

decreases. | ANS: BPTS: 1DIF: 1REF: 14-1 NAT: AnalyticLOC: Perfect

competitionTOP: Marginal revenue MSC: Interpretive 79. Suppose that in a

competitive market the equilibrium price is \$2.50.

What is marginal revenue for the last unit sold by the typical firm in this

market? | a. | less than \$2.50 | | b. | more than \$2.50 | | c. | exactly \$2.50 |

| d. | The marginal revenue cannot be determined without knowing the

actual quantity sold by the typical firm. | ANS: CPTS: 1DIF: 1REF: 14-1 NAT:

AnalyticLOC: Perfect competitionTOP: Marginal revenue MSC: Interpretive 80.

For an individual firm operating in a competitive market, marginal revenue equals | a. | average revenue and the price for all levels of output. | | b. | average revenue, which is greater than the price for all levels of output. | | c. | average revenue, the price, and marginal cost for all levels of output. | | d. | marginal cost, which is greater than average revenue for all levels of output.

| ANS: APTS: 1DIF: 2REF: 14-1 NAT: AnalyticLOC: Perfect competition TOP:

Marginal revenue | Average revenueMSC: Interpretive 81. If the market elasticity of demand for potatoes is  $-0.3$  in a perfectly competitive market, then the individual farmer's elasticity of demand | a. | will also be  $-0.3$ . | | b. | depends on how large a crop the farmer produces. | | c. | will range between  $-0.3$  and  $-1.0$ . | | d. | will be infinite. | ANS: DPTS: 1DIF: 3REF: 14-1 NAT: AnalyticLOC: Perfect competitionTOP: Elasticity MSC: Analytical

Profit Maximization and the Competitive Firm's Supply Curve 1. IF A COMPETITIVE FIRM IS CURRENTLY PRODUCING A LEVEL OF OUTPUT AT WHICH MARGINAL REVENUE EXCEEDS MARGINAL COST, THEN | a. | a one-unit increase in output will increase the firm's profit. | | b. | a one-unit decrease in output will increase the firm's profit. | | c. | total revenue exceeds total cost. | | d. | total cost exceeds total revenue. | ANS: APTS:

1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Analytical 2. If a competitive firm is currently producing a level of output at which marginal cost exceeds marginal revenue, then | a. | a one-unit increase in output will increase the firm's profit. | | b. | a one-unit decrease in output will increase the firm's profit. | | c. | total revenue exceeds total cost. | | d. | total cost exceeds total revenue. | ANS: BPTS:

1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive

firms MSC: Analytical 3. If a competitive firm is currently producing a level of output at which marginal cost exceeds marginal revenue, then | a. | average revenue exceeds marginal cost. | | b. | the firm is earning a positive profit. | | c. | decreasing output would increase the firm's profit. | | d. | All of the above are correct. | ANS: CPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect

competitionTOP: Competitive firms MSC: Analytical 4. Comparing marginal revenue to marginal cost (i) | reveals the contribution of the last unit of production to total profit. | |(ii) | is helpful in making profit-maximizing production decisions. | |(iii) | tells a firm whether its fixed costs are too high. | | a. |(i) only | | b. |(i) and (ii) only | | c. |(ii) and (iii) only | | d. |(i) and (iii) only | ANS: BPTS: 1DIF: 2REF: 14-2

NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC:

Interpretive 5. At the profit-maximizing level of output, | a. | marginal revenue equals average total cost. | | b. | marginal revenue equals average variable cost. | | c. | marginal revenue equals marginal cost. | | d. | average revenue equals average total cost. | ANS: CPTS: 1DIF: 2REF: 14-2 NAT:

AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Interpretive 6.

The intersection of a firm's marginal revenue and marginal cost curves determines the level of output at which | a. | total revenue is equal to variable cost. | | b. | total revenue is equal to fixed cost. | | c. | total revenue is equal to total cost. | | d. | profit is maximized. | ANS: DPTS: 1DIF: 2REF: 14-2

NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC:

Interpretive 7. For a certain firm, the 100th unit of output that the firm

produces has a marginal revenue of \$10 and a marginal cost of \$7. It follows that the | a. | production of the 100th unit of output increases the firm's profit by \$3. | | b. | production of the 100th unit of output increases the firm's average total cost by \$7. | | c. | firm's profit-maximizing level of output is less than 100 units. | | d. | production of the 99th unit of output must increase the firm's profit by less than \$3. | ANS: APTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Analytical 8.

For a certain firm, the 100th unit of output that the firm produces has a marginal revenue of \$10 and a marginal cost of \$11. It follows that the | a. | production of the 100th unit of output increases the firm's profit by \$1. | | b. | production of the 100th unit of output increases the firm's average total cost by \$1. | | c. | firm's profit-maximizing level of output is less than 100 units. | | d. | production of the 110th unit of output must increase the firm's profit but by less than \$1. | ANS: CPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Analytical 9. A certain competitive firm sells its output for \$20 per unit. The 50th unit of output that the firm produces has a marginal cost of \$22.

Production of the 50th unit of output does not necessarily | a. | increase the firm's total revenue by \$20. | | b. | increase the firm's total cost by \$22. | | c. | decrease the firm's profit by \$2. | | d. | increase the firm's average variable cost by \$0. 44. | ANS: DPTS: 1DIF: 3REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Analytical 10. Sam sells soybeans to a broker in Chicago, Illinois. Because the market for soybeans is generally considered to be competitive, Sam maximizes his profit by choosing | a. | to

produce the quantity at which average variable cost is minimized. | | b. | to produce the quantity at which average fixed cost is minimized. | c. | to sell at a price where marginal cost is equal to average total cost. | | d. | the quantity at which market price is equal to Sam's marginal cost of production. | ANS:

DPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP:

Competitive firms MSC: Analytical 11. If a competitive firm is selling 1, 000 units of its product at a price of \$9 per unit and earning a positive profit, then | a. | its total cost is less than \$9, 000. | | b. | its marginal revenue is less than \$9. | | c. | its average revenue is greater than \$9. | | d. | the firm cannot be a competitive firm because competitive firms cannot earn positive profits. | ANS: APTS: 1DIF: 2REF: 14-2

NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Analytical 12. If a competitive firm is selling 1, 000 units of its product at a price of \$8 per unit and earning a positive profit, then | a. | its average revenue is greater than \$8. | | b. | its marginal revenue is less than \$8. | | c. | its total cost is less than \$8, 000. | | d. | All of the above are correct. | ANS: CPTS:

1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive

firms MSC: Analytical 13. Max sells maps. The map industry is competitive.

Max hires a business consultant to analyze his company's financial records.

The consultant recommends that Max increase his production. The

consultant must have concluded that Max's | a. total revenues exceed his

total accounting costs. | | b. | marginal revenue exceeds his total cost. | | c. |

marginal revenue exceeds his marginal cost. | | d. | marginal cost exceeds

his marginal revenue. | ANS: CPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC:

Perfect competitionTOP: Competitive firms MSC: Interpretive 14. Christopher

is a professional tennis player who gives tennis lessons. The industry is competitive. Christopher hires a business consultant to analyze his financial records. The consultant recommends that Christopher give fewer tennis lessons. The consultant must have concluded that Christopher's | a. | total revenues exceed his total accounting costs. | | b. marginal revenue exceeds his total cost. | | c. | marginal revenue exceeds his marginal cost. | | d. | marginal cost exceeds his marginal revenue. | ANS: DPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC:

Interpretive 15. Laura is a gourmet chef who runs a small catering business in a competitive industry. Laura specializes in making wedding cakes. Laura sells 20 wedding cakes per month. Her monthly total revenue is \$5, 000. The marginal cost of making a wedding cake is \$300. In order to maximize profits, Laura should | a. | make more than 20 wedding cakes per month. | | b. | make fewer than 20 wedding cakes per month. | | c. continue to make 20 wedding cakes per month. | | d. | We do not have enough information with which to answer the question. | ANS: BPTS: 1DIF: 3REF: 14-2 NAT:

AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Analytical 16. Laura is a gourmet chef who runs a small catering business in a competitive industry. Laura specializes in making wedding cakes. Laura sells 20 wedding cakes per month. Her monthly total revenue is \$5, 000. The marginal cost of making a wedding cake is \$200. In order to maximize profits, Laura should | a. | make more than 20 wedding cakes per month. | | b. | make fewer than 20 wedding cakes per month. | | c. | continue to make 20 wedding cakes per month. | | d. We do not have enough information with which to answer the question. | ANS: APTS: 1DIF: 3REF: 14-2 NAT: AnalyticLOC: Perfect



competitionTOP: Competitive firms MSC: Analytical 17. Marcia is a fashion designer who runs a small clothing business in a competitive industry. Marcia specializes in making designer dresses. Marcia sells 10 dresses per month. Her monthly total revenue is \$5, 000. The marginal cost of making a dress is \$400. In order to maximize profits, Marcia should | a. | make more than 10 dresses per month. | | b. | make fewer than 10 dresses per month. | | c. | continue to make 10 dresses per month. | | d. | We do not have enough information with which to answer the question. | ANS: APTS: 1DIF: 3REF: 14-2

NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Analytical 18. Marcia is a fashion designer who runs a small clothing business in a competitive industry. Marcia specializes in making designer dresses. Marcia sells 10 dresses per month. Her monthly total revenue is \$5, 000. The marginal cost of making a dress is \$500. In order to maximize profits, Marcia should | a. | make more than 10 dresses per month. | | b. | make fewer than 10 dresses per month. | | c. | continue to make 10 dresses per month. | | d. | We do not have enough information with which to answer the question. | ANS: CPTS: 1DIF: 3REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Analytical 19.

Marcia is a fashion designer who runs a small clothing business in a competitive industry. Marcia specializes in making designer dresses. Marcia sells 10 dresses per month. Her monthly total revenue is \$5, 000. The marginal cost of making a dress is \$600. In order to maximize profits, Marcia should | a. | make more than 10 dresses per month. | | b. | make fewer than 10 dresses per month. | | c. | continue to make 10 dresses per month. | | d. |

We do not have enough information with which to answer the question. |

ANS: BPTS: 1DIF: 3REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP:

Competitive firms MSC: Analytical 20. A competitive firm has been selling its output for \$20 per unit and has been maximizing its profit, which is positive.

Then, the price rises to \$25, and the firm makes whatever adjustments are necessary to maximize its profit at the now-higher price. Once the firm has adjusted, its | a. | quantity of output is higher than it was previously. | | b. | average total cost is higher than it was previously. | | c. | marginal revenue is higher than it was previously. | | d. | All of the above are correct. | ANS:

DPTS: 1DIF: 3REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP:

Competitive firms MSC: Interpretive 21. A competitive firm has been selling its output for \$20 per unit and has been maximizing its profit, which is positive. Then, the price falls to \$18, and the firm makes whatever adjustments are necessary to maximize its profit at the now-lower price.

Once the firm has adjusted, its | a. quantity of output is lower than it was previously. | | b. | average total cost is lower than it was previously. | | c. | marginal cost is higher than it was previously. | | d. | All of the above are correct. | ANS: APTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect

competitionTOP: Competitive firms MSC: Interpretive 22. A competitive firm has been selling its output for \$10 per unit and has been maximizing its profit. Then, the price rises to \$14, and the firm makes whatever adjustments are necessary to maximize its profit at the now-higher price.

Once the firm has adjusted, its | a. | marginal revenue is lower than it was previously. | | b. | marginal cost is lower than it was previously. | | c. quantity of output is higher than it was previously. | | d. | All of the above are correct.

| ANS: CPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Interpretive 23. When profit-maximizing firms in competitive markets are earning profits, | a. | market demand must exceed market supply at the market equilibrium price. | | b. | market supply must exceed market demand at the market equilibrium price. | | c. | new firms will enter the market. | | d. | the most inefficient firms will be encouraged to leave the market. | ANS: CPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive markets MSC: Interpretive Table 14-7

Suppose that a firm in a competitive market faces the following revenues and costs: | | Marginal | Marginal | | Quantity | Cost | Revenue | | 12 |\$5 |\$9 | | 13 |\$6 |\$9 | | 14 |\$7 |\$9 | | 15 |\$8 |\$9 | | 16 |\$9 |\$9 | | 17 |\$10 |\$9 | 24. Refer to Table 14-7. If the firm is currently producing 14 units, what would you advise the owners? | a. | decrease quantity to 13 units | | b. | increase quantity to 17 units | | c. | continue to operate at 14 units | | d. increase quantity to 16 units | ANS: DPTS: 1DIF: 1REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Profit maximization MSC: Applicative 25. Refer to Table 14-7. If the firm is maximizing profit, how much profit is it earning? | a. |\$0 | | b. |\$1 | | c. |\$10 | | d. | There is insufficient data to determine the firm's profit. | ANS: DPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Profit MSC: Applicative Table 14-8

Suppose that a firm in a competitive market faces the following revenues and costs: | Quantity | Total Revenue | Total Cost | | 0 |\$0 |\$3 | | 1 |\$7 |\$5 | | 2 |\$14 |\$8 | | 3 |\$21 |\$12 | | 4 |\$28 |\$17 | | 5 |\$35 |\$23 | | 6 |\$42 |\$30 | | 7 |\$49 |\$38 | 26. Refer to Table 14-8.

The firm will not produce an output level beyond | a. | 4 units. | | b. | 5 units. | | c. | 6 units. | | d. | 7 units. | ANS: CPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Profit maximization MSC: Applicative 27. Refer to Table 14-8. The firm will produce a quantity greater than 4 because at 4 units of output, marginal cost | a. | is less than marginal revenue. | | b. | equals marginal revenue. | | c. | is greater than marginal revenue. | | d. | is minimized. | ANS: APTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Profit maximization MSC: Applicative 28. Refer to Table 14-8. In order to maximize profits, the firm will produce | a. | 1 unit of output because marginal cost is minimized. | | b. | 4 units of output because marginal revenue exceeds marginal cost. | | c. | 6 units of output because marginal revenue equals marginal cost. | | d. | 8 units of output because total revenue is maximized. | ANS: CPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Profit maximization MSC: Applicative Table 14-9 Suppose that a firm in a competitive market faces the following revenues and costs: |

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

29. Refer to Table 14-9. If the firm produces 4 units of output, | a. | marginal cost is \$4. | | b. | total revenue is greater than variable cost. | | c. | marginal revenue is less than marginal cost. | | d. | the firm is maximizing profit. | ANS: BPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Competitive firms MSC: Analytical 30. Refer to Table 14-9. At which quantity of output is marginal revenue equal to marginal cost? | a. | 3 units | | b. | 6 units | | c. | 8 units | | d. | 9 units | ANS: BPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Profit

maximization MSC: Applicative 31. Refer to Table 14-9. In order to maximize profit, the firm will produce a level of output where marginal revenue is equal to | a. |\$6. | | b. |\$7. | | c. |\$8. | | d. |\$9. | ANS: DPTS: 1DIF: 2REF: 14-2

NAT: AnalyticLOC: Perfect competitionTOP: Profit maximization MSC:

Applicative 32. Refer to Table 14-9. In order to maximize profit, the firm will produce a level of output where marginal cost is equal to | a. |\$5. | | b. |\$7. | | c. |\$9. | | d. |\$10. | ANS: CPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect

competitionTOP: Profit maximization MSC: Applicative 33. Refer to Table 14-9. The maximum profit available to the firm is | a. |\$2. | | b. |\$3. | | c. |\$4. | | d. |\$5. | ANS: DPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect

competitionTOP: Profit maximization MSC: Applicative 34. Refer to Table 14-9. If the firm's marginal cost is \$11, it should | a. | increase production to maximize profit. | | b. increase the price of the product to maximize profit. | | c. | advertise to attract additional buyers to maximize profit. | | d. | reduce production to increase profit. | ANS: DPTS: 1DIF: 2REF: 14-2 NAT:

AnalyticLOC: Perfect competitionTOP: Profit maximization MSC: Analytical 35.

Refer to Table 14-9. If the firm's marginal cost is \$5, it should | a. | reduce fixed costs by lowering production. | | b. | increase production to maximize profit. | | c. | decrease production to maximize profit. | | d. | maintain its current level of production to maximize profit. | ANS: BPTS: 1DIF: 2REF: 14-2

NAT: AnalyticLOC: Perfect competitionTOP: Profit maximization MSC:

Analytical Table 14-10

Suppose that a firm in a competitive market faces the following revenues and costs: | Quantity | Total Revenue | Total Cost | | 0 |\$0 |\$3 | | 1 |\$7 |\$5 | |

2 | \$14 | \$9 | | 3 | \$21 | \$15 | | 4 | \$28 | \$23 | | 5 | \$35 | \$33 | | 6 | \$42 | \$45 | | 7 | \$49 | \$59 |

36. Refer to Table 14-10. The marginal cost of producing the 4th unit is | a. | \$7. | | b. | \$8. | | c. | \$10. | | d. | \$23. | ANS: BPTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Marginal cost MSC: Applicative

37. Refer to Table 14-10. At which level of production will the firm maximize profit? | a. | 3 units | | b. | 4 units | | c. | 5 units | | d. 6 units | ANS: APTS: 1DIF: 2REF: 14-2 NAT: AnalyticLOC: Perfect competitionTOP: Profit maximization MSC: Applicative

38. Refer to Table 14-10. If the firm produces the profit-maximizing level of production, how much profit will the firm earn? | a. | \$2 | | b. | \$4 | | c. | \$6 | | d. | \$8 | ANS: CPTS: 1DIF: 2REF: 14-2