

1. Which of the following statements is true for a firm producing in a perfectly competitive market?

1. If the firm is able to sell at a price greater than its average variable cost of production ($P > AVC$), then it may be making a loss but should not shut down immediately.
2. The firm will always maximize its profit by producing at a level where its marginal cost of production is exactly equal to its average cost of production ($MC = ATC$).
3. The firm will be making an economic loss if it produces at a level where selling price is exactly equal to average total production cost ($P = ATC$).
4. The firm will be making a loss and should shut down immediately any time selling price is less than average total production cost ($P < ATC$).
5. All of the above

2. For any firm, its fixed production costs:

1. Are the same at every production level.
2. Are equal to the amount spent on fixed inputs.
3. Are higher for production levels above the equilibrium level of production (Q_e).
4. Are higher for firms with elastic supply and lower for firms with inelastic supply.
5. Both 1 and 2 are true

3. In a perfectly competitive market:

1. There will be a very large number of very small firms and these firms will be considered to be price takers in the market.
2. Each firm has a horizontal demand curve even though the market demand curve will be down-ward sloping.
3. Firms will be able to earn any rate of return in the short-run but will only be able to earn a normal rate of return in the long-run.
4. Each firm's marginal revenue curve is identical to its demand curve.
5. All of the above.

4. For producers trying to maximize profit, which of the following is the full profit maximizing rule?

1. Produce up to the production level where $MR=MC$ as long as $P>ATC$ and $P>AVC$.
2. Produce at the production level where $MR-MC$ is greatest as long as $ATC=AVC$.
3. Produce at the production level where $MR>MC$ as long as MR is also greater than ATC and AVC . If MR is greater than ATC but less than AVC , then shut down immediately.
4. Produce at the level where $MR=MC$. If $P<ATC$, then you are making a loss and will eventually shut-down operations, but if $P\geq AVC$ then don't shut down until you can find a way to get rid of your fixed inputs.
5. None of the above

5. Average product of labor achieves its highest point when:

1. Marginal product of labor is equal to the average product of labor
2. Marginal product of labor is at its maximum
3. Marginal product of labor is at its minimum
4. The point where marginal product of labor is increasing the fastest
5. None of the above

6. The marginal cost of production measures:

1. How much extra a producer spends each time it produces one more unit of output.
2. How much extra a producer produces each time it spends one extra dollar on inputs.
3. Total cost divided by production level.
4. total cost divided by number of workers.
5. none of the above

7. Which of the following statements is true regarding a producer's production costs?

1. A producer's fixed cost of production rises as its production level rises.
2. A producer's average fixed cost of production is constant at all production levels.
3. A producer's marginal cost of production is higher for a producer with higher fixed costs of production than for a producer with lower fixed costs of production.
4. A producer's marginal cost of production is lowest where its marginal product is highest.
5. none of the above

8. Which of the following statements does not describe a perfectly competitive market?

1. All producers are selling a product that seems to be identical in the eyes of consumers.
2. There are no barriers keeping out new firms or preventing existing firms from leaving the market.
3. Producers in the market are considered to be price makers.
4. There will be a very large number of very small producers in the market.
5. Producers will not be able to earn an above normal rate of return in the long-run.

9. Which of the following is not a characteristic of a perfectly competitive market?

1. Producers are "price-takers."
2. Individual producers engage in high levels of advertising.
3. Price competition forces producers to sell at the marginal cost of production.
4. Individual producers can easily enter or exit the market.
5. The products made by a given producer are identical to the products made by any other producer in the same market.