The Theory of the Firm under Perfect Competition

Question 1.
The concept of supply curve is relevant only for?
(a) Monopoly
(b) Monopolistic competition
(c) Perfect competition
(d) Oligopoly

▼ Answer

Answer: (c) Perfect competition

Question 2.
Which of the following is an example of perfect competition?
(a) Agriculture
(b) Banking sector
(c) Car manufacturing
(d) Railways

▼ Answer

Answer: (a) Agriculture

Question 3.
Can MR be negative or zero.
(a) Yes
(b) Can't say
(c) No
(d) Only negative but not zero

▼ Answer

Answer: (a) Yes

Question 4.
If all units are sold at same price how will it affect AR and MR?
(a) B. AR > MR
(b) A. AR = MR
(c) D. AR + MR = 0
(d) C. AR < MR

▼ Answer

Answer: (b) A. AR = MR

Question 5.
What is price line

(a) The demand curve
(b) The AR curve
(c) The MR curve
(d) The TR curve

▼ Answer

Answer: (c) The MR curve

Question 6.
Can TR be a horizontal Straight line?
(a) May be
(b) Can't say
(c) Yes
(d) No

▼ Answer

Answer: (d) No

Question 7.
The revenue of a firm per unit sold is its
(a) MR
(b) AR
(c) TR
(d) TC

▼ Answer

Answer: (b) AR

Question 8.
The product of AR and price at every unit sold is the firm's
(a) TR
(b) TVC
(c) MR
(d) AR

▼ Answer

Answer: (a) TR

Question 9.
In perfect competition, in the long run, ________________?
(a) There are large profits for the firm
(b) There is no profit and no loss for the firm
(c) There are negligible profits for the firm
(d) There are large losses for the firm

▼ Answer

Answer: (b) There is no profit and no loss for the firm

Question 10.
In perfect competition, when the marginal revenue and marginal cost are equal, profit is?
(a) Maximum
(b) Zero
(c) Negative
(d) Average

▼ Answer

Answer: (a) Maximum

Question 11.
In perfect competition, a firm earns profit when ___________ exceeds the ______________?
(a) Total revenue, total fixed cost
(b) Marginal cost, marginal revenue
(c) Average revenue, average cost
(d) Total cost, total revenue

▼ Answer

Answer: (c) Average revenue, average cost

Question 12.
In the perfectly competitive market, in the long run, competitive prices equal the minimum possible _________ cost of good?
(a) Average
(b) Total
(c) Variable
(d) Marginal

▼ Answer

Answer: (a) Average

Question 13.
In perfect competition, in the long run, if a new firm enters the industry the supply curve shifts to the right resulting in__________?
(a) Reduction in supply
(b) No change in price
(c) Fall in price
(d) Rise in price

▼ Answer

Answer: (c) Fall in price

Question 14.
Which of the following type of competition is just a theoretical economic concept, not a realistic

case where actual competition and trade take place?
(a) Monopolistic competition
(b) Monopoly
(c) Oligopoly
(d) Perfect competition

▼ Answer

Answer: (d) Perfect competition

Question 15.
In perfect competition, which of the following curves generally lies below the demand curve and slopes downward?
(a) Average revenue
(b) Average cost
(c) Marginal revenue
(d) Marginal cost

▼ Answer

Answer: (c) Marginal revenue

Question 16.
A firm can sell as much as it wants at the market price. The situation is related to?
(a) Monopoly
(b) Monopolistic competition
(c) Perfect competition
(d) Oligopoly

▼ Answer

Answer: (c) Perfect competition
Explanation:
Pure or perfect competition is a theoretical market structure in which the following criteria are met: All firms sell an identical product (the product is a "commodity" or "homogeneous"). All firms are price takers (they cannot influence the market price of their product). Market share has no influence on prices.

Question 17.
Globalization has made Indian Market as?
(a) Seller market
(b) Buyer market
(c) Monopsony market
(d) Monopoly market

▼ Answer

Answer: (b) Buyer market
Explanation:
Globalisation is the rapid integration or interconnection between countries mostly on the

economic plane. In other words Globalisation means integrating our economy with the world economy. Movement of people between countries increases due to globalisation.

Question 18.
When AR = Rs. 10 and AC = Rs. 8, the firm makes?
(a) Gross profit
(b) Super normal profit
(c) Normal profit
(d) Net profit

▼ Answer

Answer: (b) Super normal profit
Explanation:
Super normal profit is defined as extra profit above that level of normal profit.
Here the firm earns profit of Rs. 2 over the cost occurred.

Question 19.
A competitive firm in the short run incurs losses. The firm continues production, if?
(a) P = AVC
(b) P > AVC
(c) P < AVC
(d) P > = AVC

▼ Answer

Answer: (d) P > = AVC
Explanation:
With loss minimization, price exceeds average variable cost but is less than average total cost at the quantity that equates marginal revenue and marginal cost. In this case, the firm incurs a smaller loss by producing some output than by not producing any output.

Question 20.
In the long run the market price of a commodity is equal to its minimum average cost of production under the____________?
(a) Monopolist competition
(b) Perfect competition
(c) Oligopoly
(d) Monopoly

▼ Answer

Answer: (b) Perfect competition
Explanation:
Perfect competition is an industry structure in which there are many firms producing homogeneous products. None of the firms are large enough to influence the industry. In the long-run, companies that are engaged in a perfectly competitive market earn zero economic profits.

The long-run equilibrium point for a perfectly competitive market occurs where the demand curve (price) intersects the marginal cost (MC) curve and the minimum point of the average cost (AC) curve. Since they are the price takers and the price remains constant so does the AC of production.

Question 21.
While a seller under perfect competition equates price and MC to maximize profits a monopolist should equate?
(a) MR and MC
(b) AR and MR
(c) AR and MC
(d) TC and TR

▼ Answer

Answer: (a) MR and MC
Explanation:
In a monopolistic market, there is only one firm that produces a product. There is absolute product differentiation because there is no substitute.

The marginal cost of production is the change in the total cost that arises when there is a change in the quantity produced.

The marginal revenue is the change in the total revenue that arises when there is a change in the quantity produced a firm maximizes its total profit by equating marginal cost to marginal revenue and solving for the price of one product and the quantity it must produce.

Question 22.
Marginal revenue in any competitive situation is?
(a) $TR_n - P_{n-1}$
(b) $TR_n - TR_{n-1}$
(c) TR_n / Q_{n-1}
(d) None of above

▼ Answer

Answer: (b) $TR_n - TR_{n-1}$
Explanation:
Marginal revenue (MR) can be defined as additional revenue gained from the additional unit of output. Marginal revenue is the change in total revenue which results from the sale of one more or one less unit of output.

Formula:
Total revenue = TR
Total Unit = n
Total Unit less one unit = n – 1
$MR = TR_n - TR_{n-1}$

Question 23.
A rational consumer is a person who?
(a) Has perfect knowledge of the market
(b) Is not influenced by persuasive advertising

(c) Behaves at all times, other things being equal, in a judicious manner
(d) Knows the prices of goods in different market and buys the cheapest

▼ Answer

Answer: (a) Has perfect knowledge of the market
Explanation:
A rational consumer is considered to be that person who makes rational consumption decisions.

In other words, the consumer who makes his choices after considering all the other alternative goods (and services) available in the market is called a rational consumer.

Question 24.
In which of the following types of market structures, are resources, assumed to be mobile?
(a) Oligopoly
(b) Perfect competition
(c) Monopolistic competition
(d) Monopoly

▼ Answer

Answer: (b) Perfect competition
Explanation:
Pure or perfect competition is a theoretical market structure in which the following criteria are met:
1. All firms sell an identical product (the product is a "commodity" or "homogeneous").
2. All firms are price takers (they cannot influence the market price of their product).
3. Market share has no influence on prices.
4. Buyers have complete or "perfect" information in the past, present and future about the product being sold and the prices charged by each firm.
5. Resources for such a labor are perfectly mobile.
6. Firms can enter or exit the market without cost.

Question 25.
At producer's equilibrium when MR = MC, the firm earns only
(a) Abnormal loss
(b) Abnormal profit
(c) Normal Profit
(d) Normal loss

▼ Answer

Answer: (c) Normal Profit

Question 26.
Beyond producer's equilibrium when MR<MC, the firm earns only
(a) Abnormal profit
(b) Normal loss
(c) Abnormal loss
(d) Normal Profit

▼ Answer

Answer: (c) Abnormal loss
Explanation:
Marginal Cost < Marginal Revenue means abnormal loss situation, where the total revenue of a business does not cover total cost incurred for the business, due to which the profits of the business are below normal limits.

Question 27.
Before producer's equilibrium when MR > MC, the firm earns only
(a) Normal Profit
(b) Normal loss
(c) Abnormal loss
(d) Abnormal profit

▼ Answer

Answer: (d) Abnormal profit
Explanation:
If a firm makes more than normal profit it is called super-normal profit. Super normal profit is also called economic profit, and abnormal profit, and is earned when total revenue is greater than the total costs.
Total profits = total revenue (TR) – total costs (TC)
Abnormal Profit = MR > MC

Question 28.
A producer's equilibrium is a situation when
(a) AR = MR
(b) MR = MC
(c) AR = AC
(d) TR = TC

▼ Answer

Answer: (b) MR = MC
Explanation:
Producer's equilibrium refers to a situation where profits are maximised, i.e., the difference between total revenue and total cost is maximised, or in cases of losses, the difference is minimised, so as to minimise losses.

Question 29.
The elasticity at a point on a straight line supply curve passing through the origin will be
(a) 3.0
(b) 1.0
(c) 4.0
(d) 2.0

▼ Answer

Answer: (b) 1.0
Explanation:

Regardless of the gradient of the linear supply curve or its position on the supply curve, the PES of a linear supply curve that passes through the origin is always equal to 1. Therefore, if the supply curve originates with P = 0 and Q = 0, the elasticity will always be 1.

Formula:
% Change in quantity
% Change in price.

Question 30.
The elasticity at a point on a straight-line supply curve passing through the origin making an angle of 45° will be
(a) 4.0
(b) 2.0
(c) 3.0
(d) 1.0

▼ Answer

Answer: (d) 1.0

Question 31.
Under perfect competition the number of firms
(a) Is about 10
(b) Are many but limited
(c) Is large
(d) Is limited

▼ Answer

Answer: (c) Is large

Question 32.
When ____________, the firms are earning just normal profit:
(a) AC = AR
(b) MC = AC
(c) AR = MR
(d) MC = MR

▼ Answer

Answer: (a) AC = AR
Explanation:
AC = AR means the firm's cost and revenue are equal which means the firm does not earn any profit or no loss, which means the firm is earning normal profit.

Question 33.
Which of the following is the condition for equilibrium of a firm?
(a) MC curve must cut MR curve from above
(b) MR = MC

(c) None of above
(d) Both of these

▼ Answer

Answer: (b) MR = MC
Explanation:
A firm is in equilibrium when it is satisfied with its existing level of output. The firm wills, in this situation produce the level of output which brings in greatest profit or smallest loss. When this situation is reached, the firm is said to be in equilibrium.

Marginal cost should be equal to marginal revenue, then only the firm can be called at equilibrium.

Question 34.
In perfect competition, since the firm is a price taker, the _________ curve is straight line
(a) Total cost
(b) Marginal cost
(c) Total revenue
(d) Marginal revenue

▼ Answer

Answer: (d) Marginal revenue
Explanation:
Marginal revenue is the extra revenue generated when a perfectly competitive firm sells one more unit of output. The marginal revenue received by a firm is the change in total revenue divided by the change in quantity.

Perfect competition is a market structure with a large number of small firms, each selling identical goods. Perfectly competitive firms have perfect knowledge and perfect mobility into and out of the market. These conditions mean perfectly competitive firms are price takers, they have no market control and receive the going market price for all output sold.

Since they are the price takers and have no control over price but just the production, so even if they increase their quantity of production, still the price will remain constant and so does the marginal revenue.

Question 35.
Other name by which average revenue curve known:
(a) Indifference curve
(b) Profit curve
(c) Average cost curve
(d) Demand curve

▼ Answer

Answer: (d) Demand curve
Explanation:
Average revenue curve is often called the demand curve due to its representation of the product’s demand in the market. Each point on the curve represents the price of the product in

the market. Price determines the demand for a product, hence Average revenue curve is also demand curve. Assuming it is a perfect competitive market.