

DO NOT WRITE ON THIS TEST!

AP Economics Unit 12 Practice Test

Multiple Choice

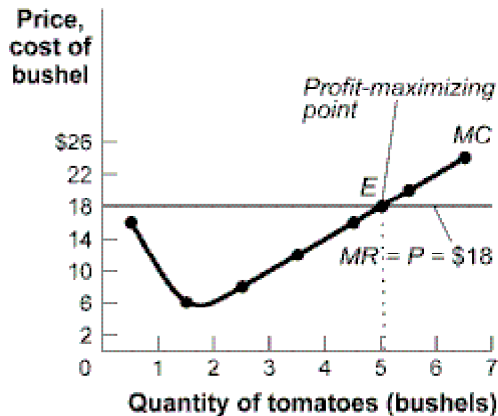
Identify the choice that best completes the statement or answers the question.

- _____ 1. One characteristic of a perfectly competitive market is that there are _____ sellers of the good or service.
- one or two
 - a few
 - usually less than 10
 - hundreds or thousands of
 - zero
- _____ 2. For the Colorado beef industry to be classified as perfectly competitive ranchers in Colorado must have _____ on prices and beef is a _____ product.
- no noticeable effect; standardized
 - a huge effect; standardized
 - a huge effect; differentiated
 - no noticeable effect; differentiated
 - no noticeable effect; price inelastic
- _____ 3. Price-takers are individuals in a market who:
- select a price from a wide range of alternatives.
 - select the lowest price available in a competitive market.
 - select the average of prices available in a competitive market.
 - have no ability to affect the price of a good in a market.
 - select the price that maximizes profit.
- _____ 4. In the model of perfect competition:
- the consumer is at the mercy of powerful firms that can set prices wherever they prefer.
 - individual firms can influence the price, but only slightly.
 - no individual or firm has enough power to have any impact on price.
 - the price is determined by how many years are left in the product's patent.
 - the price is determined by a committee of government ministers.
- _____ 5. Perfect competition is characterized by:
- rivalry in advertising.
 - fierce quality competition.
 - significant barriers to entry of new firms.
 - widely recognized brands.
 - the inability of any one firm to influence price.
- _____ 6. The two theoretical extremes of the market structure spectrum are occupied on one end by perfect competition and on the other end by:
- monopoly.
 - duopoly.
 - oligopoly.
 - monopolistic competition.
 - monopsony.

- _____ 7. The market structure called _____ is described as having a single producer selling a single, undifferentiated product.
- perfect competition
 - monopoly
 - oligopoly
 - monopolistic competition
 - duopoly
- _____ 8. Most electric, gas, and water companies are examples of:
- unregulated monopolies.
 - natural monopolies.
 - restricted-input monopolies.
 - sunk-cost monopolies.
 - private monopolies.
- _____ 9. Conditions that prevent the entry of new firms in a monopoly market are:
- barriers to entry.
 - terms of sale.
 - labor market stipulations.
 - production controls.
 - antitrust laws.
- _____ 10. In an oligopoly:
- there are many sellers.
 - there are no barriers to entry.
 - firms recognize their interdependence.
 - total surplus is maximized.
 - products are homogenous.
- _____ 11. In monopolistic competition:
- there is free entry and exit in the long run.
 - each firm produces a standardized product.
 - there are few producers.
 - there are barriers to entry.
 - firms are price-takers.
- _____ 12. The marginal revenue received by a firm in a perfectly competitive market:
- is greater than the market price.
 - is less than the market price.
 - is equal to its average revenue.
 - increases with the quantity of output sold.
 - decreases with the quantity of output sold.
- _____ 13. If a perfectly competitive firm sells 30 units of output at a price of \$10 per unit, its marginal revenue is:
- \$10.
 - \$30.
 - \$0.
 - \$300.
 - \$3.

- _____ 14. Suppose a perfectly competitive firm can increase its profits by increasing its output. Then it must be the case that the firm's:
- marginal revenue exceeds its marginal cost.
 - price exceeds its average variable cost, but is less than average total cost.
 - marginal cost exceeds its marginal revenue.
 - price exceeds its marginal revenue.
 - price is less than marginal revenue.
- _____ 15. A competitive firm operating in the short run is producing at the output level at which ATC is at a minimum. If $ATC = \$8$ and $MR = \$9$, in order to maximize profits (or minimize losses), this firm should:
- increase output.
 - reduce output.
 - shut down.
 - do nothing; the firm is already maximizing profits.
 - liquidate assets and exit the industry.
- _____ 16. In the perfectly competitive guidebook industry, the market price is \$35. A firm is currently producing 10,000 guidebooks; average total cost is \$38, marginal cost is \$30, and average variable cost is \$30. The firm should:
- raise the price of guidebooks, because the firm is losing money.
 - keep output the same, because the firm is producing at minimum average variable cost.
 - produce more guidebooks, because the next guidebook produced increases profit by \$5.
 - shut down, because the firm is losing money.
 - produce fewer guidebooks, because the next guidebook produced decreases profit by \$8.
- _____ 17. A perfectly competitive firm is definitely earning an economic profit when:
- $MR > MC$.
 - $P > ATC$.
 - $P > MC$.
 - $P > AVC$.
 - $MR > AVC$.
- _____ 18. Consider the following data for a perfectly competitive firm: price is \$9, output is 30 units, and average total cost is \$7. The firm's profits are equal to:
- \$60.
 - \$270.
 - \$2.
 - \$210.
 - \$180.
- _____ 19. A competitive firm operating in the short run is maximizing profits and just breaking even. Its costs include a monthly license fee of \$100 that is imposed by the state and must be paid for as long as the firm is in existence. The license fee is now raised to \$150. To continue to maximize profits in the short run, the firm should:
- increase price.
 - increase output.
 - reduce output.
 - not change output.
 - decrease price.

Figure 58-1: Marginal Revenue, Costs, and Profits



- ____ 20. (Figure 58-1: Marginal Revenue, Costs, and Profits) In the figure, if market price decreases to \$16, marginal revenue _____ and profit-maximizing output _____.
- increases; decreases
 - increases; increases
 - decreases; increases
 - decreases; decreases
 - remains constant; remains constant
- ____ 21. For a firm producing at any level of output *less than* the most profitable one, an increase in output adds:
- more to total cost than to total revenue.
 - more to total revenue than to total cost.
 - the same amount to total revenue as to total cost.
 - to total revenue but not to total cost.
 - to total cost but not to total revenue.
- ____ 22. For a firm producing at any level of output *greater than* the most profitable one, a reduction in output decreases:
- total cost more than total revenue.
 - total revenue more than total cost.
 - total revenue by the same amount as total cost.
 - total revenue but not total cost.
 - total cost but not total revenue.
- ____ 23. In the short run, a perfectly competitive firm produces output and earns an economic profit if:
- $P > ATC$.
 - $P = ATC$.
 - $P < AVC$.
 - $AVC > P > ATC$.
 - $AVC < P < ATC$.
- ____ 24. In the short run, a perfectly competitive firm produces output and earns *zero* economic profit if:
- $P > ATC$.
 - $AVC < P < ATC$.
 - $P < AVC$.
 - $AVC > P > ATC$.
 - $P = ATC$.

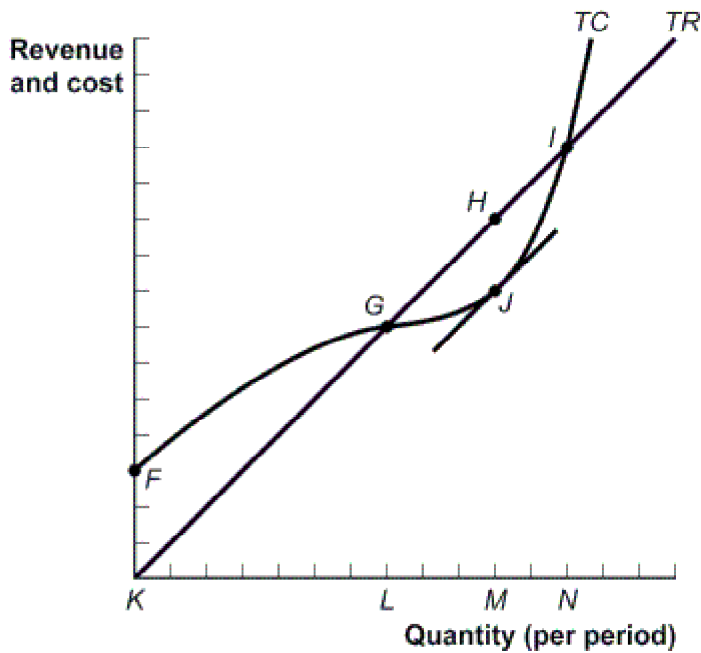
- _____ 25. A perfectly competitive firm maximizes profit by producing the quantity at which:
- $TR = TC$.
 - $MR = MC$.
 - $Q^*(P - ATC) = 0$.
 - $P \geq AVC$.
 - $P = ATC$.

Quantity of Apples (bushels)	VC
0	\$ 0
1	40
2	70
3	80
4	130
5	190
6	260
7	340
8	430

Table 58-2: Lilly's Apple Orchard

- _____ 26. (Table 58-2: Lilly's Apple Orchard. Lilly is the price-taking owner of an apple orchard; its variable costs are given in the table. Her orchard has fixed costs of \$30. If the price of a bushel of apples is \$25, how many bushels will Lilly produce to maximize profit?
- 0
 - 1
 - 2
 - 3
 - 4
- _____ 27. (Table 58-2: Lilly's Apple Orchard. Lilly is the price-taking owner of an apple orchard; its variable costs are given in the table. Her orchard has fixed costs of \$30. If the price of a bushel of apples is \$35, her economic profit will be equal to:
- \$30
 - \$5
 - \$0
 - \$5
 - \$25

28.



The most profitable level of output occurs at quantity:

- a. *F*.
- b. *K*.
- c. *L*.
- d. *H*.
- e. *M*.

29.

Quantity of Lawns	Variable Costs
0	\$0
10	100
20	300
30	500
40	1,100
50	1,800

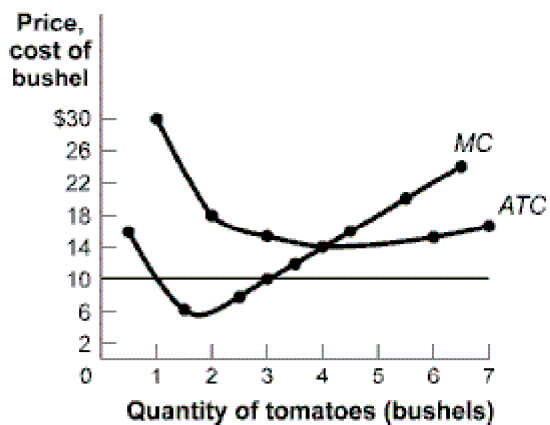
Table: Variable Costs for Lawns

During the summer, Alex runs a lawn-mowing service, and lawn-mowing is a perfectly competitive industry. His only fixed cost is \$1,000 for the mower. His variable costs include fuel and mower parts. He calculates the variable costs per lawn as shown in the table. What is Alex's break-even price?

- a. \$100
- b. \$10
- c. \$50
- d. \$27.50
- e. \$75

- _____ 30. During the summer, Alex runs a lawn-mowing service, and lawn-mowing is a perfectly competitive industry. In the short run, Alex will shut down his lawn-mowing service rather than continue with it if:
- the total revenues can't cover the total fixed costs.
 - the total revenues can't cover the total variable costs.
 - the total revenues can't cover the total cost.
 - the price exceeds the average total cost.
 - losses are smaller than the total fixed costs.
- _____ 31. Many furniture stores run "Going out of Business" sales but never go out of business. In order for the shut-down decision to be the appropriate one, the price of furniture must be _____ the _____ average variable cost.
- higher than; maximum
 - lower than; minimum
 - higher than; minimum
 - lower than; maximum
 - the same as; maximum
- _____ 32. The short-run supply curve for a perfectly competitive firm is its:
- demand curve above its marginal revenue curve.
 - marginal revenue curve to the right of its marginal cost curve.
 - marginal cost curve at all prices.
 - average total cost curve below its marginal cost curve.
 - marginal cost curve above its average variable cost curve.
- _____ 33. If price is consistently below average variable cost, then in the short run a perfectly competitive firm should:
- raise price.
 - sell more output.
 - maintain the current level of output.
 - lower price to sell more.
 - shut down.

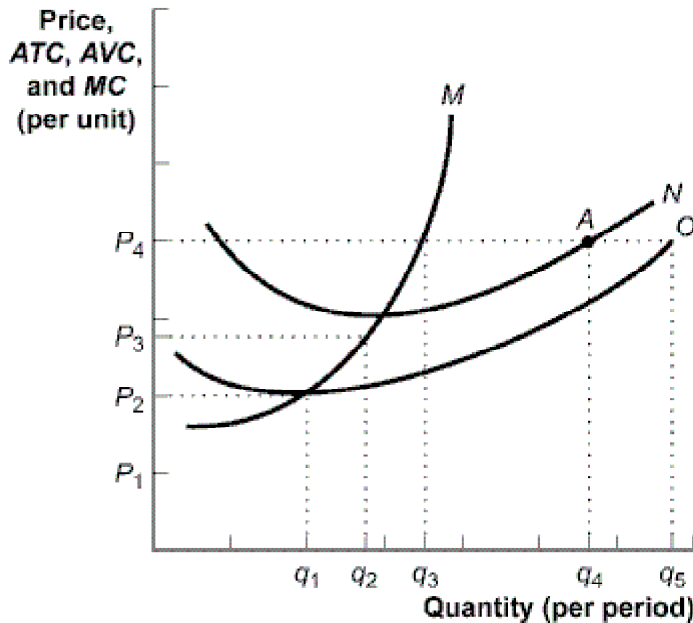
34.



In the figure, at the profit-maximizing quantity of output, total revenue is \$ _____, total cost is \$ _____, and profit is \$ _____.

- a. 90; 72; 18
- b. 56; 56; 0
- c. 30; 48; -18
- d. 48; 56; -8
- e. 30; 60; -30

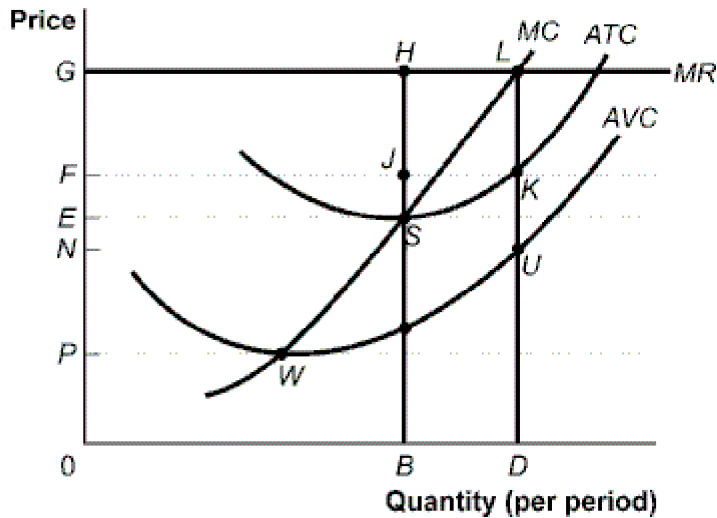
Figure 59-3 : Profit Maximizing



- _____ 35. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. *O* is the _____ curve.
- ATC*
 - MR*
 - MC*
 - AVC*
 - Profit*
- _____ 36. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. Curve *M* must cross Curves *N* and *O*:
- at their maximum points.
 - to the left of their minimum points.
 - at their minimum points.
 - to the right of their minimum points.
 - at the points that correspond to the shut-down condition.
- _____ 37. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. If the market price is less than P_2 , the firm will _____ in the short run.
- produce q_1 and break even
 - produce q_1 and incur a loss
 - produce q_1 and make a profit
 - produce q_3 and make a profit
 - shut down

- _____ 38. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. Which of the following statements is true?
- AFC is represented in this figure by the vertical distance between Curve M and Curve N at any level of output.
 - Any price below P_3 will result in the firm shutting down in the short run.
 - This figure illustrates the long run because all costs are variable.
 - Quantity q_2 is to the left of the shut-down point.
 - AFC is represented in this figure by the vertical distance between Curve N and Curve O at any level of output.
- _____ 39. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. The MC curve is represented in the figure by _____.
- none of the curves
 - Curve O
 - Curve M
 - Curve N
 - Price P_3 .
- _____ 40. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. The ATC curve is represented by which of the following curves in the figure?
- Curve N
 - Curve M
 - Curve O
 - none of the curves
 - Price P_1 .
- _____ 41. (Figure 59-3: Profit Maximizing) Cost curves for a firm operating in a perfectly competitive market are shown in the figure provided. Which of these curves represents the AVC curve?
- Curve M
 - None of the curves represent the AVC curve.
 - Curve N
 - Curve O
 - Price P_2 .
- _____ 42. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. If the market price is P_4 :
- marginal revenue and price are the same.
 - marginal revenue is less than P_4 .
 - marginal revenue is greater than P_4 .
 - marginal revenue and price are unrelated in perfect competition.
 - marginal revenue is greater than marginal cost at output q_3 .
- _____ 43. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. At q_2 , ATC is the vertical distance between q_2 on the horizontal axis and:
- Curve M .
 - Curve N .
 - Curve O .
 - P_4 .
 - P_3 .

Figure 59-4: A Perfectly Competitive Firm in the Short Run



- _____ 44. (Figure 59-4: A Perfectly Competitive Firm in the Short Run) The lowest price that will yield zero economic profit is indicated by the distance:
- G.*
 - F.*
 - E.*
 - N.*
 - P.*
- _____ 45. (Figure 59-4: A Perfectly Competitive Firm in the Short Run) The firm will produce in the short run if the price is at least as much as the price indicated by the distance:
- F.*
 - E.*
 - N.*
 - P.*
 - G.*
- _____ 46. (Figure 59-4: A Perfectly Competitive Firm in the Short Run) The firm will shut down in the short run if the price falls below:
- G.*
 - F.*
 - E.*
 - P.*
 - N.*

AP Economics Unit 12 Practice Test Answer Section

MULTIPLE CHOICE

1. ANS: D	PTS: 1	MSC: Definitional
2. ANS: A	PTS: 1	MSC: Concept-Based
3. ANS: D	PTS: 1	MSC: Fact-Based
4. ANS: C	PTS: 1	MSC: Definitional
5. ANS: E	PTS: 1	MSC: Definitional
6. ANS: A	PTS: 1	MSC: Fact-Based
7. ANS: B	PTS: 1	MSC: Definitional
8. ANS: B	PTS: 1	MSC: Definitional
9. ANS: A	PTS: 1	MSC: Definitional
10. ANS: C	PTS: 1	MSC: Definitional
11. ANS: A	PTS: 1	MSC: Definitional
12. ANS: C	PTS: 1	MSC: Fact-Based
13. ANS: A	PTS: 1	MSC: Fact-Based
14. ANS: A	PTS: 1	MSC: Critical Thinking
15. ANS: A	PTS: 1	MSC: Analytical Thinking
16. ANS: C	PTS: 1	MSC: Analytical Thinking
17. ANS: B	PTS: 1	MSC: Concept-Based
18. ANS: A	PTS: 1	MSC: Critical Thinking
19. ANS: D	PTS: 1	MSC: Critical Thinking
20. ANS: D	PTS: 1	MSC: Critical Thinking
21. ANS: B	PTS: 1	MSC: Critical Thinking
22. ANS: A	PTS: 1	MSC: Critical Thinking
23. ANS: A	PTS: 1	MSC: Concept-Based
24. ANS: E	PTS: 1	MSC: Concept-Based
25. ANS: B	PTS: 1	MSC: Concept-Based
26. ANS: A	PTS: 1	MSC: Analytical Thinking
27. ANS: B	PTS: 1	MSC: Analytical Thinking
28. ANS: E	PTS: 1	MSC: Critical Thinking
29. ANS: C	PTS: 1	MSC: Analytical Thinking
30. ANS: B	PTS: 1	MSC: Concept-Based
31. ANS: B	PTS: 1	MSC: Concept-Based
32. ANS: E	PTS: 1	MSC: Fact-Based
33. ANS: E	PTS: 1	MSC: Fact-Based
34. ANS: C	PTS: 1	MSC: Critical Thinking
35. ANS: D	PTS: 1	MSC: Concept-Based
36. ANS: C	PTS: 1	MSC: Critical Thinking
37. ANS: E	PTS: 1	MSC: Critical Thinking
38. ANS: E	PTS: 1	MSC: Critical Thinking
39. ANS: C	PTS: 1	MSC: Concept-Based

- | | | | |
|-----|--------|--------|------------------------|
| 40. | ANS: A | PTS: 1 | MSC: Concept-Based |
| 41. | ANS: D | PTS: 1 | MSC: Concept-Based |
| 42. | ANS: A | PTS: 1 | MSC: Concept-Based |
| 43. | ANS: B | PTS: 1 | MSC: Concept-Based |
| 44. | ANS: C | PTS: 1 | MSC: Critical Thinking |
| 45. | ANS: D | PTS: 1 | MSC: Critical Thinking |
| 46. | ANS: D | PTS: 1 | MSC: Critical Thinking |