

Short Answer Questions

Chapter 14.

1. What is meant by the term 'competition'? Illustrate your answer with appropriate examples.
2. Outline the main features of a highly competitive market.
3. Explain why, for a competitive firm, price equals marginal revenue and average revenue ($P = AR = MR$).
4. Why does a firm maximise profit at an output level which equates marginal cost with marginal revenue. Use an example and a diagram where appropriate to illustrate your answer.
5. Why is the marginal cost curve of a competitive firm its supply curve?
6. Under what conditions would a competitive firm shut down? Illustrate your answer with a diagram and an example where appropriate.
7. What is the relevance of sunk costs to a firm's decision on whether to continue in production?
8. A competitive market sees a firm develop a new technology which reduces its costs and also increases its sales. Explain what you would expect to happen in the long run in this market.
9. Why is the long run market supply curve horizontal in the long run?
10. Many textbooks state the assumption that firms in the private sector aim to maximise profit. No firm will continue in operation in the long run if it does not generate a profit. Many firms make zero profit but continue to operate. Explain this apparent contradiction.