Learning Key [3 - 4]
Test Your Knowledge [TYK] Questions:

Model & Past Paper Questions [OTQs - MCQs]

[01] Which of the following is not usually a characteristic of a perfectly competitive market?

(1) No individual firm has any significant amount of market power.
(2) The market demand curve is perfectly elastic.
(3) Any individual firm can increase its production and sales without affecting the price of the good.
(4) The existing firms cannot bar the entry of new firms.
(5) There are large number of buyers and sellers in the market.

[02] The table below displays some of the assumptions of perfect competition and monopolistic competition. Which combination of assumptions is consistent with these markets?

	Perfect Competition	Monopolistic Competition
(1)	Homogeneous product	Barriers to entry and exit
(2)	Differentiated products	Homogeneous product
(3)	Large number of sellers	Small number of sellers
(4)	Barriers to entry and exit	Perfect information
(5)	Large number of sellers	Differentiated products

[03] An industry consists of a large number of firms, all of which produce an identical product. What could explain why the demand curve facing each individual firm is downward sloping?

(1) All firms act as price takers
(2) Freedom of exit and entry
(3) Perfect mobility of resources
(4) A limit on the amount consumers has available to spend
(5) Imperfect knowledge about the market on the part of consumers

[04] Which one of the following is not consistent with perfect competition?

(1) A large number of producers and consumers
(2) Advertising by individual firms
(3) One market price only
(4) A homogeneous product
(5) A perfectly elastic demand curve for each firm.

[05] Which of the following is true about the marginal revenue of a firm in a perfectly competitive industry?

(1) It is constant.
(2) It increases as output sold increases.
(3) It decreases as output sold increases.
(4) It increases as first, then decreases.
(5) It decreases at first, then increase.

[06] Monopolistic competition is a market structure in which there is

(1) Only one firm.
(2) A small number of firms.
(3) A large number of firms producing an identical product.
(4) A large number of firms producing a differentiated product.
(5) No advertising.

[07] Which of the following is not a characteristic of monopolistically competitive market?

(1) Relatively easy market entry
(2) Differentiated products
(3) Substantial product advertising
(4) A large number of both buyers and sellers
(5) Firms face perfectly elastic demand curves

[08] Which of the following are characteristics of a perfectly competitive market?

(A) – New firms can enter the market easily.
(B) – There is no product differentiation.
(C) – The market demand curve is perfectly elastic.
(D) – The supply curve of an individual firm in the market is perfectly elastic.

(1) A and B only. (2) A and C only. (3) A, B and C only.
(4) A, B and D only. (5) B and C only.

[09] In which one of the following market structures do firms recognize their mutual interdependence?

(1) Oligopoly (2) Monopoly (3) Perfect competition
(4) Natural monopoly (5) Monopolistic competition

[10] An industry with a small number of firms producing a standardized or differentiated product could be called

(1) A competitive industry. (2) An oligopoly.
(3) A monopolistically competitive industry. (4) A monopoly.
(5) A pure competition.

Model Objective Test Questions [OTQs]:

State if the following statements / assertions are True [T] or False [F]

[01] If a business has supernormal profits, essentially there will be accounting profits, and not vice versa.

[02] Normal profits and amortization payments are highly specific economic examples for fixed cost in production

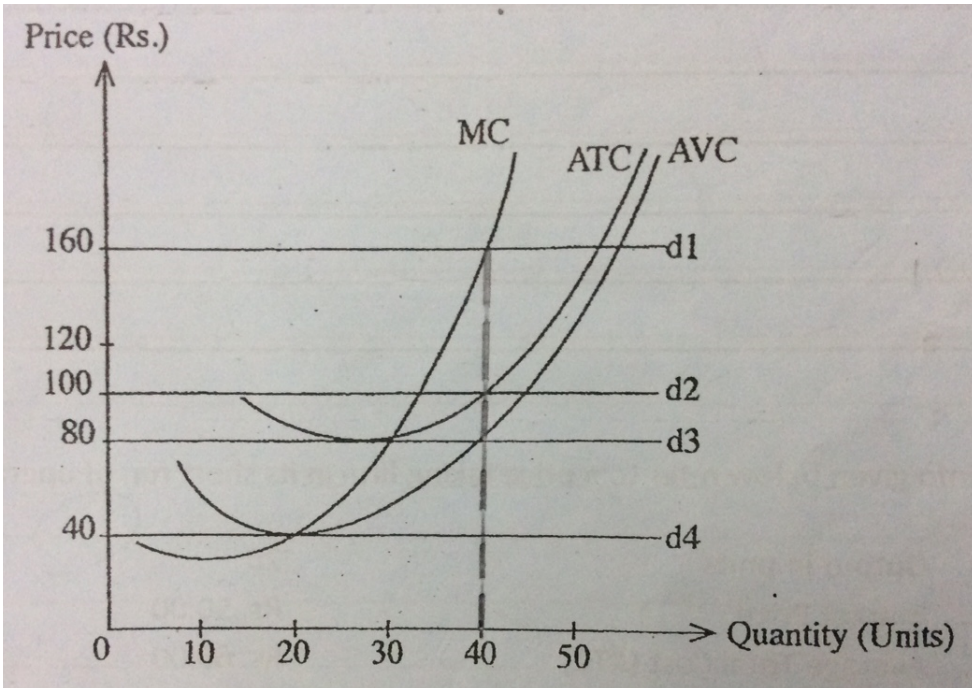
[03] Diminishing returns to scale and diseconomies of scale are conceptually the same

[04] If marginal cost (MP) is below average product (AP) then MC must be rising

[05] When marginal product equals average product (i.e MP = AP), average variable cost curve will be at its lowest

Structured Essay Type Questions [SEQs]
[Model; Past Paper Based]

[1] The following diagram is for a perfectly competitive firm in its short run



Estimate the following assuming this firm is operating under a given market price of **Rs. 160**

(A) The total economic profit or loss of the firm
(B) The total loss of shutting down production
(C) The total producer surplus of the firm

[02 marks each]

[2] **State** four main features of a perfectly competitive industry

[04 marks] [2022 A/L]

[3] **Explain** why the firm is a price taker and it cannot choose the price at which it sells its products in a perfectly competitive market

[04 marks] [2023 A/L]

[4] 'In the short run firms may stay in the industry even if they are making a loss' **Explain** this statement

[04 marks] [2021 A/L]

[5] Compare perfectly competitive market structure with monopoly

[04 marks] [2021 A/L]

[6] **State** four main features of an Oligopoly Market

[04 marks] [2023 A/L]

[7] What is the relationship between economic profits, producer surplus and fixed costs.

[03 marks] [2020 A/L]

End of TYK Paper [3]