

## Economics Revision Worksheet

### **A2 Economics**

# Perfect Competition

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# WORKSHEET

Revision Topic : Market Structures : Perfect Competition

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## Multiple Choice Questions

### Question 1

Which of the following markets is closest to the model of perfect competition?

- A** The foreign exchange market.
- B** Computer software production.
- C** Car manufacturing.
- D** The provision of rail travel.
- E** High street coffee shops.

### Question 2

A perfectly competitive firm will be productively efficient :

- A** only in the long run.
- B** only in the short run.
- C** in both the short run and the long run.
- D** only if it is making supernormal profits.
- E** only if it is making a loss.

### Question 3

A firm in long-run equilibrium under perfect competition will:

- A** cover only its variable costs.
- B** be allocatively inefficient
- C** make only normal profit
- D** be productively inefficient
- E** cover only its fixed costs.

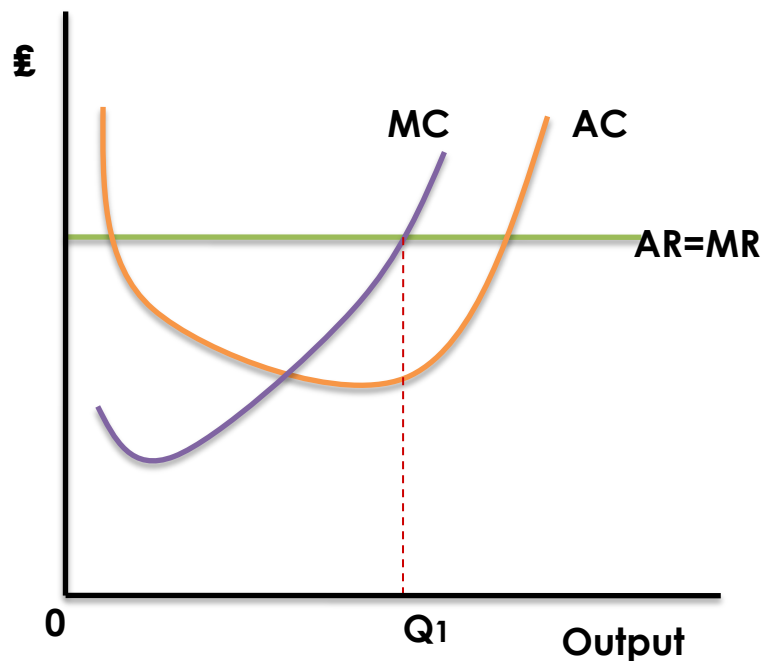
### Question 4

A firm in perfect competition will be:

- A** Productively efficient in both the short run and the long run.
- B** Productively efficient only in the short run.
- C** Allocatively efficient in both the short run and the long run.
- D** Allocatively efficient only in the long run.
- E** Neither productively nor allocatively efficient in the short run.

### Question 5

The diagram below shows a firm producing at output  $Q_1$ .



Which of the following applies to such a firm?

- | Market Structure                  | Profit      |
|-----------------------------------|-------------|
| <b>A</b> Perfect Competition      | Normal      |
| <b>B</b> Perfect Competition      | Supernormal |
| <b>C</b> Monopoly                 | Normal      |
| <b>D</b> Monopolistic Competition | Normal      |
| <b>E</b> Monopolistic Competition | Supernormal |

### Question 6

Which of the following markets has characteristics closest to the model of perfect competition?

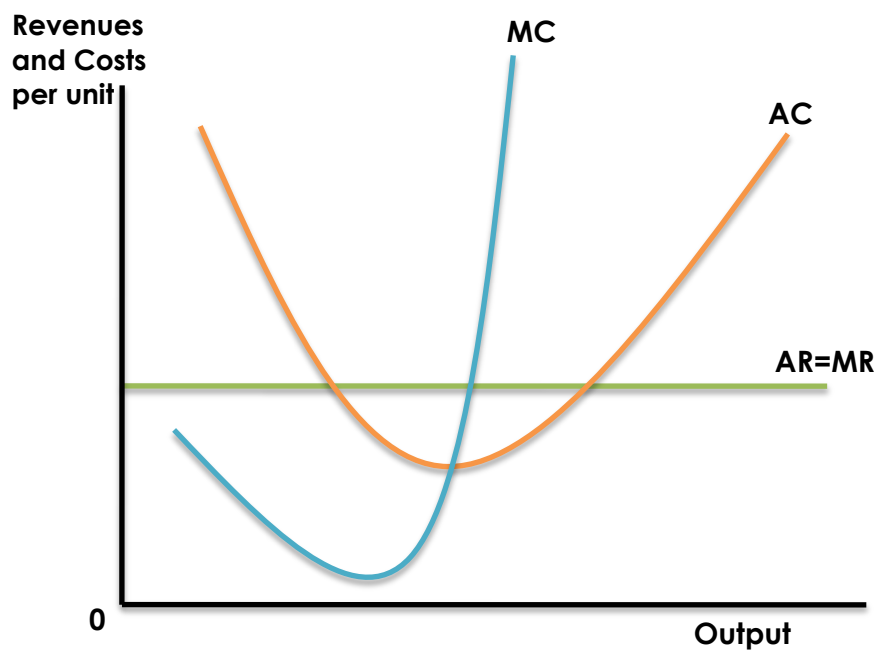
- A** Pharmaceuticals
- B** Wheat
- C** Telephone services
- D** Banking services
- E** Steel

## Question 7

A perfectly competitive firm is making supernormal profits. Which of the following applies to such a firm?

Time Period	Productive Efficiency	Allocative Efficiency
<b>A</b> Short-run	No	No
<b>B</b> Long-run	Yes	No
<b>C</b> Short-run	Yes	Yes
<b>D</b> Long-run	Yes	Yes
<b>E</b> Short-run	No	Yes

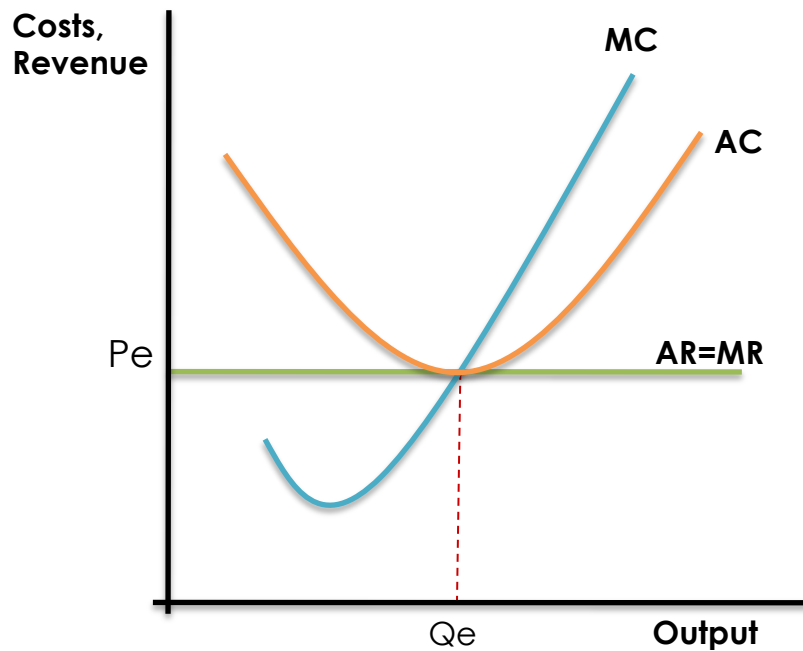
## Question 8



The diagram shows a perfectly competitive firm operating in the short-run. In the long-run the firm and industry will necessarily experience.

Firm's output	Industry Price	Industry Output
<b>A</b> rise	fall	rise
<b>B</b> rise	fall	fall
<b>C</b> fall	fall	rise
<b>D</b> fall	rise	rise
<b>E</b> fall	fall	fall

### Question 9



The diagram shows a firm producing at output  $Q_e$ . Which of the following applies to such a firm?

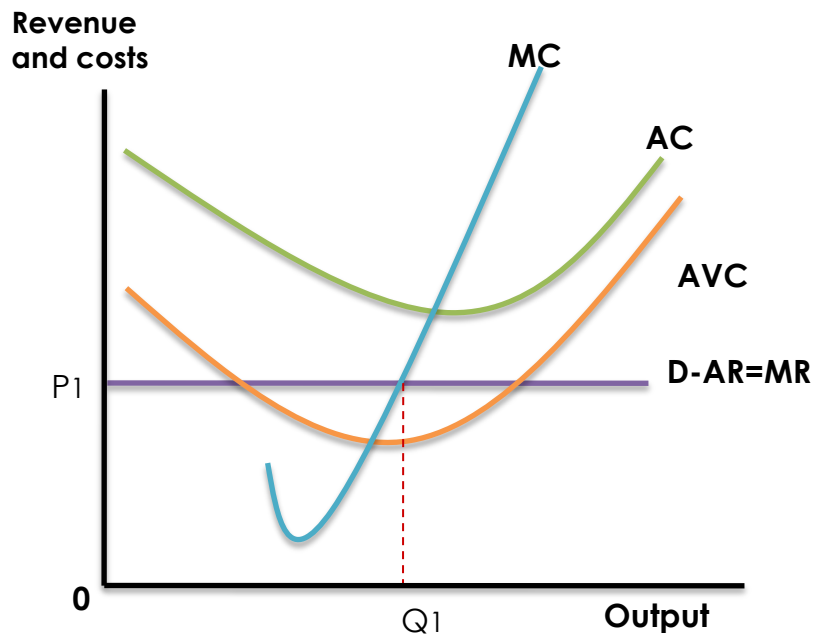
- | Market Structure                  | Profit      |
|-----------------------------------|-------------|
| <b>A</b> Monopolistic Competition | Normal      |
| <b>B</b> Perfect Competition      | Supernormal |
| <b>C</b> Monopolistic Competition | Supernormal |
| <b>D</b> Perfect Competition      | Normal      |
| <b>E</b> Contestable Market       | Supernormal |

### Question 10

Which of the following is true for a firm operating in a perfectly competitive market?

- A** It is productively efficient in both the short run and long run.
- B** It is allocatively efficient in the short run but not long run.
- C** It is productively and allocatively efficient in the long run.
- D** It is allocatively efficient in the long run but not short run.
- E** It is productively efficient in the short run but not long run.

## Question 11



Based on the above diagram of a short-run perfectly competitive firm, it can be deduced that the firm will.

- A** shut down immediately.
- B** raise price.
- C** expand output.
- D** continue to produce at  $Q_1$  in the short run.
- E** lower price.

## Question 12

Total Output (tonnes)	Total cost (£)	Total Revenue (£)		
0	40	0	---	---
1	80	100		
2	140	200		
3	220	300		
4	320	400		
5	440	500		

The data in the table refer to the costs and revenue for a small farm producing barley. (You may use the right-hand columns to show your workings).

It can be inferred that over the output range the farm is operating under conditions of:

- A** oligopoly and breaks even at an output of 2 tonnes
- B** monopolistic competition and falling marginal revenue.
- C** perfect competition and rising marginal costs.
- D** monopoly and rising marginal revenue.
- E** perfect competition and constant marginal costs.

### Question 13

Total Output Loaves of bread (daily)	Total cost (£)	Total Revenue (£)
0	40	0
100	60	100
200	90	190
300	130	270
400	180	340
500	240	400
600	310	450

The data in the table relate to the daily costs and revenue for a small bakery producing loaves of bread. It can be inferred from the data that the firm is operating under conditions of :

- A** imperfect competition and constant marginal costs.
- B** perfect competition and rising marginal costs.
- C** imperfect competition and falling marginal costs.
- D** perfect competition and falling marginal costs.
- E** imperfect competition and rising marginal costs.

### Question 14

A manufacturer of jeans has constant average costs over its normal range of output. It decides to operate a cost-plus pricing policy. The most likely objective of this pricing policy is to :

- A** achieve allocative efficiency in pricing.
- B** minimize consumer surplus.
- C** discourage new entrants to the market for jeans.
- D** achieve sales maximisation.
- E** achieve a target level profit.