**DO NOT WRITE ON THIS TEST!**

# AP Economics Unit 12 Practice Test

**Multiple Choice**
*Identify the choice that best completes the statement or answers the question.*

____ 1. One characteristic of a perfectly competitive market is that there are _____ sellers of the good or service.
a. one or two
b. a few
c. usually less than 10
d. hundreds or thousands of
e. zero

____ 2. For the Colorado beef industry to be classified as perfectly competitive ranchers in Colorado must have _____ on prices and beef is a _____ product.
a. no noticeable effect; standardized
b. a huge effect; standardized
c. a huge effect; differentiated
d. no noticeable effect; differentiated
e. no noticeable effect; price inelastic

____ 3. Price-takers are individuals in a market who:
a. select a price from a wide range of alternatives.
b. select the lowest price available in a competitive market.
c. select the average of prices available in a competitive market.
d. have no ability to affect the price of a good in a market.
e. select the price that maximizes profit.

____ 4. In the model of perfect competition:
a. the consumer is at the mercy of powerful firms that can set prices wherever they prefer.
b. individual firms can influence the price, but only slightly.
c. no individual or firm has enough power to have any impact on price.
d. the price is determined by how many years are left in the product's patent.
e. the price is determined by a committee of government ministers.

____ 5. Perfect competition is characterized by:
a. rivalry in advertising.
b. fierce quality competition.
c. significant barriers to entry of new firms.
d. widely recognized brands.
e. the inability of any one firm to influence price.

____ 6. The two theoretical extremes of the market structure spectrum are occupied on one end by perfect competition and on the other end by:
a. monopoly.
b. duopoly.
c. oligopoly.
d. monopolistic competition.
e. monopsony.

____ 7. The market structure called _____ is described as having a single producer selling a single, undifferentiated product.
   a. perfect competition
   b. monopoly
   c. oligopoly
   d. monopolistic competition
   e. duopoly

____ 8. Most electric, gas, and water companies are examples of:
   a. unregulated monopolies.
   b. natural monopolies.
   c. restricted-input monopolies.
   d. sunk-cost monopolies.
   e. private monopolies.

____ 9. Conditions that prevent the entry of new firms in a monopoly market are:
   a. barriers to entry.
   b. terms of sale.
   c. labor market stipulations.
   d. production controls.
   e. antitrust laws.

____ 10. In an oligopoly:
   a. there are many sellers.
   b. there are no barriers to entry.
   c. firms recognize their interdependence.
   d. total surplus is maximized.
   e. products are homogenous.

____ 11. In monopolistic competition:
   a. there is free entry and exit in the long run.
   b. each firm produces a standardized product.
   c. there are few producers.
   d. there are barriers to entry.
   e. firms are price-takers.

____ 12. The marginal revenue received by a firm in a perfectly competitive market:
   a. is greater than the market price.
   b. is less than the market price.
   c. is equal to its average revenue.
   d. increases with the quantity of output sold.
   e. decreases with the quantity of output sold.

____ 13. If a perfectly competitive firm sells 30 units of output at a price of $10 per unit, its marginal revenue is:
   a. $10.
   b. $30.
   c. $0.
   d. $300.
   e. $3.

____ 14. Suppose a perfectly competitive firm can increase its profits by increasing its output. Then it must be the case that the firm's:
a. marginal revenue exceeds its marginal cost.
b. price exceeds its average variable cost, but is less than average total cost.
c. marginal cost exceeds its marginal revenue.
d. price exceeds its marginal revenue.
e. price is less than marginal revenue.

____ 15. A competitive firm operating in the short run is producing at the output level at which *ATC* is at a minimum. If *ATC* = $8 and *MR* = $9, in order to maximize profits (or minimize losses), this firm should:
a. increase output.
b. reduce output.
c. shut down.
d. do nothing; the firm is already maximizing profits.
e. liquidate assets and exit the industry.

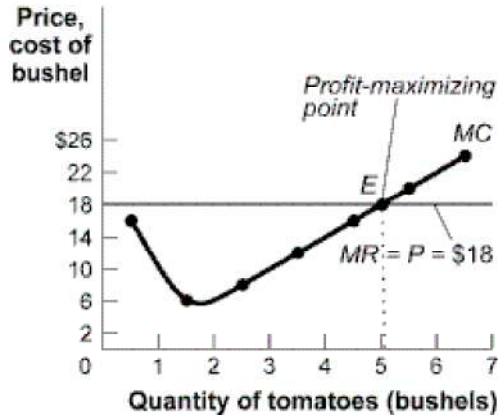
____ 16. In the perfectly competitive guidebook industry, the market price is $35. A firm is currently producing 10,000 guidebooks; average total cost is $38, marginal cost is $30, and average variable cost is $30. The firm should:
a. raise the price of guidebooks, because the firm is losing money.
b. keep output the same, because the firm is producing at minimum average variable cost.
c. produce more guidebooks, because the next guidebook produced increases profit by $5.
d. shut down, because the firm is losing money.
e. produce fewer guidebooks, because the next guidebook produced decreases profit by $8.

____ 17. A perfectly competitive firm is definitely earning an economic profit when:
a. *MR* > *MC*.
b. *P* > *ATC*.
c. *P* > *MC*.
d. *P* > *AVC*.
e. *MR* > *AVC*.

____ 18. Consider the following data for a perfectly competitive firm: price is $9, output is 30 units, and average total cost is $7. The firm's profits are equal to:
a. $60.
b. $270.
c. $2.
d. $210.
e. $180.

____ 19. A competitive firm operating in the short run is maximizing profits and just breaking even. Its costs include a monthly license fee of $100 that is imposed by the state and must be paid for as long as the firm is in existence. The license fee is now raised to $150. To continue to maximize profits in the short run, the firm should:
a. increase price.
b. increase output.
c. reduce output.
d. not change output.
e. decrease price.

**Figure 58-1: Marginal Revenue, Costs, and Profits**




____ 20. (Figure 58-1: Marginal Revenue, Costs, and Profits) In the figure, if market price decreases to $16, marginal revenue _____ and profit-maximizing output _____.
a. increases; decreases
b. increases; increases
c. decreases; increases
d. decreases; decreases
e. remains constant; remains constant

____ 21. For a firm producing at any level of output *less than* the most profitable one, an increase in output adds:
a. more to total cost than to total revenue.
b. more to total revenue than to total cost.
c. the same amount to total revenue as to total cost.
d. to total revenue but not to total cost.
e. to total cost but not to total revenue.

____ 22. For a firm producing at any level of output *greater than* the most profitable one, a reduction in output decreases:
a. total cost more than total revenue.
b. total revenue more than total cost.
c. total revenue by the same amount as total cost.
d. total revenue but not total cost.
e. total cost but not total revenue.

____ 23. In the short run, a perfectly competitive firm produces output and earns an economic profit if:
a. $P > ATC$.
b. $P = ATC$.
c. $P < AVC$.
d. $AVC > P > ATC$.
e. $AVC < P < ATC$.

____ 24. In the short run, a perfectly competitive firm produces output and earns *zero* economic profit if:
a. $P > ATC$.
b. $AVC < P < ATC$.
c. $P < AVC$.
d. $AVC > P > ATC$.
e. $P = ATC$.

____ 25. A perfectly competitive firm maximizes profit by producing the quantity at which:
a. *TR = TC.*
b. *MR = MC.*
c. *Q*(P – ATC)* = 0.
d. *P >= AVC.*
e. *P = ATC.*

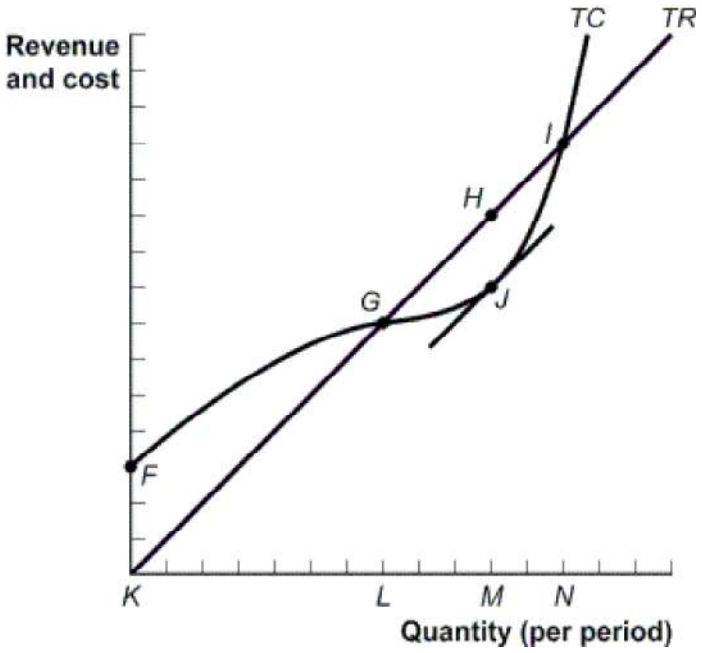
| Quantity of Apples (bushels) | *VC* |
|---|---|
| 0 | $ 0 |
| 1 | 40 |
| 2 | 70 |
| 3 | 80 |
| 4 | 130 |
| 5 | 190 |
| 6 | 260 |
| 7 | 340 |
| 8 | 430 |

**Table 58-2: Lilly's Apple Orchard**

____ 26. (Table 58-2: Lilly's Apple OrcharD. Lilly is the price-taking owner of an apple orchard; its variable costs are given in the table. Her orchard has fixed costs of $30. If the price of a bushel of apples is $25, how many bushels will Lilly produce to maximize profit?
a. 0
b. 1
c. 2
d. 3
e. 4

____ 27. (Table 58-2: Lilly's Apple OrcharD. Lilly is the price-taking owner of an apple orchard; its variable costs are given in the table. Her orchard has fixed costs of $30. If the price of a bushel of apples is $35, her economic profit will be equal to:
a. –$30
b. –$5
c. $0
d. $5
e. $25

____ 28.




The most profitable level of output occurs at quantity:

a. *F.*
b. *K.*
c. *L.*
d. *H.*
e. *M.*

____ 29.

| Quantity of Lawns | Variable Costs |
|---|---|
| 0 | $0 |
| 10 | 100 |
| 20 | 300 |
| 30 | 500 |
| 40 | 1,100 |
| 50 | 1,800 |

**Table: Variable Costs for Lawns**

During the summer, Alex runs a lawn-mowing service, and lawn-mowing is a perfectly competitive industry. His only fixed cost is $1,000 for the mower. His variable costs include fuel and mower parts. He calculates the variable costs per lawn as shown in the table. What is Alex's break-even price?

a. $100
b. $10
c. $50
d. $27.50
e. $75

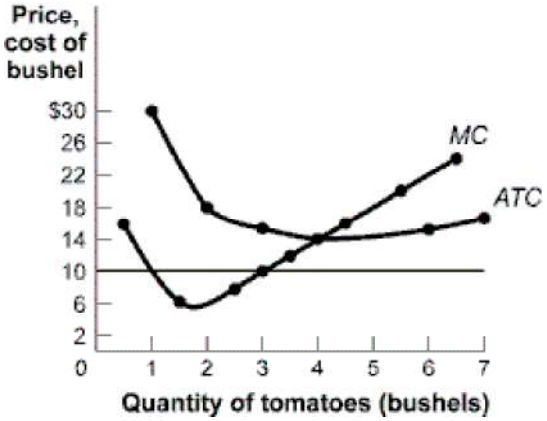
____ 30. During the summer, Alex runs a lawn-mowing service, and lawn-mowing is a perfectly competitive industry. In the short run, Alex will shut down his lawn-mowing service rather than continue with it if:
a. the total revenues can't cover the total fixed costs.
b. the total revenues can't cover the total variable costs.
c. the total revenues can't cover the total cost.
d. the price exceeds the average total cost.
e. losses are smaller than the total fixed costs.

____ 31. Many furniture stores run "Going out of Business" sales but never go out of business. In order for the shut-down decision to be the appropriate one, the price of furniture must be _____ the _____ average variable cost.
a. higher than; maximum
b. lower than; minimum
c. higher than; minimum
d. lower than; maximum
e. the same as; maximum

____ 32. The short-run supply curve for a perfectly competitive firm is its:
a. demand curve above its marginal revenue curve.
b. marginal revenue curve to the right of its marginal cost curve.
c. marginal cost curve at all prices.
d. average total cost curve below its marginal cost curve.
e. marginal cost curve above its average variable cost curve.

____ 33. If price is consistently below average variable cost, then in the short run a perfectly competitive firm should:
a. raise price.
b. sell more output.
c. maintain the current level of output.
d. lower price to sell more.
e. shut down.

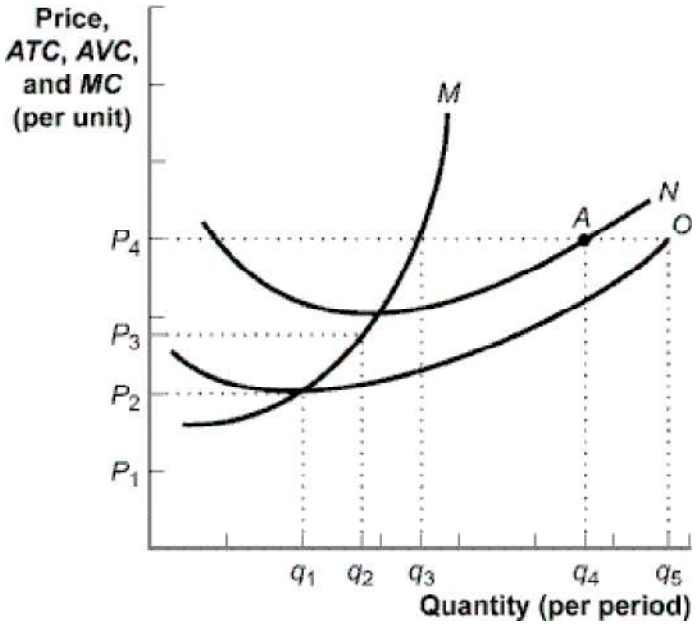
____ 34.




In the figure, at the profit-maximizing quantity of output, total revenue is $_____, total cost is $_____, and profit is $_____.

a. 90; 72; 18
b. 56; 56; 0
c. 30; 48; –18
d. 48; 56; –8
e. 30; 60; –30

**Figure 59-3 : Profit Maximizing**




____ 35. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. *O* is the _____ curve.
a. *ATC*
b. *MR*
c. *MC*
d. *AVC*
e. *Profit*

____ 36. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. Curve *M* must cross Curves *N* and *O:*
a. at their maximum points.
b. to the left of their minimum points.
c. at their minimum points.
d. to the right of their minimum points.
e. at the points that correspond to the shut-down condition.

____ 37. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. If the market price is less than $P_2$, the firm will _____ in the short run.
a. produce $q_1$ and break even
b. produce $q_1$ and incur a loss
c. produce $q_1$ and make a profit
d. produce $q_3$ and make a profit
e. shut down

____ 38. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. Which of the following statements is true?
a. *AFC* is represented in this figure by the vertical distance between Curve *M* and Curve *N* at any level of output.
b. Any price below $P_3$ will result in the firm shutting down in the short run.
c. This figure illustrates the long run because all costs are variable.
d. Quantity $q_2$ is to the left of the shut-down point.
e. *AFC* is represented in this figure by the vertical distance between Curve *N* and Curve *O* at any level of output.

____ 39. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. The *MC* curve is represented in the figure by _____.
a. none of the curves
b. Curve *O*
c. Curve *M*
d. Curve *N*
e. Price $P_3$.

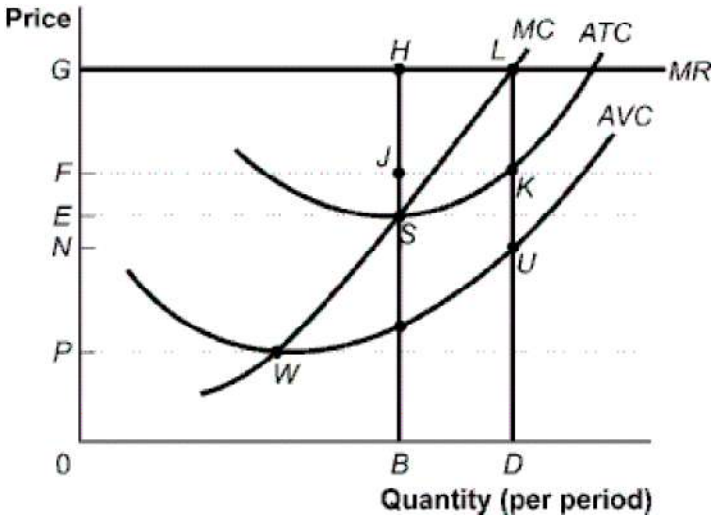
____ 40. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. The *ATC* curve is represented by which of the following curves in the figure?
a. Curve *N*
b. Curve *M*
c. Curve *O*
d. none of the curves
e. Price $P_1$.

____ 41. (Figure 59-3: Profit Maximizing) Cost curves for a firm operating in a perfectly competitive market are shown in the figure provided. Which of these curves represents the *AVC* curve?
a. Curve *M*
b. None of the curves represent the *AVC* curve.
c. Curve *N*
d. Curve *O*
e. Price $P_2$.

____ 42. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. If the market price is $P_4$:
a. marginal revenue and price are the same.
b. marginal revenue is less than $P_4$.
c. marginal revenue is greater than $P_4$.
d. marginal revenue and price are unrelated in perfect competition.
e. marginal revenue is greater than marginal cost at output $q_3$.

____ 43. (Figure 59-3: Profit Maximizing) The figure shows cost curves for a firm operating in a perfectly competitive market. At $q_2$, *ATC* is the vertical distance between $q_2$ on the horizontal axis and:
a. Curve *M*.
b. Curve *N*.
c. Curve *O*.
d. $P_4$.
e. $P_3$.

**Figure 59-4: A Perfectly Competitive Firm in the Short Run**




____ 44. (Figure 59-4: A Perfectly Competitive Firm in the Short Run) The lowest price that will yield zero economic profit is indicated by the distance:
a. *G*.
b. *F*.
c. *E*.
d. *N*.
e. *P*.

____ 45. (Figure 59-4: A Perfectly Competitive Firm in the Short Run) The firm will produce in the short run if the price is at least as much as the price indicated by the distance:
a. *F*.
b. *E*.
c. *N*.
d. *P*.
e. *G*.

____ 46. (Figure 59-4: A Perfectly Competitive Firm in the Short Run) The firm will shut down in the short run if the price falls below:
a. *G*.
b. *F*.
c. *E*.
d. *P*.
e. *N*.

# AP Economics Unit 12 Practice Test
# Answer Section

## MULTIPLE CHOICE

| | | | |
|---|---|---|---|
| 1. | ANS: D | PTS: 1 | MSC: Definitional |
| 2. | ANS: A | PTS: 1 | MSC: Concept-Based |
| 3. | ANS: D | PTS: 1 | MSC: Fact-Based |
| 4. | ANS: C | PTS: 1 | MSC: Definitional |
| 5. | ANS: E | PTS: 1 | MSC: Definitional |
| 6. | ANS: A | PTS: 1 | MSC: Fact-Based |
| 7. | ANS: B | PTS: 1 | MSC: Definitional |
| 8. | ANS: B | PTS: 1 | MSC: Definitional |
| 9. | ANS: A | PTS: 1 | MSC: Definitional |
| 10. | ANS: C | PTS: 1 | MSC: Definitional |
| 11. | ANS: A | PTS: 1 | MSC: Definitional |
| 12. | ANS: C | PTS: 1 | MSC: Fact-Based |
| 13. | ANS: A | PTS: 1 | MSC: Fact-Based |
| 14. | ANS: A | PTS: 1 | MSC: Critical Thinking |
| 15. | ANS: A | PTS: 1 | MSC: Analytical Thinking |
| 16. | ANS: C | PTS: 1 | MSC: Analytical Thinking |
| 17. | ANS: B | PTS: 1 | MSC: Concept-Based |
| 18. | ANS: A | PTS: 1 | MSC: Critical Thinking |
| 19. | ANS: D | PTS: 1 | MSC: Critical Thinking |
| 20. | ANS: D | PTS: 1 | MSC: Critical Thinking |
| 21. | ANS: B | PTS: 1 | MSC: Critical Thinking |
| 22. | ANS: A | PTS: 1 | MSC: Critical Thinking |
| 23. | ANS: A | PTS: 1 | MSC: Concept-Based |
| 24. | ANS: E | PTS: 1 | MSC: Concept-Based |
| 25. | ANS: B | PTS: 1 | MSC: Concept-Based |
| 26. | ANS: A | PTS: 1 | MSC: Analytical Thinking |
| 27. | ANS: B | PTS: 1 | MSC: Analytical Thinking |
| 28. | ANS: E | PTS: 1 | MSC: Critical Thinking |
| 29. | ANS: C | PTS: 1 | MSC: Analytical Thinking |
| 30. | ANS: B | PTS: 1 | MSC: Concept-Based |
| 31. | ANS: B | PTS: 1 | MSC: Concept-Based |
| 32. | ANS: E | PTS: 1 | MSC: Fact-Based |
| 33. | ANS: E | PTS: 1 | MSC: Fact-Based |
| 34. | ANS: C | PTS: 1 | MSC: Critical Thinking |
| 35. | ANS: D | PTS: 1 | MSC: Concept-Based |
| 36. | ANS: C | PTS: 1 | MSC: Critical Thinking |
| 37. | ANS: E | PTS: 1 | MSC: Critical Thinking |
| 38. | ANS: E | PTS: 1 | MSC: Critical Thinking |
| 39. | ANS: C | PTS: 1 | MSC: Concept-Based |

40. ANS: A PTS: 1 MSC: Concept-Based
41. ANS: D PTS: 1 MSC: Concept-Based
42. ANS: A PTS: 1 MSC: Concept-Based
43. ANS: B PTS: 1 MSC: Concept-Based
44. ANS: C PTS: 1 MSC: Critical Thinking
45. ANS: D PTS: 1 MSC: Critical Thinking
46. ANS: D PTS: 1 MSC: Critical Thinking