



Economics Questions By Topic:

Perfect Competition (3.4.2)

A-Level Edexcel Theme 3

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Section A Page 1



SECTION A

Write your answers in the spaces provided.

1 In Sicily, many households can grow lemons of the same quality as each other. Chiara decides to sell lemons at her local market, expecting to make a normal profit. She notices that all of the many lemon sellers are charging exactly the same price.

(a) Draw diagrams showing the equilibrium positions for both the lemon market and a typical firm in the long run.

(4)

Market	Firm
	

(b) Which **one** of the following will exist in the **short run** if Chiara makes a loss?

(1)

- A Allocative efficiency and productive efficiency
- B Allocative efficiency and productive inefficiency
- C Allocative inefficiency and productive efficiency
- D Allocative inefficiency and productive inefficiency

(Total for Question 1 = 5 marks)

2 Assume a firm is operating under conditions of perfect competition. The market price is above the firm's average cost. Which of the following are the most likely long run consequences for this firm?

(1)

- A** Its price will fall and it will increase output
- B** Its price will fall and it will decrease output
- C** Its price will rise and it will increase output
- D** It will keep its price and output unchanged
- E** It will shut down and exit the industry

Answer

Explanation (3)

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(Total for Question 2 = 4 marks)

- 3 A firm faces the following cost and revenue schedule. (Spaces have been left for your working.)

Output per day	Total revenue (£)	Average revenue/ Marginal revenue (£)	Total cost (£)	Average cost (£)	Marginal cost (£)
0	0		12	–	–
1	10		22	22	10
2	20			14	
3	30			11	
4	40			10	
5	50			10	
6	60			13.5	

The firm is attempting to maximise profit. From this information it can be concluded that the firm is operating under conditions of

(1)

- A monopolistic competition in the short run and will operate at 4 units
- B monopolistic competition in the long run and will operate at 5 units
- C perfect competition making a supernormal profit at an output of 1 unit
- D perfect competition making a supernormal profit at an output of 3 units
- E perfect competition making normal profit at an output of 5 units

Answer

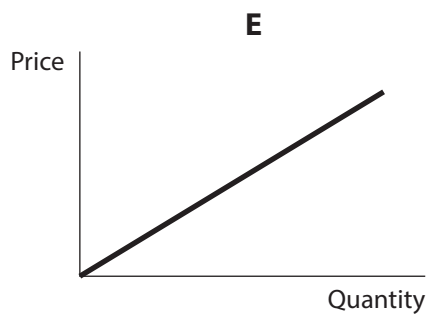
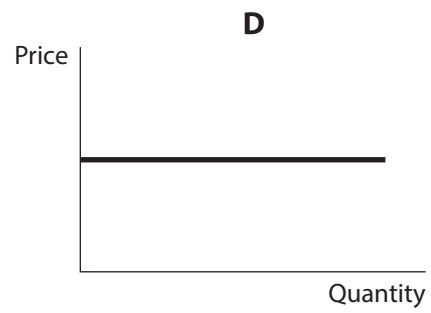
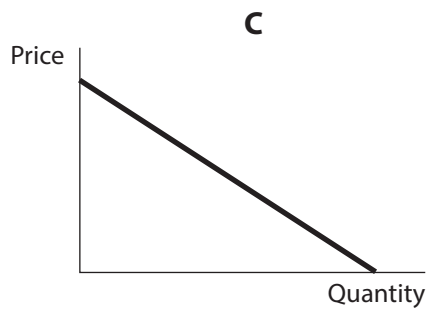
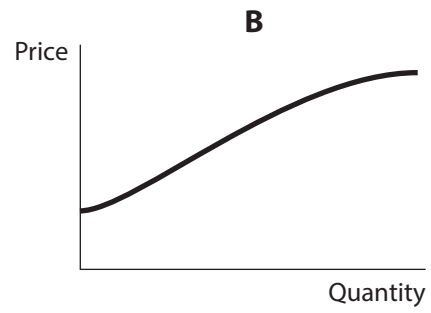
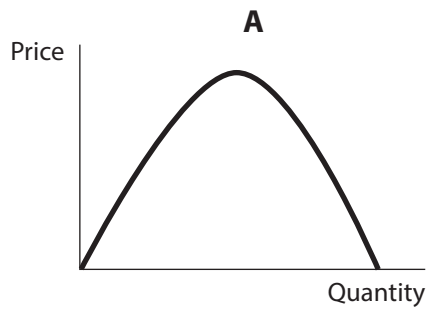
Explanation

(3)

Area with horizontal dotted lines for writing the explanation.

(Total for Question 3 = 4 marks)

4 Which one of the following diagrams could depict average revenue for a firm operating in a perfectly competitive market?



(1)

Answer

Explanation

(3)

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(Total for Question 4 = 4 marks)

5 Shoe repairing firms in a large city are providing similar services, and they are making normal profits. Customers tend to be loyal to certain firms. The market structure most resembles

(1)

- A perfect competition in the short run
- B perfect competition in the long run
- C monopsony in the short run
- D monopolistic competition in the long run
- E oligopoly in the short run

Answer

Explanation

(3)

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(Total for Question 5 = 4 marks)

6 A cherry grower finds it impossible to influence the market price of her produce. Which of the following conditions would most clearly indicate that she operates in a perfectly competitive market?

(1)

- A She produces at an output at which marginal cost is less than marginal revenue
- B Marginal cost is equal to total cost at every level of output
- C Marginal cost is equal to average cost at every level of output
- D She produces at the same output in the short run as in the long run
- E Average revenue equals marginal revenue at every level of output

Answer

Explanation

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(Total for Question 6 = 4 marks)

7 A commodity is traded under conditions of perfect competition. Which one of the following is a likely impact of exit from the industry by a large number of loss-making producers?

(1)

- A Firms remaining in the market will cut their prices
- B Firms remaining in the market will keep their prices unchanged
- C Firms will operate where their average revenue is greater than their marginal revenue
- D Firms remaining in the market will make normal profits in the long run
- E Demand for the commodity will expand as prices fall

Answer

Explanation

(3)

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(Total for Question 7 = 4 marks)

8 Sally's farm grows and sells potatoes and she aims to maximise profit. She believes that the market price of potatoes will not be affected by changes in her farm's output. She will (1)

- A** sell as much as she can produce in the long run
- B** become a monopolist, because she can supply the whole market
- C** produce at the level of output where marginal cost equals price in the short run
- D** produce at the level of output where average cost equals price in the short run
- E** produce at the level of output where average fixed costs equals marginal revenue

Answer

Explanation (3)

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(Total for Question 8 = 4 marks)

9 A firm operating under conditions of perfect competition is making supernormal profits. What is likely to happen to this firm in the long run?

(1)

- A The price of its product will rise
- B It will leave the industry
- C Both its output and price will fall
- D Its output and price will remain unchanged
- E Its output will rise and its price will fall

Answer

Explanation

(3)

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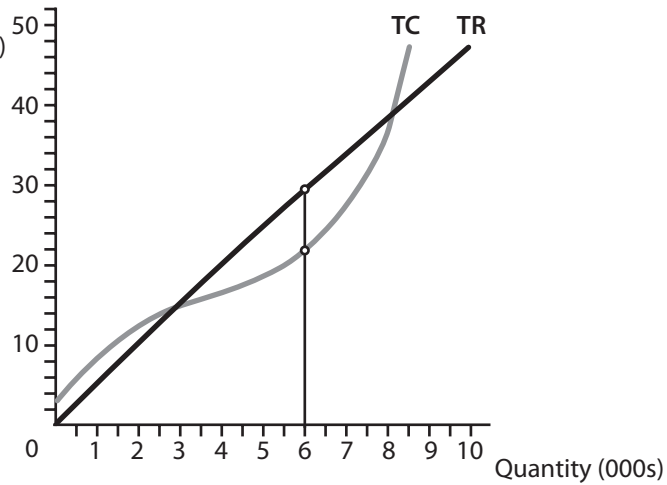
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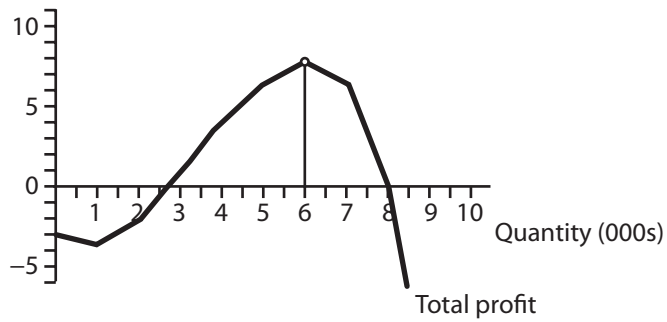
(Total for Question 9 = 4 marks)

10

Total Revenue (TR) and
Total Costs (TC) (£ 000s)



Total profit
(£ 000s)



The diagrams show the costs, revenue and profit for a profit maximising firm.
What can be inferred from these diagrams?

(1)

- A The firm operates in a perfectly competitive market in the short run
- B The firm will produce at a quantity of 6,000 units in the long run
- C There are barriers to entry and exit
- D The firm will produce at **any** output between 2,650 and 8,000 units
- E The firm is making a loss

Answer

Explanation

(3)

A series of horizontal dotted lines for writing an explanation.

(Total for Question 10 = 4 marks)

11 Firms are leaving a perfectly competitive industry. This suggests that for these firms: (1)

- A** average revenue exceeds marginal revenue
- B** marginal revenue exceeds average revenue
- C** average fixed cost exceeds average revenue
- D** average variable cost exceeds average revenue
- E** average costs equal average revenue.

Answer

Explanation (3)

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(Total for Question 11 = 4 marks)

