Unit 3.6 Firms' Short-Run and Long-Run Decisions

AP Microeconomics Homework — 27 Questions

Shutdown Decisions

1. 题库 Unit 4 Perfectly Competitive Q119

In the short run, a profit-maximizing firm should shut down if which of the following is true?

(A) It is not making an economic profit.
(B) It is not making a normal profit.
(C) Its total revenue is less than its total cost.
(D) Its product price is less than its average variable cost.
(E) Its product price is greater than its average variable cost but less than its average total cost.

2. 题库 Unit 4 Perfectly Competitive Q36

Assume that a profit-maximizing, perfectly competitive firm has economic losses in the short run. If the firm continues to produce and sell its goods, then which of the following must be true?

(A) The firm is covering all of its fixed and variable costs of production.
(B) The firm is covering all of its fixed costs but not all of its variable costs of production.
(C) The firm is covering all of its variable costs but not all of its fixed costs of production.
(D) The firm is covering all of its variable costs and some portion of its fixed costs.
(E) The firm is not covering any of its fixed or variable costs of production.

3. 题库 Unit 4 Perfectly Competitive Q120

For a perfectly competitive firm, assume the price equals a rising marginal cost at 200 units of output. At this output, average total cost is $8 and average variable cost is $5. If the price is $4, by how much can this firm reduce its losses by shutting down?

(A) $800
(B) $600
(C) $400
(D) $200
(E) $100

4. 题库 Unit 4 Perfectly Competitive Q111

In the short run, which of the following must be true for a perfectly competitive firm that is maximizing profits?

(A) The firm will shut down if it has any economic losses.
(B) The firm will produce at the minimum of average total cost.
(C) The firm will produce where marginal revenue equals marginal cost, but price from the demand curve is greater than average total cost.
(D) The firm will produce where marginal revenue equals marginal cost as long as price is greater than average variable cost.
(E) The firm will produce the quantity that exhibits allocative and productive efficiency.

5. 题库 Unit 4 Perfectly Competitive Q72

A perfectly competitive firm's short-run supply curve is the portion of the marginal cost curve that is

(A) above the average total cost curve
(B) above the average variable cost curve
(C) above the minimum average fixed cost curve
(D) above the demand curve
(E) between the average fixed cost curve and the average variable cost curve

6. 题库 Unit 4 Perfectly Competitive Q87

The short-run supply curve for a firm in a perfectly competitive industry is

(A) its entire marginal cost curve
(B) its average variable cost curve above its marginal cost curve
(C) its average total cost curve above its marginal cost curve
(D) its marginal cost curve above the minimum point of its average total cost curve
(E) its marginal cost curve above the minimum point of its average variable cost curve

7. 题库 Unit 4 Perfectly Competitive Q90

A farmer produces peppers in a perfectly competitive market. If the price falls, in the short run the farmer should

(A) increase production until the new price equals average revenue
(B) increase production to offset the fall in price
(C) discontinue production if the new price is less than marginal revenue
(D) continue to produce only if the new price covers average fixed costs
(E) continue to produce only if the new price covers average variable costs

8. 题库 Unit 4 Perfectly Competitive Q95

In the short run, a firm in a perfectly competitive industry will definitely

(A) shut down if total revenue is less than total variable cost
(B) produce the market equilibrium output to maximize profit
(C) earn zero economic profit
(D) cover all of its fixed costs
(E) charge a price lower than its competitors to increase its sales

9. 题库 Unit 4 Perfectly Competitive Q116

In the short run, a perfectly competitive firm should shut down whenever

(A) minimum average variable cost exceeds price
(B) minimum average total cost exceeds price
(C) marginal revenue exceeds marginal cost
(D) marginal cost exceeds marginal revenue
(E) it is losing money

10. 题库 Unit 4 Perfectly Competitive Q122

In order to minimize short-run losses, a profit-maximizing firm will necessarily shut down production under which of the following conditions?

(A) Total revenue is less than total cost.
(B) Marginal cost is greater than average total cost.
(C) Marginal cost is less than marginal revenue.
(D) Average revenue is less than average variable cost.
(E) Average revenue is less than average total cost.

11. 题库 Unit 4 Perfectly Competitive Q125

A profit-maximizing firm will shut down in the short run any time the firm's total revenue is less than its

(A) total cost
(B) fixed cost
(C) total variable cost
(D) explicit cost
(E) implicit cost

Short-Run: Operate at a Loss

12. 题库 Unit 4 Perfectly Competitive Q37

Suppose that price in a perfectly competitive industry decreases and it is now below minimum average total cost but remains above minimum average variable cost. Which of the following will occur in the short run?

(A) New firms will enter the industry.

(B) Firms will increase output so that marginal revenue equals the new price.

(C) Firms will produce the output at which average total cost is at a minimum.

(D) Firms will produce the output at which marginal cost equals the new price.

(E) Firms will exit the industry.

13. 题库 Unit 4 Perfectly Competitive Q55

If a profit-maximizing firm in a perfectly competitive market chooses to produce in the short run, then marginal cost is always

(A) greater than or equal to total cost

(B) greater than or equal to average total cost

(C) greater than or equal to average variable cost

(D) greater than or equal to average fixed cost

(E) less than average total cost

14. 题库 Unit 4 Perfectly Competitive Q83

Assume that a firm is maximizing short-run profits and that price is greater than average variable cost. Which of the following must be true at the firm's level of output?

(A) Marginal revenue is equal to average total cost.

(B) Marginal revenue is greater than total variable cost.

(C) Marginal revenue is equal to price, which is greater than average total cost.

(D) Marginal revenue is equal to marginal cost.

(E) Price is equal to average total cost.

15. 题库 Unit 4 Perfectly Competitive Q40

Assume that, for a perfectly competitive firm, marginal cost equals average variable cost at $10, marginal cost equals average total cost at $15, and marginal revenue equals marginal cost at $12. On the basis of this information, the firm should

(A) close down in the short run

(B) operate in the short run, even though it will sustain a loss

(C) operate in the short run, because it will make an economic profit of $3 per unit

(D) operate in the long run, because it will make an economic profit of $3 per unit

(E) operate in the short run, but decrease output to decrease its cost

16. 题库 Unit 4 Perfectly Competitive Q115

In the short run, if a firm produces the level of output at which marginal revenue is equal to marginal cost but price is less than average total cost, the firm will

(A) always shut down production

(B) expand output to lower its average fixed cost

(C) continue to operate if price is greater than its average variable cost

(D) decrease output until price equals its average total cost

(E) increase output to increase revenue

17. 题库 Unit 4 Perfectly Competitive Q117

At its current level of output, a firm's total revenue is greater than its total variable cost but less than its total cost. If the firm is producing at the point where marginal revenue is equal to marginal cost, what should the firm do to maximize profit in the short run?

(A) Increase price to increase revenue.
(B) Decrease price to increase quantity.
(C) Exit the market to minimize losses.
(D) Continue to produce at its current level of output to minimize losses.
(E) Shut down.

18. 题库 Unit 4 Perfectly Competitive Q77

In a perfectly competitive industry, the market price of the product is $12. A firm produces at a level of output where average total cost is $16, marginal cost is $16, and average variable cost is $8. To maximize its profit, the firm should

(A) decrease its selling price
(B) increase its selling price
(C) decrease output but keep producing
(D) shut down
(E) leave both price and output unchanged

Long-Run Equilibrium

19. 题库 Unit 4 Perfectly Competitive Q70

Which of the following is true of a perfectly competitive firm in long-run equilibrium?

(A) It produces its output at minimum average total cost.
(B) It earns positive economic profits.
(C) It will exit the industry.
(D) Its price exceeds marginal cost.
(E) Its price exceeds marginal revenue.

20. 题库 Unit 4 Perfectly Competitive Q45

Which of the following will most likely lead to zero economic profits?

(A) Price floors
(B) Price discrimination
(C) External costs
(D) Free entry and exit of firms
(E) External benefits

Long-Run Entry and Exit

21. 题库 Unit 4 Perfectly Competitive Q25

Assume that olive oil is produced in a constant-cost, perfectly competitive industry, which is currently in long-run equilibrium. If the current price of olive oil is $5 per quart and the demand for olive oil increases, then the price of olive oil will change in which of the following ways in the short run and long run?

	Short Run	Long Run
(A)	Be more than $5	Be more than $5
(B)	Be more than $5	Be equal to $5
(C)	Be equal to $5	Be equal to $5
(D)	Be less than $5	Be less than $5
(E)	Be less than $5	Be equal to $5

22. 题库 Unit 4 Perfectly Competitive Q26

In the absence of barriers to entry, a typical firm is currently in long-run equilibrium. Assume there is an increase in the market demand for the good that the firm is producing. Which of the following will happen in the long run?

(A) New firms will enter the market.
(B) The market supply will decrease, but the quantity supplied will increase.
(C) The firm will earn positive economic profit.
(D) The firm's price will be greater than its average revenue.
(E) The firm will continue to produce the same quantity of output.

23. 题库 Unit 4 Perfectly Competitive Q89

A constant-cost, perfectly competitive industry is in long-run equilibrium. If the demand for the good increases, which of the following will occur in the long run?

(A) The price will remain unchanged.
(B) The price will increase.
(C) The price will decrease.
(D) Economic profits will increase.
(E) Economic profits will decrease.

24. 题库 Unit 4 Perfectly Competitive Q24

An entrepreneur has earned enough total revenue to cover her accounting costs, but economic losses are being incurred. What must be true?

(A) Her accounting costs are larger than her economic costs.
(B) Her accounting profits are less than her implicit costs.
(C) Her accounting profits are greater than her economic costs.
(D) Her economic losses are less than her total fixed costs.
(E) Her implicit costs are less than her accounting costs.

Past Exam Questions

25. 2022 AP Micro MCQ Q41

Assume paper clips are produced in a perfectly competitive industry that is currently in long-run equilibrium. One firm in the industry develops a new production method that reduces its variable cost of production. If its competitors are unable to copy this new method, what will happen to this firm's output and profit in the short run?

(A) Output will increase, and profit will increase.
(B) Output will decrease, and profit will increase.
(C) Output will not change, and profit will increase.
(D) Output will increase, and profit will not change.
(E) Output will not change, and profit will not change.

26. 2024 AP Micro MCQ Q39

In the short run, firms decide to produce or shut down by comparing price to

(A) average fixed cost
(B) average total cost
(C) average variable cost
(D) marginal cost
(E) marginal revenue

27. 2025 AP Micro MCQ Q29

Firm Z is a typical firm in a perfectly competitive market that produces a quantity of output where marginal revenue equals marginal cost in a constant-cost industry. If the sum of Firm Z's average fixed cost and average variable cost is below its marginal revenue at the profit-maximizing quantity, which of the following will occur in the long run?

(A) The firm will increase output.

(B) The firm will shut down.

(C) The firm will increase price.

(D) The firm will exit the market.

(E) New firms will enter the market.