INDIAN SCHOOL AL WADI AL KABIR

Class: XI	Department: Commerce
	Topic: Market Forms – Perfect Competition and Market Equilibrium

1. **Which of the following factors is not a characteristic of perfect competition?**
   a. A large number of buyers and sellers
   b. Well-informed buyers and sellers about product prices
   c. Individual firms spend a considerable amount on advertising
   d. No restrictions on entry into or exit from the industry
   A: c

2. **If many sellers are selling an identical product, what is the implication of this scenario?**
   a. Significant losses for all the sellers
   b. The market supply curve is horizontal
   c. Chaos in the market
   d. The sellers do not have the power to change the price of a product
   A: d

3. **Which of the following is true about a price-taking firm?**
   a. It is in contact with rival firms to fix the best price that all of them can charge
   b. It is unable to influence the price of the product that it sells
   c. It is asking the government to set a fixed price for its product
   d. It can set the price of a product at any level that it wants
   A: b

4. **Which of the following statements is true in the case of a perfect competition market?**
   a. There is intervention by the government.
   b. Buyers are the price maker.
   c. There is no transportation cost.
   d. All the products are sold at different prices.
   A: C

5. **What is the unique feature of perfect competition concerning factors of production.**
   a. All the factors of production have total mobility.
   b. All the factors of production don't have total mobility.
   c. Only capital does not have mobility while other factors of production have total mobility.
   d. Only labour has total mobility.
   A: A

6. **In perfect competition how the prices of goods and services are decided?**
   a. Demand and supply forces decide the prices of goods and services.
   b. The seller decides the prices of goods.
   c. Government influences the prices of goods.
   d. Buyers control the price level by influencing demand for the products.
   A: A

7. **Sellers in perfect competition are:**
   a. Price maker
   b. Price taker
   c. Wealthy
   d. Poor
   A: B

8. **How can perfect competition maximize profit?**
   a. Firms must set marginal revenue equal to marginal cost (MR=MC).
   b. All the firms should increase the prices of the products.
   c. Sellers should create a scarcity of goods in the market.
   d. Buyers should buy the products at a lower price.
   A: A

9. **What industry is closest to perfect competition?**
   a. The agricultural industry is the closest to the perfect competition because there are a lot of small producers which don't have the power to influence the prices.
   b. The services industry is the closest to perfect competition since there is a huge number of buyers and sellers
   c. There is no such industry which comes closest to the perfect competition.
   d. Both a and b.
   A: A

10. **Why is perfect competition unrealistic?**
    a. In any marketplace, some firms can influence the prices of the products.
    b. Advertising and transportation costs exist.
    c. There is always free entry and exit.
    d. All of the above.
    A: D

11. **Why is there no need for sellers to spend money on advertising?**
    a. Since all the buyers have perfect knowledge of all the products available in the market there is no need for sellers to spend money on advertising.
    b. Sellers want to save money.
    c. The government has struck restrictions on the advertisement.
    d. All of the above.
    A: A

12. How are the total revenue of a firm, market price, and the quantity sold by that firm related each other?

Total revenue is defined as the total sales proceeds of a producer by selling corresponding level of output. In other words, it is defined as price times the quantity of output sold.

Total Revenue = Price × Quantity of output sold

$TR = P \times Q$

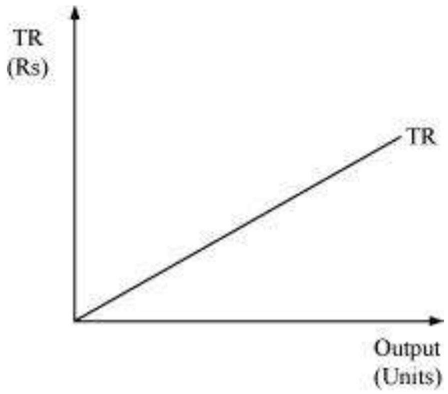
$TR = PQ$

In a perfectly competitive market, the market price is given, i.e., a firm acts as a price taker and cannot influence the price. Hence, a particular firm can influence its TR by altering the quantity of output sold.

13. Why is the total revenue curve of a price-taking firm an upward-sloping straight line? Why does the curve pass through the origin?

The total revenue curve for a firm in a perfectly competitive market is an upward sloping curve because the price or AR remains constant and MR is also equal to AR. Thus, TR can only be influenced by altering the output sold, as the price remains constant. The increase in TR is in the same proportion as the increase in the output sold.

The curve passes through the origin, which implies that no matter what the price level is, If the output sold is zero, TR will also be zero.



14. What is the relation between market price and average revenue of a price taking firm?

Average Revenue is defined as the revenue per unit of the output sold. It is expressed as the ratio between total revenue and the output sold.

$$AR = \frac{TR}{Q}$$

We know that

$TR = P \times Q$

$$AR = \frac{P \times Q}{Q}$$

$AR = P$

Thus, the market price and the average revenue are the same for a perfect competitive firm.

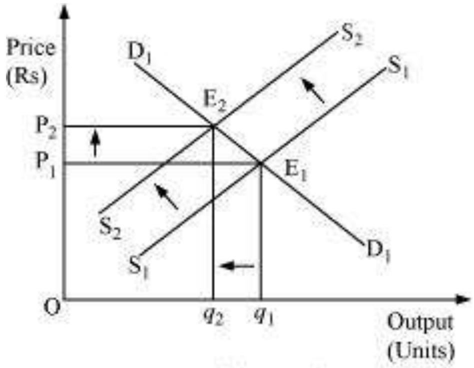
15. How do the equilibrium price and the quantity of a commodity change when price of input used in its production changes?

The change in the price of input alters the cost of production of a commodity.

Let us analyse the two different cases.

1. Increase in input price

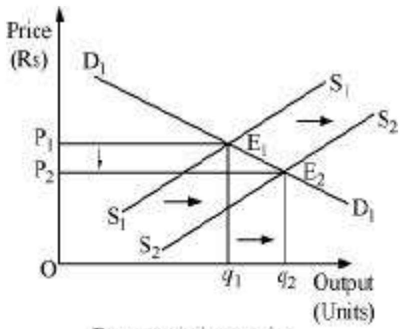
If the input price of a firm increases, the cost of production will also increase, which will discourage the firm's incentive to produce and supply the commodity. This will lead to a left upward shift of the marginal cost curve, which further will lead to a leftward parallel shift of an individual firm's supply curve and finally a leftward shift of the market supply curve. The demand curve remaining the same, the new equilibrium will occur at E_2 with higher equilibrium price (P_2) and lower quantity of output (q_2).



Increase in input price

2. Decrease in input price

If an input price of a firm decreases, then the cost of production will also decrease. This will shift the marginal cost curve rightward, which implies that the firm's supply curve will also shift rightward. Consequently, the market supply curve will shift rightward parallelly from S_1S_1 to S_2S_2. Demand curve remaining the same, the new equilibrium will occur at E_2 with lower equilibrium price (P_2) and higher quantity level of output (q_2).



Decrease in input price

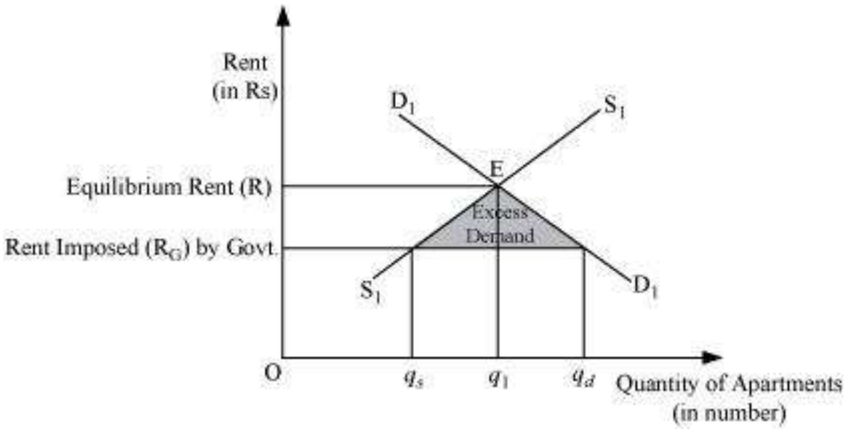
16. Can you think of any commodity on which price ceiling is imposed in India? What may be the consequence of price-ceiling?

In India, there are many goods on which government has imposed price ceiling, in order to keep them available within the reach of the BPL (below poverty lime) people. These goods are kerosene, sugar, wheat, rice, etc.

The following are the consequences of price ceiling:

1) Excess demand − Due to artificially imposed price, cutting lower than the equilibrium price leads to the emergence of the problem of excess demand.
2) Fixed Quota − Each consumer gets a fixed quantity of good (as per the quota). The quantity often falls short of meeting the individual's requirements. This further leads to the problem of shortage and the consumer remains unsatisfied.
3) Inferior goods − Often it has been found that the goods that are rationed are usually inferior goods and are adulterated.
4) Black marketing − The needs of a consumer remains unfulfilled as per the quota laid by the government. Consequently, some of the unsatisfied consumers get ready to pay higher price for the additional quantity. This leads to black-marketing and artificial shortage in the market.

17. Suppose the market determined rent for apartments is too high for common people to afford. If the government comes forward to help those, seeking apartments on rent by imposing control on rent, what impact will it have on the market for apartments?



The above figure depicts an equilibrium and an effect of price ceiling (maximum rent).
The market demand for apartments is depicted by the D_1D_1 curve and the supply of apartments is depicted by S_1S_1. The equilibrium price determined is R and the equilibrium quantity is q.
If the government steps in and imposes rent ceiling (maximum rent) equivalent to R_G, then at this rent, there will be an excess demand. The quantity of apartments demanded will be q_d. Whereas, the quantity of apartments supplied is q_s. So, there exists an excess demand equivalent to $q_d - q_s$. At the rate R_G, common people can afford apartments to live in, which earlier they were not able to. However, besides this positive effect of imposition of maximum rent, it might happen that some landlords indulge in the practice of black marketing and offer apartments for rent at comparatively higher price.