1. When a firm makes a short-run decision not to produce anything during a specified period of time because of current market conditions, which of the following must be true?

a. Ep = ATC b. Ep > AVC
c. Ep < AVC d. Ep = AFC

2. When profit maximizing firms in competitive markets are making profits such that new firms enter the market, which of the following must be true?

A) Ep = ATC B) Ep > ATC
C) ATC > Ep > AVC D) MC < AVC

3. In a market that allows free entry and exit, the process of entry and exit ends when

a. profit is zero.
b. price of the good is equal to average total cost.
c. profit maximizing firms set a level of output where average total cost is minimum.
d. all of the above.

4. . In long-run equilibrium of a competitive market, the number of firms in the markets adjusts so that all of the market demand is satisfied at a price equal to

a. maximum marginal cost.
b. minimum average total cost.
c. minimum average variable cost.
d. sunk cost.

Use the information for a competitive firm in the table below to answer the following 5-7

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

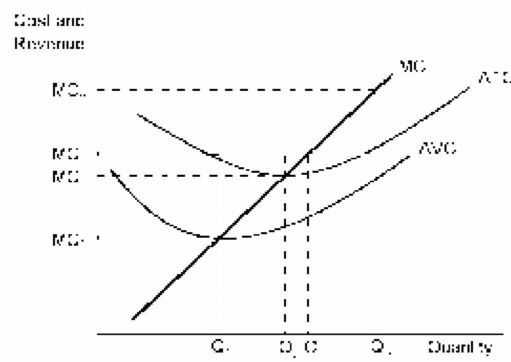
5. If the firm finds that its marginal cost is $5, it should
A) increase production to maximize profit.
B) decrease production to maximize profit.
C) maintain its current level of production to maximize profit.
D) reduce fixed costs by lowering production.

6 The data represents a perfectly competitive model because:

a. Marginal cost increases then decreases
b. The industry faces a completely upward sloping demand curve
c. The average revenue is constant
d. The average total cost and average variable cost are "bowl" shaped.

7. The firm should produce which of the following?

A) 2 B) 4
C) 6 D) 9 E) 0



Use the graph to answer the following questions.

8. At what price level will leave the profit maximizing firm with zero profits?

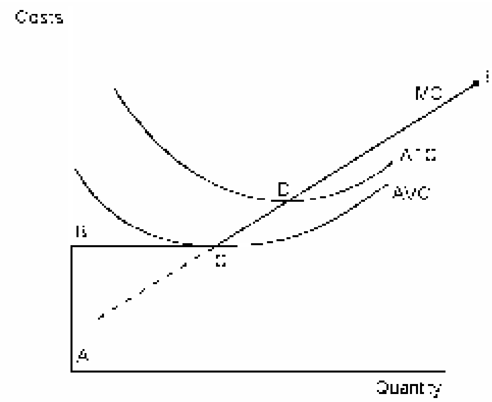
a. MC_1 b. MC_2
c. MC_3 d. MC_4

9. Below, which of the following price levels would the firm choose to shutdown as oppose to operate in the short run?

a. MC_1 b. MC_2
c. MC_3 d. MC_4

10. The entry and exit decisions of firms in a competitive market are signaled by

a. high capital costs.
b. profits and losses.
c. low capital costs.
d. high or low demand for a firm's product.



The figure shown depicts the cost structure of a profit maximizing firm in a competitive market. Use the figure to answer questions 11-12

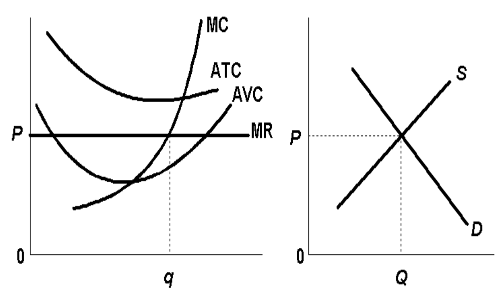
11 Which line segment best reflects the short-run supply curve for this firm?

a. ABC b. BCD
c. CDE d. DE

12. Excessive profits in this firm would exist in which of the line segments?

A) AC B) CD C) CE D) DE

Refer to the following graphs for questions 13-14



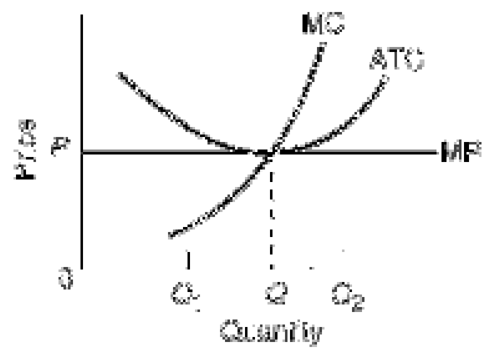
13. Refer to the above diagrams, which pertain to a purely competitive firm producing output *q* and the industry in which it operates. Which of the following is *correct*?

A) The diagrams portray neither long-run nor short-run equilibrium.
B) The diagrams portray both long-run and short-run equilibrium.
C) The diagrams portray short-run equilibrium, but not long-run equilibrium.
D) The diagrams portray long-run equilibrium, but not short-run equilibrium.

14. In the long run we should expect:

A) firms to enter the industry, market supply to rise, and product price to fall.
B) firms to leave the industry, market supply to rise, and product price to fall.
C) firms to leave the industry, market supply to fall, and product price to rise.
D) no change in the number of firms in this industry.

Refer to the following diagram to answer questions 15-16



.
15. At output Q, this firm will

A) suffer an economic loss.
B) earn a normal profit.
C) earn an economic profit.
D) break even from an accounting point of view

Write answers 16-21 on the back of the quiz strip

16. At output Q this firm is

A) neither productive nor allocative efficient
B) both productive and allocative efficcient
C) allocative efficient, but not productive efficient
D) productive efficient, but not allocative efficient .

Define the following by writing a definition, using symbols, equations, or graphs

17. Short Run equilibrium for a firm
18. Short run equilibrium for an industry
19. Long run equilibrium for a firm
20. MR=MC < AVC
21. MR=MC > ATC
22. Zero (normal profit)