ECONOMICS

BOOKS - GOYAL BROTHERS PRAKASHAN ECONOMICS (HINGLISH)

PERFECT COMPETITION

Exercise

1. A firm is perfectly competitive market can influence market price :-

A. By lowering output

B. By raising ouput

C. Both (a) and (b)

D. Cannot influence market price

Answer: D

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2. One of the following is not the feature of a perfectly competitive market :

A. Each firm has negligible share in market supply

B. Each buyer has negligible share in market demand

C. The firms are interdependent

D. The firms are free to leave the market

Answer: C

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3. A firm under perfectly market, products of all the firm are homogeneous because :

A. Normal profit

B. Above natural profit

C. Below normal profit

D. Any one of the above

Answer: A

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4. In a perfectly competitive market, products of all the firms are homogeneous because :

A. All the firm use the same tachnology

B. All the products are of same quality

C. All the products are identical for the buyers

D. All the above

Answer: C

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5. Equilibrium price is perfectly comepetitive market is determined by :

A. Each individual firm for its own products

B. Few big firms

C. A group of firms

D. All the firms taken together

Answer: D

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6. When the prevailing market price is different from the equilibrium price, is immediately results in :

A. Excess demand

B. Excess supply

C. Either (a) or (b)

D. Neither (a) and (b)

Answer: C

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7. Any departure of price from the equilibrium price must, through a series of a actions and reactions, result in :

A. New higher equilibrium price

B. New lower equilibrium price

C. Back to the given equilibrium price

D. Any of the above

Answer: C

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8. A simultaneous "decrease" in both demand and supply ultimately results in :

A. Decrease in equilibrium price

B. Increase in equilibrium price

C. Neither (a) nor (b)

D. Any of the above

Answer: D

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9. A price taker firm's average revenue change in the following manner as more output is produced :

A. Increases

B. Decreases

C. Unchanged

D. Initially increases, then decreases

Answer: C

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10. Maximum price ceiling referes to :

A. Maximum retail price

B. Maximum price the buyer is willing pay

C. Maximum price at which the seller is willing to sell

D. Maximum price the producer is legally allowed to charge

Answer: D

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11. Maximum price ceiling above the equilibrium price leads to :

A. Excess demand

B. Excess supply

C. Neither (a) nor (b)

D. Either (a) or (b)

Answer: C

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12. Minimum price ceiling refers to the minimum price at which :

A. the buyer is willing to buy

B. the buyer must buy

C. the seller is willing to sell

D. the seller must sell

Answer: B

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13. Fixation of minimum wage below the equilibrium wage rate leads to :

A. Unemployment

B. Overemployment

C. Neither (a) nor (b)

D. Either (a) or (b)

Answer: C

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Short Answer Qns

1. Why an individual firm under perfect competition is called a price taker ? Explain

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2. What role the feature ' a large numbers of sellers' play in determining the structure of a perfectly competitive market ?

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3. What role the feature 'homogeneous products' play in determining the structure of perfectly competitive market ?

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4. What is the role of 'freedom of entry and exit of firms' in perfect competition?

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5. State the feature of perfect competition.

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6. Why is demand curve a perfectly competitive firm parallel to the x-axis ?

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7. Explain the meaning of equilibrium and equilibrium price.

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8. Show diagrammatically the effects of increase in demand of a good on its equilibrium price.

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9. Show diagrammatically the effects of increase in supply of a good on its equilibrium price.

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10. Show on a diagram the effect to decrease in demand of a good on its equilibrium quantity.

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11. Show on a diagram the effect to decrease in supply of a good on its equilibrium quantity.

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12. State any three source of rightward shift of demand curve.

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13. What is maximum price ceiling ? Why is it needed ?

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14. What is minimum price ceiling ? Why is it needed ?

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Short Answer Qns Ii

1. Define perfect competition. State its features.

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2. Explain the feature 'a large number of buyers and sellers' of a perfectly competitive market .

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3. Explain the determination of equilibrium price and under perfect competition with the help of a schedule (Diagram nor required).

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4. Explain diagrammatically the determination of equilibrium price under perfect competition.

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5. Explain why price is determined when demand equals supply. Why not, when demand is not equal to supply ?

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6. How does an increase in demand of a commodity affect its equilibrium price and equilibrium quantity? Explain with the help of a diagram.

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7. Explain the effect of 'decrease' in demand on equilibrium price. Use diagram.

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8. Explain the effect to simultaneous 'increase' in demand and supply on equilibrium price. Represent one of the possible effect to a diagram.

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9. Explain the effect of simultaneous 'decrease' in demand and supply on equilibrium quantity. Represent one of the possible effect on a diagram.

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10. State form sources of rightward shift of supply curve.

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11. Explain the implications of maximum price ceiling.

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12. Explain the implications of minimum price ceiling.

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Long Answer Qns

1. Draw a demand curves of a firm under perfect competition. Explain why does it assume such a shape.

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2. What do you mean by equilibrium and equilibrium price ? Explain determination of price under perfect competition . Use diagram.

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3. Explain the determination of price under perfect competition with the help of a schedule and a diagram.

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4. Explain the effect of shift in demand on equilibrium price and quantity. Use diagram.

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5. Explain the effect of shift in supply on equilibrium price and quantity. Use diagram.

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6. Explain the effect of simultaneous increases in both demand and supply on equilibrium price and quantity. Show on diagram a situation when there is no change in equilibrium price.

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7. Explain the effect of simultaneous decrease in both demand and supply on equilibrium quantity.

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8. Explain the implications of maximum price ceiling. Use diagram.

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9. Explain the implications of minimum price ceiling. Use diagram.

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Numerical Qns

1. Identify the equilibrium price and quantity :

Price (Rs)	Demand (Units)	Supply (Units)
5	100	500
4	200	400
3	300	300
2	400	300

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Some Important Qns

1. Under which market form a firm is a price taker ?

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2. In which market form are the products homogeneous ?

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3. In which market from are average revenue and marginal revenue of a firm always equal ?

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4. Draw average revenue curve of a firm under perfect competition.

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5. State clearly any three feature of a perfectly competitive market.

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6. Explain the feature 'a large number of buyers and sellers' of a perfectly competitive market .

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7. Explain the following features of perfect competition :

(i) Larger number of buyer and sellers,

(ii) Homogeneous products.

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8. What is meant by equilibrium price?

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9. Explain the chain the of effects on demand , supply and price of a commodity cause by a leftward shift of its demand curve. Use diagram.

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10. Explain the chages that take place when, at a given price of a commodity, there is excess supply of it, Use diagram .

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11. A product market is in equilibrium. Suppose the demand for the product decreases. What changes will take place in the market ? Use diagram.

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12. If at a given price of a commodity, there is excess demand, how will the equilibrium price be reached? Explain by diagram.

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13. Explain with the help of a diagram the effect of a rightward shift of supply curve of a commodity on its equilibrium price and quantity.

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14. How is equilibrium price and equilibrium quantity of a normal commodity affected by an increase in the income of its buyers? Explain with the help of a diagram.

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15. How will an increase in the income of the buyers of an 'inferior good', affect its equilibrium price and equilibrium quantity? Explain with help of a diagram.

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16. Explain the determination of price under perfect competition with the help of a schedule and a diagram.

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17. 'Equilibrium price does not change due to simultaneous shifts in demand and supply curves". Explain.

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18. Why must the quantity demanded and quantity supplied of a commodity be equal at its equilibrium price? Explain

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19. How is the equilibrium price of good determined? Explain with the help of a diagram a situation when both demand and supply curves shift to the right but equilibrium price remains the same.

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20. Market for a good is in equilibrium. What is the effect on equilibrium price and quantity if both market demand and market supply of a good increase in the same proportion. Use diagram.

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21. Market for good X is in equilibrium. Suppose price of its substitute good Y falls..

Explain its effect on equilibrium price and quantity of good X. Use diagram.

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22. Giving reasons, state whether the following statement are true or false :

(i) Excess supply of a commodity exists when its market price is greater than equilibirum price.

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23. Cigarette smoking is injurious to health. How can the government reduce its consumption but only through the market forces. Explain the chain of effects of the government action.

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24. Market for a necessary good is competitive in which the existing firms are earning super normal profits. How can the policy of 'liberalization' of th government help in making the market more competitive in the interest of the consumers ? Explain.

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25. Why can a firm not earn abnormal profits under perfect competition in the long run ? Explain

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26. If there is excess supply at a given price, then how will the equilibrium price be reached? Explain by diagram.

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Value Based Qns

1. A poducts in a competitive market, is in short supply. Government, through economic reforms, makes the entry of new firms easy.

Explain the impact of this action on the market of this product.

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2. Consumer awareness campaign successfully spreads market information about an essential product. Explain how ill it benefit the users of this product.

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3. Equilibrium market price of a product, in a competitive market, is too high for an average consumer. Suggest what can be done to bring down the equilibrium price. Explain. Use diagram.

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4. Explain what can be done to bring down the consumption of a product harmful for health, but only through the market mechanism. Use diagram.

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5. Government brings down income tax rates. What is likely to be the impact of this move on the market of a product which most of the consumers treat as a normal product, Explain. Use diagram.

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