CHAPTER-4 | The Theory Of The Firm Under Perfect Competition

QUIZ PART-02

1. **What does 'supply' mean for a firm?**
   A. The quantity consumers want to buy at any price
   B. The quantity a firm chooses to sell at a given price, technology, and input prices
   C. The maximum output a firm can produce with current resources
   D. The planned production regardless of price (B)

   Explanation : It is defined as the quantity the firm chooses to sell at a given price, given technology, and given prices of factors of production.

2. **What is a supply schedule?**
   A. A list of input quantities needed for each unit of output
   B. A table showing output at different technology levels
   C. A table of quantities sold at various prices, other factors unchanged
   D. A timetable for factory shifts (C)

   Explanation : It is a table describing the quantities sold by a firm at various prices, holding technology and other factors constant.

3. **What does a firm's supply curve show?**
   A. Output chosen at different levels of average cost
   B. Output chosen at different values of market price, holding technology and input prices fixed
   C. Profit at different levels of marginal cost
   D. Revenue at different levels of demand (B)

   Explanation : It shows the output levels the firm chooses corresponding to different market prices, with technology and factor prices unchanged.

4. **How does technological progress affect a firm's supply curve and costs?**
   A. Shifts supply left; raises marginal cost
   B. Shifts supply right; lowers marginal cost at each output level
   C. No effect on supply; only raises average fixed cost
   D. Shifts supply right; raises marginal cost at each output level (B)

   Explanation : Organisational/technological innovation lets the firm use fewer inputs, lowering MC and shifting the supply curve to the right.

5. **What is the short-run condition under which a perfectly competitive firm produces a positive output?**
   A. Price $\geq$ minimum AVC, choosing output where SMC is falling
   B. Price $\geq$ minimum AVC, choosing output where price = SMC on the rising part
   C. Price $\geq$ minimum AC, choosing output where price = SAC
   D. Price $\geq$ AFC, choosing output where price = SMC anywhere (B)

   Explanation : In the short run, if price is at least the minimum AVC, the firm produces where p = SMC on the rising segment.

6. **What happens if, in the short run, the market price is below the minimum AVC?**
   A. The firm produces where p = SMC and incurs losses B. The firm produces zero output
   C. The firm raises price to cover AVC
   D. The firm produces at minimum SAC (B)

   Explanation : When price is less than the minimum AVC, the firm shuts down in the short run and supplies zero output.

7. **What is the firm's short-run supply curve?**
   A. The entire SMC curve
   B. The rising part of the SMC from and above minimum AVC, plus zero for prices below minimum AVC
   C. The SAC curve above minimum SAC
   D. The horizontal line at minimum AVC (B)

   Explanation : Short-run supply is the upward-sloping segment of SMC starting at the minimum AVC, with zero output for any lower price.

8. **In the long run, when does a firm supply a positive output?**
   A. When price $\geq$ minimum LRAC and p = LRMC on its rising part
   B. When price $\geq$ minimum AVC and p = LRMC anywhere
   C. When price $\leq$ LRAC and p = LRMC on its falling part
   D. Only when price equals LRAC at all outputs (A)

   Explanation : If price is at least the minimum LRAC, the firm produces where p = LRMC on the rising portion; otherwise it supplies zero.

9. **What is meant by the break-even point?**
   A. Where total revenue $<$ total cost
   B. Where marginal cost equals marginal revenue
   C. Where total revenue equals total cost, implying no profit or loss
   D. Where average fixed cost equals price (C)

   Explanation : It is the level of production at which total cost equals total revenue—no gain or loss.

10. **Which statement best captures the law of supply?**
    A. As price rises, supply falls
    B. As price rises, supply rises
    C. As price falls, supply rises
    D. Supply is independent of price (B)

    Explanation : Other things constant, a higher price induces firms to supply a larger quantity.