



Quiz 6

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Question

Which of the following statements about perfect competitive supply is incorrect or inaccurate?

Multiple Choice

- Answer 1: There are no barriers to entry and exit of firms and resources. X
- Answer 2: The profit-maximizing output level is found at that point when price equals marginal revenue. X
- Answer 3: The profit-maximizing output level is found at that point when average revenue equals marginal cost. X
- Answer 4: Firms sell their output at the market equilibrium price. X

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Question

A firm operating in the short-run

Multiple Choice

- Answer 1: is able to increase output by increasing all fixed and variable inputs. X
- Answer 2: will experience higher total fixed costs when output increases. X
- Answer 3: will find that the additional output it could get from an additional unit of a variable input will decline at some point. X
- Answer 4: will experience higher average fixed costs when the law of diminishing returns set in. X

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Qn 3

When a firm is facing short-run losses, Multiple Choice ▾

- Answer 1
 price is lower than average variable cost at the profit-maximizing output. X
- Answer 2
 total revenue is lower than total variable cost at the profit-maximizing output. X
- Answer 3
 price is lower than average total cost at the profit-maximizing output. X
- Answer 4
 total revenue is lower than average total cost at the profit-maximizing output. X

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Question

The demand curve of a perfectly competitive firm is perfectly elastic at the market equilibrium price level; and this price is higher than the firm's marginal revenue. True/False ▾

- True
- False

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Question

Refer to Graph 1. Curve B is the marginal cost curve. True/False ▾

- True
- False

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Question

Refer to Graph 1. Curve A is the average variable cost curve. True/False ▾

- True
- False

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Question

Refer to Graph 1. Curve C is the average total cost curve. True/False ▾

- True
- False

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Question

Refer to Graph 1. If price was P_1 , the firm will continue to operate instead of shutting down when faced with short-run losses.

True/False

 True

 False

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Question

Which of the following statements about a firm's accounting profit, economic profit and normal profit is incorrect?

Multiple Choice

Answer 1

 Economic profit is always higher than accounting profit.

X

Answer 2

 When a firm has zero economic profit, it is making a normal profit

X

Answer 3

 Normal profit is equivalent to implicit costs.

X

Answer 4

 The calculation of accounting profit does not take into account the implicit costs of a firm.

X

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Question

Which of the following statements about economic profit and economic rent is correct?

Multiple Choice

Answer 1

 In the long-run, firms in perfectly competitive markets will earn supernormal profits.

X

Answer 2

 Economic rent is earned by owners of factors of production and not by firms.

X

Answer 3

 A firm that has is earning supernormal profits would also enjoy positive economic rent.

X

Answer 4

 Reflecting the workings of The Invisible Hand, firms and their resources enter markets in which existing firms are making positive economic profit.

X