10 PERFECT COMPETITION MARKET- FIRM

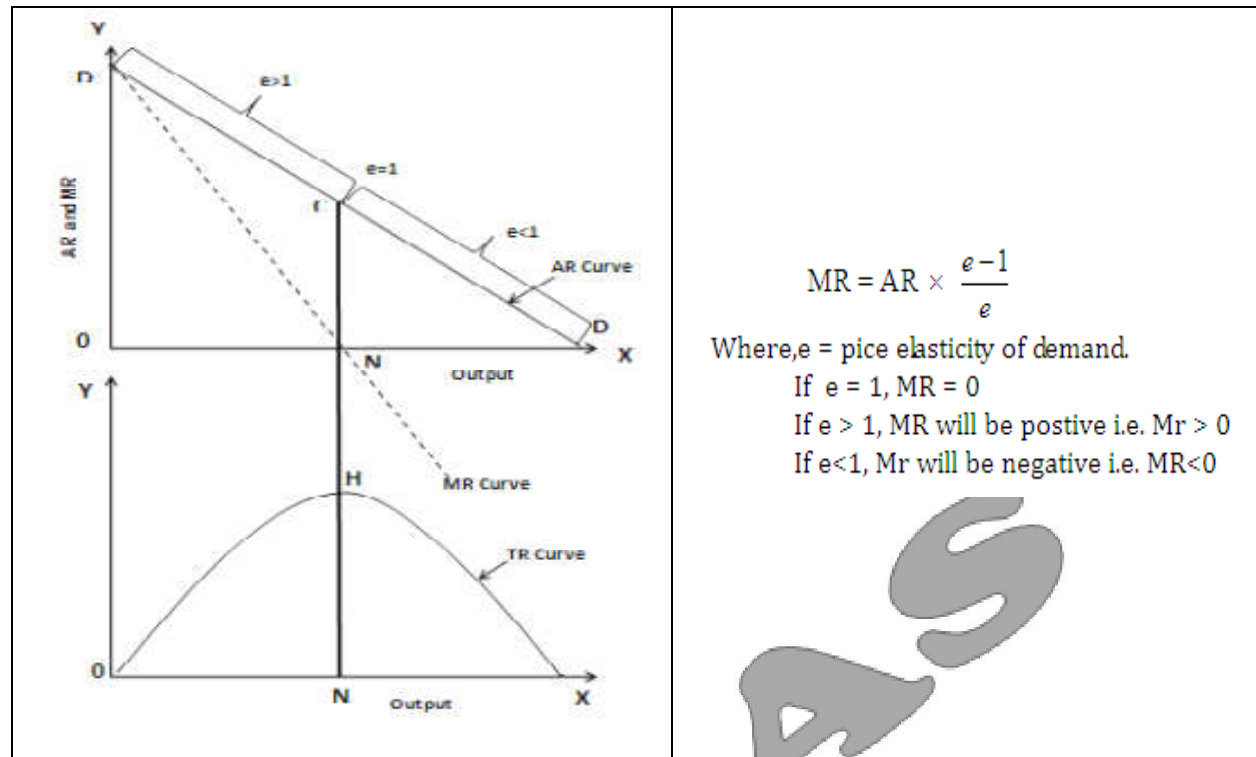| Market	
Meaning	In common parlance, price signifies the quantity of money necessary to acquire a good or service. Price connotes money-value i.e. the purchasing power of an article expressed in terms of money. Value in exchange or exchange value, according to Ricardo, means command over commodities in general, or power in exchange over purchasable commodities in general. **Value in use:** refers to usefulness or utility i.e the attribute which a thing may have to satisfy human needs. **Value in exchange:** economic value is the amount of goods and services which we may obtain in the market in exchange of a particular thing. In Economics, we are only concerned with exchange value. Exchange value is determined in the market where exchange of goods and services takes place. A market need not be formal or held in a particular place. We come across many references to markets such as oil market, wheat market, vegetable market; second-hand cars are often bought and sold through newspaper advertisements, Online Shopping as well.
Elements of a Market	It is essential to understand how price is determined. Since this is done in the market, we can define the market simply as all those buyers and sellers of a good or service that influence price. The elements of a market are: – 1. Buyers and sellers 2. A product or service 3. Bargaining for a price 4. Knowledge about market conditions 5. One price for a product or service at a given time
Classification of Market	Markets are generally classified into product markets and factor markets. • Product markets: are markets for goods and services in which households. • Factor markets: are those in which firms buy the resources they need land, labour, capital and entrepreneurship to produce goods and services. While product markets allocate goods to consumers, factor markets allocate productive resources to producers and help ensure that those resources are used efficiently. In Economics, generally the classification of markets is made on the basis of 1. Geographical Area 2. Time 3. Nature of transaction 4. Regulation 5. Volume of business 6. Type of Competition.

1. Geographical Area	The geographical area in which the product sales should be undertaken has vast implications for the firm. On the basis of geographical area covered, markets are classified into: –
	(a) Local Markets: When buyers and sellers are limited to a local area or region, the market is called a local market. Generally, highly perishable goods and bulky articles, the transport of which over a long distance is uneconomical' command a local market. In this case, the extent of the market is limited to a particular locality.
	For example, locally supplied services such as those of hair dressers and retailers have a narrow customer base.
	(b) Regional Markets: Regional markets cover a wider area such as a few adjacent cities, parts of states, or cluster of states. The size of the market is generally large and the nature of buyers may vary in their demand characteristics.
	For example, Michael Chador (Traditional Assamese Saree) is primarily worn by women in Assam and adjoining areas.
	(c) National Markets: When the demand for a commodity or service is limited to the national boundaries of a country, we say that the product has a national market. The trade policy of the government may restrict the trading of a commodity to within the country.
	For example, Hindi books may have national markets in India & outside India one may not have market for Hindi books.
	(d) International markets: A commodity is said to have international market when it is exchanged internationally. Usually, high value and small bulk commodities are demanded and traded internationally.
	For example, Gold and Silver are examples of commodities that have international market.
2. Time	Alfred Marshall conceived the 'Time' element in markets and on the basis of this, markets are classified into: –
	(a) Very short period market: Market period or very short period refers to a period of time in which supply is fixed and cannot be increased or decreased. Commodities like vegetables, flower, fish, eggs, fruits, milk, etc., which are perishable and the supply of which cannot be changed in the very short period come under this category. Since supply is fixed, very short period price is dependent on demand. An increase in demand will raise the prices vice versa.
	(b) Short-period Market: Short period is a period which is slightly longer than the very short period. In this period, the supply of output may be increased by increasing the employment of variable factors with the given fixed factors and state of technology. Since supply can be moderately adjusted, the changes in the short period prices on account of changes in demand are less compared to market period.
	(c) Long-period Market: In the long period, all factors become variable and the supply of commodities may be changed by altering the scale of production. As such, supply may be fully adjusted to changes in demand conditions. The interaction between long run supply and demand determines long run equilibrium price or 'normal price'.
	(d) Very long-period or secular period: is one when secular movements are recorded in certain factors over a period of time. The period is very long. The factors include the size of the population, capital supply, supply of raw materials etc.

3.	Nature of Transactions	**(a) Spot or cash Market:** Spot transactions or spot markets refer to those markets where goods are exchanged for money payable either immediately or within a short span of time. For example, grains sold in the Mandi at the current prices and cash is payable immediately are thus part of Spot Market. **(b) Forward or Future Market:** In this market, transactions involve contracts with a promise to pay and deliver goods at some future date. For example, purchase of foreign currency contract at future rate from bank.
4.	Regulation	• **Regulated Market:** In this market, transactions are statutorily regulated so as to put an end to unfair practices. Such markets may be established for specific products or for a group of products. For example, stock exchange. • **Unregulated Market:** It is also called a free market as there are no stipulations on the transactions. For example. Weekly markets (Haat Bazaar).
5.	volume of Business	• **Wholesale Market:** The wholesale market is the market where the commodities are bought and sold in bulk or large quantities. Transactions generally take place between traders. i.e. Business to Business (B2B). • **Retail Market:** When the commodities are sold in small quantities, it is called retail market. This is the market for ultimate consumers. i.e. Business to Consumer (B2C).
6.	Competition	• Perfectly competitive market • Imperfectly competitive market.

Concepts Of Total Revenue, Average Revenue and Marginal Revenue.	
Total Revenue (TR)	Total revenue may be defined as the total amount of money received by the firm by selling a certain units of a commodity. It is obtained by multiplying the price per unit of a commodity with the total number of units sold. Total Revenue = Price per unit x Total No. of units sold **TR = P x Q** **E.g.** A firm sells 100 units of a commodity @ Rs. 15 each, then its total revenue is Rs. 15 x 100 units = Rs. 1,500
Average Revenue	Average revenue is the revenue per unit of the commodity sold. It is simply the total revenue divided by the number of units of output sold. Average = $\dfrac{total\ revenue}{no\ of\ unit\ sold}$ AR = $\dfrac{TR}{N}$
Marginal Revenue	Marginal revenue refers to the addition to total revenue by selling one more unit of a commodity. Marginal revenue may also be defined as the change in total revenue resulting from the sale of one more unit of a commodity. - E.g. If a firm sells 100 units of a commodity @ Rs. 15 each, is TR is Rs. 1,500. Now, if it increases the sale by ten units i.e. it sells 110 units @ Rs. 14 each, its RT is Rs. 1,540. Thus, it Mr. is Rs. 40 MR = $\dfrac{\Delta TR}{\Delta Q}$

Relationship b/w Marginal Revenue, Average Revenue, Total Revenue and Elasticity of Demand.

$$MR = AR \times \frac{e-1}{e}$$

Where, e = pice elasticity of demand.
If e = 1, MR = 0
If e > 1, MR will be postive i.e. Mr > 0
If e<1, Mr will be negative i.e. MR<0

Figure : The relationship between AR, MR, TR & Elasticity of demand.
The above figure reveals the following o a straight line demand curve (or AR curve):
1. When e> 1, marginal revenue is positive and therefore total revenue is rising,
2. When e = 1, marginal revenue is zero and therefore total revenue is maximum, and
3. When e< 1, marginal revenue is negative and therefore total revenue is falling.
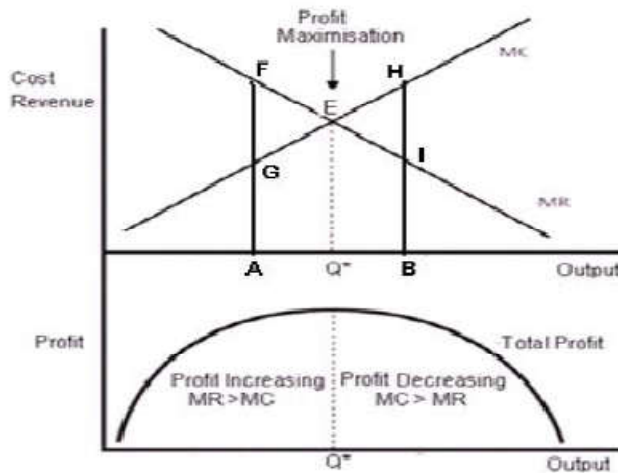
Behavioural principles	
Principle 1- A firm should not produce at all if its total variable costs are not met.	It is a matter of common sense that a firm should produce only if it will do better by producing than by not producing. The firm always has the option of not producing at all. If a firm's total revenues are not enough to make good even the total variable costs, it is better for the firm to shut down. In other words, a competitive firm should shut down if the price is below AVC. In that case, it will minimize loss because then its total cost will be equal to its fixed costs and it will have an operating loss equal to its fixed cost. The sunk fixed cost is irrelevant to the shutdown decision because fixed costs are already incurred. This means that the minimum average variable cost is equal to the shut-down price, the price at which the firm ceases production in the short run. Shutting down is temporary and does not necessarily mean going out of business. If price (AR) is greater than minimum AVC, but less than minimum ATC, the firm covers its variable cost and some but not all of fixed cost. If price is equal to minimum ATC, the firm covers both fixed and variable costs and earns normal profit or zero economic profit. If price is greater than minimum ATC, the firm not only covers its full cost, but also earns positive economic profit or super normal profit.

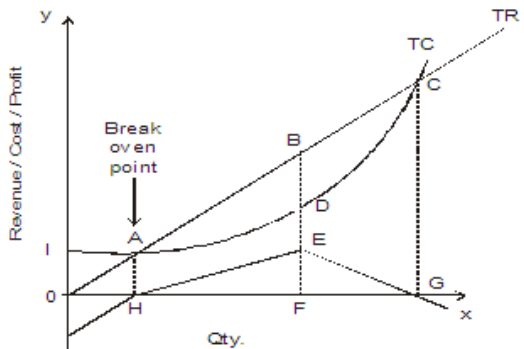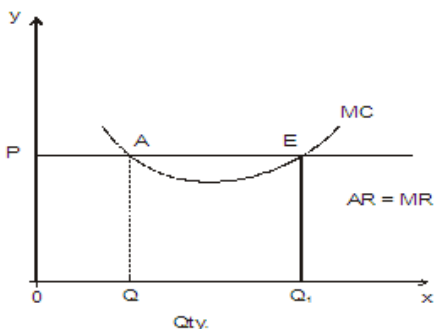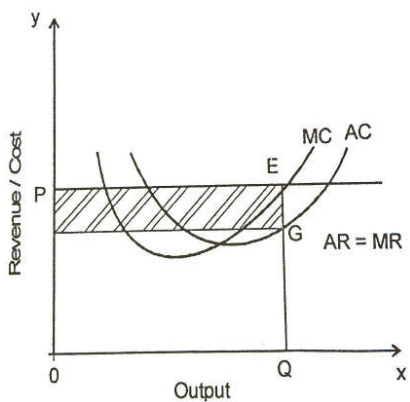|	
Principle 2 - The firm will be making maximum profits by expanding output to the level where marginal revenue is equal to marginal cost.	In other words, it will pay the firm to go on producing additional units of output so long as the marginal revenue exceeds marginal cost i.e., additional units add more to revenues than to cost. At the point of equality between marginal revenue and marginal cost, it will earn maximum profits. The above principle can be better understood with the help of figure 5 which shows a set of hypothetical marginal revenue and marginal cost curves. Marginal revenue curve slopes downwards and marginal cost curve slopes upwards. They intersect each other at point E (MC= MR) which corresponds to output Q.* Up to Q* level of output, marginal revenue is greater than marginal cost and at output level *Q they are equal. The firm will be maximizing profits at E (or at Q* level of output). For all levels of output less than Q*, additional units of output add more to revenue than to cost (as their MR is more than MC) and thus it will be profitable for the firm to produce them. The firm will be foregoing profit equal to the area EFG if it stops at A. Similarly profits will fall, if a greater output than OQ is produced as they will add more to cost than to revenues. On the units from Qth to Bth, the firm will be incurring a loss equal to the area EHI. To conclude, the firm will maximize profits at the point at which marginal revenue is equal to marginal cost.

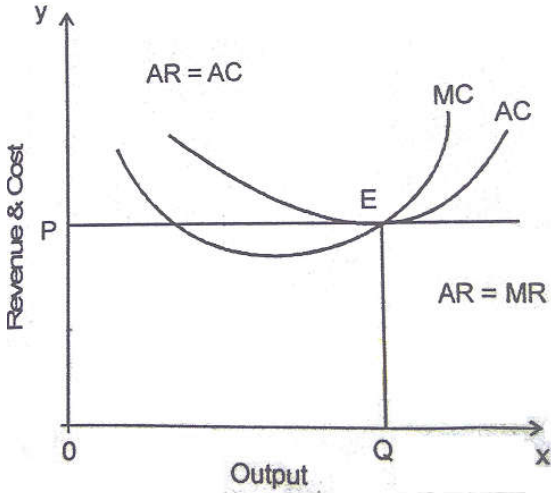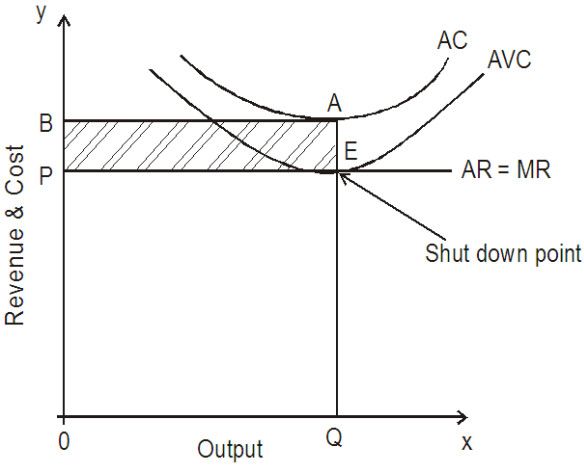| Perfect Competition Market	
Definition	Perfect competition is a market situation where there is a large number of sellers and buyers, a homogeneous product, free entry of firms into the industry, perfect knowledge among buyers and sellers of existing market conditions and free mobility of factors of production among alternative uses. **– "Lim Chong Yah"**
Meaning	Perfect competition market refers to the situation where large number of sellers selling a homogeneous product at uniform price by earning normal profit. Price is determined by industry and a group of firm is called industry. Example :- Sugar Industry, Coal Industry.
Features	1. **Large number of Buyers and sellers:** The number of buyers and sellers is so large that no individual buyer or seller can influence the market price and output by his independent action. Every buyer and seller purchases or sells a very insignificant amount of the total output.

2. **Homogeneous Product:** Products sold in the market are homogeneous or identical in every respect like quality, size, design, colour, etc. The products are perfect substitutes of one another. As a result, all the sellers have to sell their product at on uniform price.

3. **Free entry and exit of firms:** There is no restriction upon the entry of a new firm in the market or upon the exit of an existing firm. If the industry is making profits new firms can enter the market to share these profits. Similarly, If the industry suffers losses the individual firms can quit the market.

4. **Perfect knowledge about the market:** Under perfect competition, it is assumed that all the buyers and sellers have complete information (price) of the market. This leads to emergence of uniform price of the product in the market.

5. **Perfect mobility of factors of production:** There is free and complete mobility of factors of production. They are free to enter any industry if considered profitable and leave any industry when remuneration is inadequate.

6. **Absence of selling or advertising cost:** Under perfect competition price is assumed to be the same everywhere and therefore, selling or advertising costs are assumed to be zero.

7. **Prevalence of Uniform Price:** Under perfect competition price is assumed to be the same everywhere and on the prevailing price any amount of the commodity can be bought or sold. Price is determined by an Industry. Industry is group of homogenous product firm

8. **Equal AR and MR:** Under perfect competition market price is equal at every level of output. So AR and MR are equal.
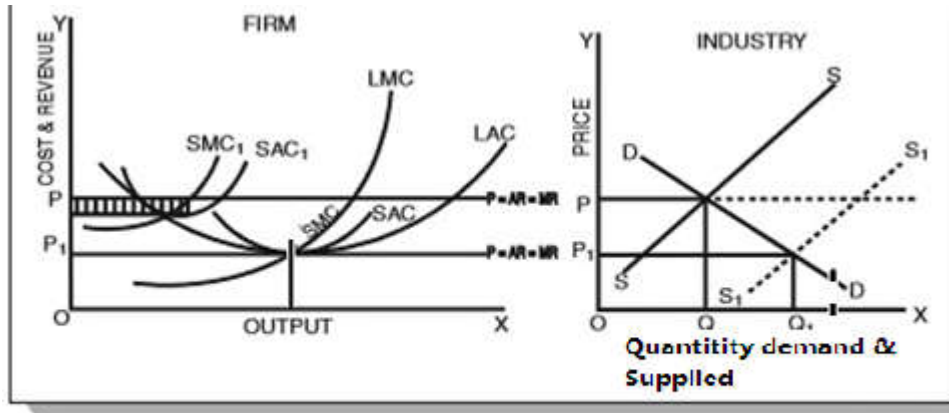
Qty. of Sale	TR	AR	MR
1	10	10	10
2	20	10	10
3	30	10	10
4	40	10	10
5	50	10	10

Firm's Equilibrium and Approaches	
Meaning of FIRM	A firm is a unit who produced the goods and services to earn maximum profit.
Meaning of firm's Equilibrium	A firm is in equilibrium when it is satisfied with its existing amount of output. A firm will be in equilibrium when it is not interested to increase or decrease its output. **Conditions of the equilibrium of the firm: –** • Maximum profit: $\pi = (TR - TC)$ • MC = MR • MC cuts to MR from below or MC should be rising.

| Total Revenue and Total cost approach |
Maximum profit: A firm is in eqb. when it is earning maximum profit. A firm's total profit can be estimated by the difference between total Revenue and total cost. In the diagram a firm produced of unit. In of unit difference is maximum 'BD' and a firm earn maximum profit EF. So a firm in the eqb. position. |
|---|---|
| Marginal Revenue and Marginal cost approach | Point E eqb. position because both condition are fulfill MC = MR, and MC cuts to MR from below.
 |
| Short run equilibrium of the firm | A firm is short run equilibrium may face of the three situation.
• Super normal profit
• Normal profit
• Minimum loss |
| Super normal profit | A firm in eqb. earns super normal profit when average revenue is greater than average cost AR > AC.
 |

Normal profit	A firm in eqb. earns normal profit when average revenue is equal to average cost AR = AC
Minimum loss	A firm in eqb. may incur minimum loss when the average cost of eqb. output is more than average revenue.
Long Run Equilibrium of a Competitive Firm	In the short run, one or more of the firm's inputs are fixed. In the long run, firms can alter the scale of operation and new firms can enter the industry. In a market with entry and exit, a firm enters when it believes that it can earn a positive long run profit and exits when it faces the possibility of a long-run loss. Firms are in equilibrium in the long run when they have adjusted their plant so as to produce at the minimum point of their long run ATC curve, which is tangent to the demand curve defined by the market price. In the long run, the firms will be earning just normal profits, which are included in the ATC. If they are making supernormal profits in the short run, new firms will be attracted into the industry;this will lead to a fall in price (a down ward shift in the individual demand curves) and an upward shift of the cost curves due to increase in the prices of factors as the industry expands. These changes will continue until the ATC is tangent to the demand curve. IF the firms make losses in the short run, they will leave the industry in the long run. This will arise the pric and costs may fall as the industry contracts untill the remaining firms in the industry cover their total costs inclusive of normal rate of profit. In figure 21, we show how firms adjust to their long run equilibrium position. As in the short run, the firm face a horizontal demand curve. If the price is OP, the firm is making super normal profits working with the plant whose cost is denoted by SAC,. If the firm believes that

the market price will remain at OP, it will have incentive to build new capacity and it will move along its LCA. At the same time, new firms will be entering the industry attracted by the excess profits. As the quantity supplied in the market increases, the supply curve in the market will shift to the right and price will fall until it reaches the level of OP1 (in figure 21a) at which the firms and the industry are in long run equilibrium.

(a)   (b)

Long run equilibrium of the firm in a perfectly competitive market

The condition for the long run equilibri of the firm is that the marginal cost should be equal to the price and the long run average cost i.e. LMC = LAC = P.
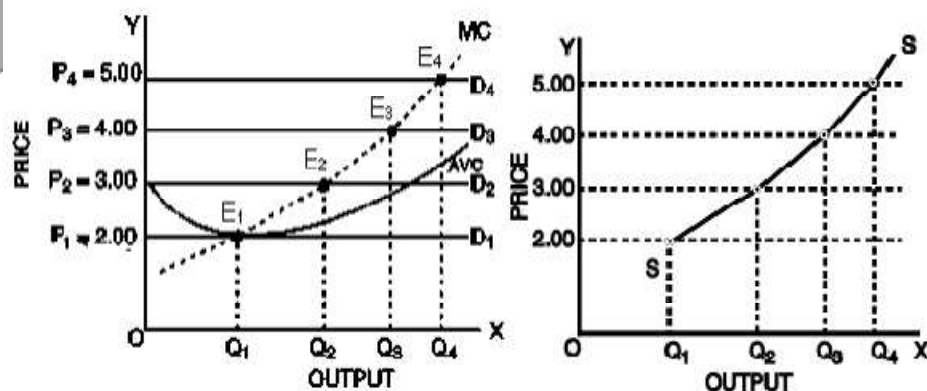
The firm adjusts its plant size so as to produce that level of output at which the LAC is the minimum possible. At equilibrium, the short run marginal cost is equal to the long run marginal cost and the short run average cost is equal to the long run average cost. Thus, in the long run we have.

SMC = LMC = SAC = LCA = P =MRT

This implies that at the minimum point of the LAC, the corresponding (short run) plant is worked at its optical capacity, so that the minima of the LAC and SAC coincide. On the other hand, the LMC cuts the LAC as its minimum point and the SMC custs the SAC at its minimum point. Thus, at the minimum point of the LAC the above equality is achieved.

Short run supply curve of the firm in a competitive market	One interesting thing about the MC curve of a firm in a perfectly competitive industry is that it depicts the firm's supply curve. This can be shown with the help of the following figure:

	Suppose the market price of a product is Rs. 2 Corresponding to it we have D1 as demand curve for the firm At price Rs. 2, the firm supplies Q1 output because here MR = MC. If the market price is Rs. 3, the corresponding demand curve is D2. At Rs. 3, the quantity supplied is Q2. Similarly, we have demand curves D3 and D4 and corresponding supplies are Q3 and Q4. The firm's marginal cost curve which gives the marginal cost
	corresponding to each level of output is nothing but firm's supply curve that gives various quantities the firm will supply at each price.
	For prices below AVC, the firm will supply zero units because the firm is unable to meet even its variable cost. For price above AVC, the firm will equate price and marginal cost. When price is high enough to meet the AVC, a firm will decide to continue its production. In fig. 17, at price Rs. 2, the AVC of the firm is covered and therefore, the firm need not shutdown. Thus, in perfect competitions, the firm's marginal cost curve above AVC has the identical shape of the firm's supply curve.

MULTIPLE CHOICE QUESTIONS

Q.1. **Assume that when price is Rs. 20 the quantity demanded is 15 units, and when price is Rs. 18 the quantity demanded is 16 units, Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units? [SM-3]**
(a) Rs. 18   (b) Rs. 16   (c) Rs. 12   (d) Rs. 28

Q.2. **Marginal Revenue is equal to: [SM-5]**
(a) The change in price divided by the change in output.
(b) The change in quantity divided by the change in price
(c) The change in P x Q due to a one unit change in output.
(d) Price, but only if the firm is a price searcher.

Q.3. **What is the shape of the demand curve faced by a firm under perfect competition? [SM-8]**
(a) Horizontal   (b) Vertical   (c) Positively sloped   (d) Negatively sloped

Q.4. **Which of the following is not a condition of perfect competition? [SM-18]**
(a) A large number of firms.
(b) Perfect mobility of factors.
(c) Informative advertising to ensure that consumers have good information.
(d) Freedom of entry and exit into and out of the market.

Q.5. **Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be "small" relative to the market. Which of the following best describes this smallness? [SM-23]**
(a) The individual firm must have fewer than 10 employees.
(b) The individual firm faces a downward- sloping demand curve.
(c) The individual firm has assets of less than Rs. 20 lakhs.
(d) The individual firm is unable to affect market price through its output decisions.

Q.6. **For a price-taking firm: [SM-24]**

(a) marginal revenue is less than price.
(b) marginal revenue is equal to price.
(c) marginal revenue is greater than price.
(d) the relationship between marginal revenue and price is indeterminate

Q.7. **The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that [SM-34]**

(a) The firm has some, but not complete, control over its product price.
(b) There are so many buyers and sellers in the market that any individual firm cannot affect the market.
(c) Each firm produces a homogeneous product.
(d) There is easy entry into or exit from the market place.

Q.8. **Agricultural goods markets depict characteristics close to [SM-50]**

(a) perfect competition.　　　(b) oligopoly.
(c) monopoly.　　　(d) monopolistic competition.

Q.9. **Which of the following is not a characteristic of a competitive market? [SM-51]**

(a) There are many buyers and sellers in the market.
(b) The goods offered for sales are largely the same.
(c) Firms generate small but positive supernormal profits in the long run.
(d) Firms can freely enter or exit the market.

Q.10. **Which of the following markets would most closely satisfy the requirements for a perfectly competitive market? [SM-52]**

(a) Electricity   (b) Cable television
(c) Cola　　　(d) Milk

Q.11. **In a very short period market: [SM-59]**

(a) the supply is fixed　　　(b) the demand is fixed
(c) demand and supply are fixed　　　(d) None of the above.

Q.12. **Total revenue = [SM-61]**

(a) price x quantity.　　　(b) price x income
(c) income x quantity　　　(d) None of the above.

Q.13. **Average revenue is the revenue earned [SM-62]**

(a) per unit of input　　　(b) per unit of output
(c) different units of input　　　(d) different units of output

Q.14. **AR can be symbolically written as: [SM-63]**

(a) MR/Q　　(b) Price x quantity　　(c) TR/Q　　(d) None of the above.

Q.15. **AR is also known as: [SM-64]**

(a) price　　(b) income　　(c) revenue　　(d) None of the above.

Q.16. Marginal revenue can be defined as the change in total revenue resulting from the: **[SM-65]**

(a) purchase of an additional unit of a commodity
(b) sales of an additional unit of a commodity
(c) sales of subsequent units of a product
(d) None of the above.

Q.17. In Economics, the term 'market' refers to a:

(a) place where buyer and seller bargain a product or service for a price
(b) place where buyer does not bargain
(c) place where seller doe not bargain
(d) None of the above.

Q.18. Under perfect competition a firm is the _____ **[SM-70]**

(a) price-maker and not price-taker   (b) price-taker and not price-maker
(c) neither price-maker nor price-taker   (d) None of the above.

Q.19. Generally, perishable goods like butter, eggs, milk, vegetables etc, will have **[SM-74]**

(a) regional market   (b) local market   (c) national market   (d) None of the above.

Q.20. Secular period is also known as **[SM-76]**

(a) very short period   (b) short period   (c) very long period   (d) long period

Q.21. Stock exchange market is an example of **[SM-77]**

(a) unregulated market   (b) regulated market
(c) spot market   (d) None of the above.

Q.22. The condition for pure competition is **[SM-79]**

(a) Large number of buyer and seller, free entry and exist
(b) Homogeneous product
(c) Both (a) and (b)
(d) Large number of buyer and seller, homogeneous product, perfect knowledge about the product

Q.23. Under perfect competition the number of firms

(a) Is large   (b) Is limited   (c) Is about 10 (d) Are many but limited.

Q.24. Only one price for identical goods at any one time is the essential condition.

(a) Monopoly   (b) Monopolistic competition
(c) Perfect competition   (d) Monophony.

Q.25. A market structure which has large number of firms producing & selling homogeneous product and the customers have full knowledge about the equilibrium price is.

(a) Perfect competition   (b) Monopoly   (c) Monopolistic competition   (d) Oligopoly.

Q.26. **In which of the following types of market structure, do firms produce homogeneous product**
(a) Monopoly Differentiated oligopoly
(b) Differentiated oligopoly
(c) Perfect competition
(d) Monopolistic competition.

Q.27. **In which of the following types of market structure, is it impossible for a seller to charge different prices for the same good?**
(a) Monopoly
(b) Perfect competition
(c) Monopolistic competition
(d) Oligopoly

Q.28. **In _____, a firm faces an infinitely elastic demand curve which means that the firm can sell any amount of a good at the prevailing market price**
(a) Oligopolistic market
(b) Monopoly market
(c) Perfect competition
(d) Monopolistic market.

Q.29. **Which of the following is/are the features of perfect competition?**
(i) Large number of buyers and sellers **(ii) Freedom of entry and exit**

(iii) Perfect mobility of resources **(iv) Homogeneous product.**
(a) (i), (ii) & (iii)
(b) (ii), (iii) & (iv)
(c) (i), (iii) & (iv)
(d) (i), (ii), (iii) & (iv).

Q.30. **In a perfectly, competitive market, the demand curve is _____.**
(a) Relative inelastic
(b) Unitary elastic
(c) Relative elastic
(d) Infinitely elastic.

Q.31. **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) Monopoly
(b) Oligopoly
(c) Perfect competition
(d) Monopolistic competition.

Q.32. **Price elasticity of demand for an individual firm under perfect competition is**
(a) Zero
(b) Unity
(c) Infinite
(d) Less than infinite but greater than zero.

Q.33. **Cigarette industries must be closely related to**
(a) Perfectly competitive model
(b) Imperfectly competitive model
(c) Monopolistic market
(d)Oligopolistic market.

Q.34. **In general, if the average revenue curve is a straight line, the marginal revenue curve will be**
(a) U-shaped
(b) A straight line
(c) C-shaped
(d) Bell-shaped.

Q.35. **Under the perfect competition the transportation cost**
(a) Is considered to be negligible and thus, ignored
(b) Is considered to be vital for the calculation of total cost
(c) Is charged along with the price of the commodity
(d) Excluded from the prime cost.

Q.36. **Period in which supply cannot be increased is called-**
(a) Market period (b) Short run (c) Long run (d) None of there

Q.37. **Which of the following is not an essential condition of pure competition?(N,06)[SM-7]**

(a) Large number of buyers and sellers (b) Homogeneous product

(c) Freedom of entry (d) Absence of transport cost

Q.38. **Under which of the following forms of market structure does a firm have no control over the price of its product:(F,07)[SM-30]**
(a) Monopoly (b) Oligopoly
(c) Monopolistic competition (d) Perfect competition.

Q.39. **Under which market structure, average revenue of a firm is equal to its marginal revenue of a firm:(F,07)**
(a) Oligopoly (b) Monopoly
(c) Perfect competition (d) Monopolistic competition

Q.40. **In perfect competition, since the firm is a price taker, the ____ curve is a straight line:(J,08)**
(a) Marginal cost (b) Total cost (c) Total revenue (d) Marginal revenue

Q.41. **_____ is a ideal Market (D,08)**
(a) Monopoly (b) Monopolistic (c) Perfect Competition (d) Oligopoly

Q.42. **Under which Market situation demand curve is linear and parallel to x axis: (D,08)**
(a) Perfect competition (b.)Monopoly
(c) Monopolistic competition (d) Oligopoly

Q.43. **Which of these are characteristics of perfect competition. (D,08)**
(a) Many sellers & Buyers (b) Homogeneous Product
(c) Free Entry and Exit (d) All of the above

Q.44. **Demand curve is equal to M.R. curve in which market?(D,09)**
(a) Oligopoly (b) Monopoly
(c) Monopolistic competition (d) Perfect competition

Q.45. **Price taken firms _____(J,10)**
(a) Do not advertise their product because it misleads the because it misleads the customers
(b) Advertise their products to boost the level of demand
(c) Do not advertise but give gifts along with the sold items to attract customers.
(d) Do not advertise because they can sell as much as they wish at the prevailing price

Q.46. **Perfectly competitive firm faces:(J,11)**
(a) Perfectly elastic demand curve (b) Perfectly inelastic demand curve
(c) Zero (d) Negative

Q.47. **Average revenue curve is also known as:(J,12)[SM-29]**
(a) Profit curve   (b) Demand curve   (c) Supply curve   (d) Average cost curve.

Q.48. **Which of the following is the feature of perfect competition(D,12)**
(a) Large number of buyers and sellers   (b) Freedom of entry and exit
(c) Perfect mobility of factors   (d) All of these

Q.49. **Price under perfect competition is determined by the ....(J,13)**
(a) Firm   (b) Industry   (c) Government   (d) Society

Q.50. **Which of the following is not true about perfect competition?(J,15)**
(a) Purchase and sale of homogeneous   (b) Mobility of factors of production.
(c) Free entry and exit   (d) Presence of advertisements

Q.51. **The market for ultimate consumer is known as :(D,16)**
(a) Wholesale market (b) Regulated market (c) Unregulated market(d) Retail market

Q.52. **Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct? [SM-39]**
(a) The firm should shutdown in order to minimize its losses.
(b) The firm should raise its price enough to cover its losses.
(c) The firm should move its resources to another industry.
(d) The firm should continue to operate in the short run, in order to minimize its losses

Q.53. **When price is less than average variable cost at the profit-maximising level of output, a firm should: [SM-40]**
(a) produce where marginal revenue equals marginal cost if it is operating in the short run.
(b) produce where marginal revenue equals marginal cost if it is operating is the long run.
(c) shutdown, since it will lose nothing in that case.
(d) shutdown, since it cannot even cover its variable costs if it stays in business.

Q.54. **A purely competitive firm's supply schedule in the short run is determined by [SM-41]**
(a) its average revenue.   (b) its marginal revenue.
(c) its marginal utility for money curve.   (d) its marginal cost curve.

Q.55. **Under perfect competition, in the long run, there will be no _____ [SM-46]**
(a) normal profits   (b) supernormal profits. (c) production   (d) costs

Q.56. **When _____, we know that the firms are earning just normal profit is. [SM-47]**
(a) AC = AR   (b) MC = MR   (c) MC = AC   (d) AR = MR

Q.57. **When _____, we know that the firms must be producing at the minimum point of the average cost curve and so there will be productive efficiency. [SM-48]**
(a) AC = AR   (b) MC = AC   (c) MC = MR   (d) AR = MR

Q.58. When _____, there will be allocate efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price. [SM-49]
(a) MC = MR   (b) MC = AC   (c) MC = AR   (d) AR = MR

Q.59. In the long-run equilibrium of a competitive market, firms operate at [SM-57]
(a) the intersection of the marginal cost and marginal revenue
(b) their efficient scale
(c) zero economic profit or Normal profit
(d) all of these answers are correct.

Q.60. If the average cost is higher than the average revenue then the firm incurs _____ [SM-88]
(a) Normal profit   (b) Abnormal profit   (c) Loss   (d) No profit, no loss

Q.61. In the perfect competition, when the marginal revenue and marginal cost are equal, profit is _____.
(a) Maximum   (b) Average   (c) Zero   (d) Not possible.

Q.62. In perfect competition, a firm's increases profit when ____ exceeds the _____.
(a) Total cost, total revenue   (b) Marginal cost, marginal revenue
(c) Total revenue, total fixed cost.   (d) Average revenue, average cost.

Q.63. A firm will shut-down its operation if its
(a) Revenue is just equal to variable cost and the loss is equal to fixed costs
(b) Earning covers variable costs as well as a part of the fixed costs.
(c) Average revenue falls below average variable cost
(d) Firms, in the short-run never shut down their operation.

Q.64. Firm under perfect competition in the short run can earn only.
(a) Abnormal profit   (b) Normal profit   (c) Minimum loss   (d) Any of the above.

Q.65. Equilibrium condition of profit maximizing firm is :
(i) Supply equals to demand (ii) MR equals to AC
(iii) MR equals to MC (iv) LMR equals to LAC
(a) (i) and (ii) only   (b) (ii) and (iii) only   (c) (iii) and (iv) only   (d) (iii) only.

Q.66. In a perfectly competitive market, in the long run, competitive prices equal the minimum possible _____ cost of good.
(a) Marginal   (b) Variable   (c) Total   (d) Average.

Q.67. In perfect competition, in the long run, _____ .
(a) There are large profits for the firm   (b) There are large losses for the firm
(c) There is no profit and no loss for the firm   (d) There are negligible profits for the firm.

Q.68. **A perfectly competitive firm is operating at an output level where price is greater than marginal cost. Which of the following is/are true?**
(a) The firm should increase its output so as to maximize profit.
(b) The firm should reduce its output so as to maximize profit.
(c) The firm is neither making profit nor loss.
(d) The firm is incurring loss.

Q.69. **A firm encounters its shut down point when:[SM-38]**
(a) Average total cost equals price at the profit maximising level of output
(b) Average variable cost equals price at the profit maximising level of output
(c) Average fixed cost equals price at the profit maximising level of output
(d) Marginal cost equals price at the profit maximising level of output

Q.70. **Which of the following is not true in respect of normal profit?**
(a) Normal profit is the minimum payment, which a producer must get in order to induce him to undertake risk to production.
(b) When AR greater than AC
(c) It is part of cost of production
(d) It is the equal between the average revenue and average cost of the commodity.
(e)

Q.71. **Perfectly elastic demand curve signifies that**
(a) The firm does not exercise any control over the price of the product
(b) The firm can sell product as it likes an Industry
(c) Both (a) and (b)
(d)None of these.

Q.72. **Under perfect competition, if the prevailing price is such that the price line is tangent to the minimum point of the average cost curve than the firm would**
(a) Make only normal profit   (b) Incur losses
(c) Make abnormal profit   (d) Profit cannot be determined.

Q.73. **If under perfect competition, the price line lies below the average cost curve, the firm would**
(a) Make only normal profit   (b) Incur losses
(c) Make abnormal profit   (d) Profit cannot be determined.

Q.74. **Short-run supply curve of the perfectly competitive firm is represented by**
(a) Short-run marginal cost curve
(b) Short-run average cost curve
(c) Long-run average cost curve
(d) Only that part of the marginal cost curve which lives above the average variable cost.

Q.75. **A perfectly competitive firm in the long run, can**
(i) Earn only normal profit   (ii) Incur loss

(iii) Earn supernormal profit
(a) Only (i)   (b) (only (ii)   (c) Either (i) or (iii)   (d) Either (ii) or (iii)

Q.76. **How much selling cost is incurred in case of perfect competitive?**
(a) Very high   (b) Very Pass   (c) Negligible   (d) Zero

Q.77. **The concept of supply curve is relevant only for**
(a) Perfect competition   (b) Monopoly (c) Monopolistic competition (d) Oligopoly

Q.78. **The average profit is regarded as the difference between**
(a) MC and MR   (b) AC and AR   (c) AR and MR   (d)AC and MR.

Q.79. **Under perfect competition**
(a) P > MC   (b) P < MC   (c) P = MC   (d) Either (a) or (b).

Q.80. **A profit maximizing firm will stop production in the short run if price is**
(a) Less than average cost   (b) Below the marginal cost
(c) Less than average variable cost   (d) Equal to average cost.

Q.81. **Under which market conditions can a firm be of optimum size producing at the minimum cost in the long run?**
(a) Monopoly   (b) Perfect competition
(c) Monopolistic competition   (d) Oligopoly.

Q.82. **Assume that a firm's total revenue curve takes the form of a straight line, which passes through the origin. We may deduce that**
(a) Price exceeds marginal revenue
(b) Price and marginal revenue are equal
(c) Total costs and total revenue are equal
(d) Elasticity of demand for the product is unity.

Q.83. **Suppose a firm is producing a level of output such that MR > MC. What should be firm do to maximize its profits? [SM-4]**
(a) The firm should do nothing   (b) The firm should hire less labour
(c) The firm should increase price   (d) The firm should increase output.

Q.84. **A firm under perfect competition will be making minimum losses (in the short run) at a point where:**
(a) MC > MR   (b) MR > MC   (c) MC = MR = AVC   (d) AC = AR

Q.85. **In a competitive firm when AR = AC, then firm earns**
(a) No profit   (b) Abnormal profit   (c) Normal profit   (d) Heavy loss

Q.86. **Which is the following is incorrect?**
(a) The shape of average cost is U-Shaped
(b) MC Curve cuts AC curve at the minimum level
(c) The AR and MR curves of the industry under perfect competition are parallel to X- axis
(d) MC curve cuts AVC curve at the minimum level

Q.87. One would expect a firm to close down rather than continue producing in the short-period if
(a) Total revenue were more than total variable cost
(b) Total revenue were less than total variable cost
(c) Variable costs were to fall below fixed costs
(d) Variable costs were to rise above fixed costs.

Q.88. When price is above AVC and below AC then the firm should _____
(a) Make profits   (b) Should produce
(c) Should produce but incur losses   (d) None of these

Q.89. For maximum profit, the condition is:(N,06)
(a) AR = AC   (b) MR = MC   (c) MR = AR   (d) MC = AC

Q.90. In the short run incur losses. The firm continues production, if : (N,06)
(a) P > AVC   (b) P = AVC   (c) P < AVC   (d) None of the above

Q.91. Under _____ market condition, firms make normal profits in the long run:(N,06)
(a) Perfect competition   (b) Monopoly   (c) Oligopoly   (d) None

Q.92. When AR = Rs. 10 and AC = Rs. 8 the firms makes _____: (M,07)
(a) Normal profit   (b) Net profit   (c) Gross Profit   (d) Supernormal profit

Q.93. Profit of the firm will be more at:(M,07)
(a) MR = MC   (b) Additional revenue from extra unit equals its additional cost
(c) Both of above   (d) None

Q.94. What should firm do when marginal revenue is greater than marginal cost?(M,07)
(a) Firm should expand output   (b) Effect should be made to make them equal
(c) Prices should be covered down   (d) All of these

Q.95. What are the conditions for the long run equilibrium of the competitive firm? (A,07)
(a) LMC = LAC = P   (b) SMC = SAC = LMC   (c) P = MR   (d) All of these

Q.96. Supernormal profits occur, when:(N,07)
(a) Total revenue is equal to total cost
(b) Total revenue is equal to variable cost
(c) Average revenue is more than average cost
(d) Average revenue is equal to average cost

Q.97. If under perfect competition, the price line below the average cost curve, the firm would:(N,07)
(a) Make only normal profits   (b) Incur losses
(c) Make abnormal profit   (d) Profit cannot be determined

Q.98. Competitive firms in the long run earn:(F,08)

(a) Super normal profit   (b) Normal profit   (c) Losses   (d) None

Q.99. Condition for producer/firm equilibrium is;(J,08)

(a) TR = TVC   (b) MC = MR   (c) TC = TSC   (d) None of these

Q.100. A firm will shut down in the short run if:(J,08)

(a) If is suffering a loss   (b) Fixed costs exceeds revenue
(c) Variable costs exceed revenues   (d) Total costs exceed revenues

Q.101. MR Curve = AR = Demand curve is a feature of which kind of Market? (D,08)

(a) Perfect competition   (b) Monopoly   (c) Monopolistic   (d) Oligopoly

Q.102. Under which of the following market structure AR of the firms will be equal to MR?(D,10)

(a) Monopoly   (b) Monopolistic competition
(c) Oligopoly   (d)Perfect Competition

Q.103. In perfect Competition when the firm is a price taker, which curve among the following will be a straight line?(D,11)

(a) Marginal Cost   (b) Average Cost   (c) Total Cost   (d) Marginal Revenue

Q.104. A firm encounters "shut down" point when_____(D,11)

(a) Marginal cost Equals the price of the profit maximising level of out put
(b) Average fixed cost Equals the price at the profit maximising level of output
(c) Average Variable cost Equals the price at the profit maximising level of out put
(d) Average Total cost equals the price at the profit maximising level of Out put

Q.105. In market, the price and output equilibrium is determined on the basis of:(J,12)

(a) Total revenue and total cost   (b) Total cost and marginal cost
(c) Marginal revenue and marginal cost   (d) Only marginal cost.

Q.106. Equilibrium price for an industry in perfect competition is fixed through.(J,13)

(a) Input and Output   (b) Market demand and market supply
(c) Market demand and firms supply   (d) None of the above

Q.107. In a perfectly competitive market , if MR is greater than MC , then a firm should-(D,13)

(a) Increase its production   (b) Decrease its production
(c) Decrease its sales   (d) Increase its sales

Q.108. The firm will attain equilibrium at a point where MC curve cuts ____ curve from below.(J,15)

(a) AR   (b) MR   (c) AC   (d) AVC

Q.109. "I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time." If this entrepreneur is attempting to maximize profits or minimize losses, his behaviour in the short run is : (D,15)
(a) rational, if the firm is covering it s variable cost.
(b) rational, if the firm is covering its fixed costs
(c) irrational, since plant closing is necessary to eliminate losses
(d) irrational, since fixed costs are eliminated if a firm shuts down

Q.110. If the price of a commodity is fixed, then with every increase in its sold quantity the total revenue will __ and the marginal revenue will ___.(J,16)
(a) increase, also increase   (b) increase, remain unchanged
(c) increase, decline   (d) remain fixed, increase.

Q.111. Which is the first order condition for the firm to maximise the profit.(D,16)
(a) AC = MR   (b) AC = MR   (c) MC = MR   (d) MR = AR

Q.112. It is assumed in economic theory that [SM-13]
(a) decision making within the firm is usually undertaken by managers, but never by the owners.
(b) the ultimate goal of the firm is to maximise profits, regardless of firm size or type of business organisation.
(c) as the firm's size increases, so do its goals.
(d) the basic decision making unit of any firm is its owners.

Q.113. Which of the following is not a characteristic of a "price taker"?[SM-10]
(a) TR = P x Q   (b) AR = Price
(c) Negatively - sloped demand curve   (d) Marginal Revenue = Price

Quantity	Average Fixed Cost	Average Total Cost	Marginal Cost
0	-	-	-
1	80.00	100.00	20
2	40.00	58.00	17
3	26.66	44.00	15
4	20.00	36.25	13
5	16.00	31.40	12
6	13.33	28.33	13
7	11.42	26.29	14
8	10.00	26.13	25
9	8.88	26.56	30
10	8.00	27.30	34
11	7.27	28.45	40
12	6.66	30.00	47
13	6.15	31.92	55

Q.114. Refer to Table 1 which lists the average costs of a perfectly competitive firm. If the price of the good is Rs 13, the firm will be produce.

(a) 4 units at a loss of Rs. 93   (b) 6 units at a loss Rs. 92

(c) zero units at a loss of Rs. 80   (d) 8 units at a profit of Rs. 9

Q.115. Refer to the competitive firm in Table 1. If the market price is Rs .31, the firm will produce:

(a) 9 units at an economic profit of Rs. 40

(b) 10 units at an economic profit of Rs. 67

(c) 9 units at an economic profit of Rs. 81

(d) Zero units of output and lose its fixed cost

Q.116. In table 1, if price is Rs 26, the perfectly competitive firm will:

(a) shut down in the short run

(b produce 8 units at an economic loss of Rs. 9

(c) produce 9 units at an economic loss of Rs. 5

(d) produce 8 units at an economic loss of Rs. 1.04

Q.117. In table 1, if price is Rs. 34, the perfectly competitive firm will:

(a) shut down   (b) produce 10 units

(c) produce 11 units   (d) produce 13 units.

A competitive firm sells as much as of its product as it chooses at a market price of Rs. 200 per unit. Its fixed cost is Rs.600 and its variable costs (in rupees) for different levels of production are shown in the following table. Use Table 4 to answer question.

Quantity	Variable Cost	Fixed Cost	Total Cost	Average Variable Cost	Average Total Cost	Marginal Cost
0	0					
5	500					
10	940					
15	1400					
20	1960					
25	2700					
30	3700					
35	5040					
40	6800					
45	9060					
50	11900					

Q.118. When production is 40 units, the average total cost is

(a) Rs. 8.80   (b) Rs. 15   (c) Rs. 170   (d) Rs. 185

Q.119. In the table marginal cost per unit corresponds to 40 units of production is

(a) Rs. 44   (b) 170   (c)Rs. 352   (d) Rs. 1760

Q.120. To maximize profit, the firm should produce

(a) 15 units   (b) 30 units   (c) 35 units   (d) 50 units

Q.121. If the market price drops from Rs. 200 to Rs. 112 , the firm's short run response should be

(a) Shut down

(b) Produce 5 units

(c) Produce 20 units

(d) Continue to produce the same number of units as before the drop in price.

Q.122. If the market price rises from Rs. 200 to Rs. 352 , the firm's short run response should be

(a) Shut down

(b) Produce 40 units

(c) Produce 20 units

(d) Continue to produce the same number of units as before the increase in price

Q.123. For market the essential condition is –[SM-91]

(a) A particular geographical place   (b) Control of the government

(c) Close contact between buyers and sellers   (d) None of these

Q.124. Assume that when Price is ₹10, the quantity demanded is 5 units and when Price is ₹12 the quantity demanded is 4 units .Based on this information, what is the Marginal Revenue resulting from increase in output from 4 units to 5 units. [SM-92]

(a) ₹5   (b) ₹4   (*c*) ₹2   (d) ₹3

Q.125. Average revenue is equal to. [SM-93]

(a) The change in P & Q due to a one unit change in output.

(b) Nothing but price of one unit of output.

(c) The change in quantity divided by change in price.

(d) Graphically it denotes the firm's supply curve.

Q.126. Example of a commodity said to have an International Market. [SM-94]

(a) Perishable Goods.

(b) High Value and Small Bulk Commodities.

(c) Product whose trading is restricted by government.

(d) Bulky Articles.

Q.127. Stock Exchange is example of _____ Market: [SM-95]

(a) Regulated Market   (b) Spot Market   (c) Forward Market   (d) Retail Market

Q.128. Conditions for equilibrium of a firm are: [SM-96]

(a) MR = MC

(b) MC should cut MR from below.

(c) MR = AR and MC should cut MR from below.

(d) MR = MC and MC should have a positive slope.

Answer

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
c	c	a	c	d	b	b	a	c	d	a	a	b	c	a	b	a	b	b	c

21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
b	c	a	c	a	c	b	c	d	d	c	c	a	b	a	a	d	d	c	d

41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
c	a	d	d	d	a	b	d	b	d	d	d	d	d	b	a	b	c	d	c

61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
a	d	c	d	d	d	c	a	b	b	c	a	b	d	a	d	a	b	c	c

81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
b	b	d	c	c	c	b	c	b	b	a	d	c	a	a	c	b	b	b	c

101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
a	d	d	c	c	b	a	b	a	b	c	b	c	b	a	d	b	d	c	b

121	122	123	124	125	126	127	128												
c	b	c	c	b	b	a	d												

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TOTAL MARKS : ———

Q	A	B	C	D
1	Ⓐ	Ⓑ	Ⓒ	Ⓓ
2	Ⓐ	Ⓑ	Ⓒ	Ⓓ
3	Ⓐ	Ⓑ	Ⓒ	Ⓓ
4	Ⓐ	Ⓑ	Ⓒ	Ⓓ
5	Ⓐ	Ⓑ	Ⓒ	Ⓓ
...				
150	Ⓐ	Ⓑ	Ⓒ	Ⓓ

(OMR answer sheet: Questions 1 to 150, each with options A, B, C, D)

Max. Marks	Min. Marks	Right Ans.	Wrong Ans.	Blank Que.	Neg. Marks	Obt. Marks	Sub. Wise P/F