

Market Structures - Perfect Competition

Question 1

2. (a) (i) Show, by means of **two** separate labelled diagrams, the **short run** and **long run** equilibrium positions of a profit maximising firm in **perfect competition**.
- (ii) Compare the short run equilibrium position with the long run equilibrium position of a perfectly competitive firm under the following headings:
- Price and Output
 - Profits
 - Efficiency.
- [35]

Question 2

- (b) The table below shows data for a perfectly competitive firm in equilibrium.

Average Revenue (€)	Average Variable Cost (€)	Average Total Cost (€)
50	40	60

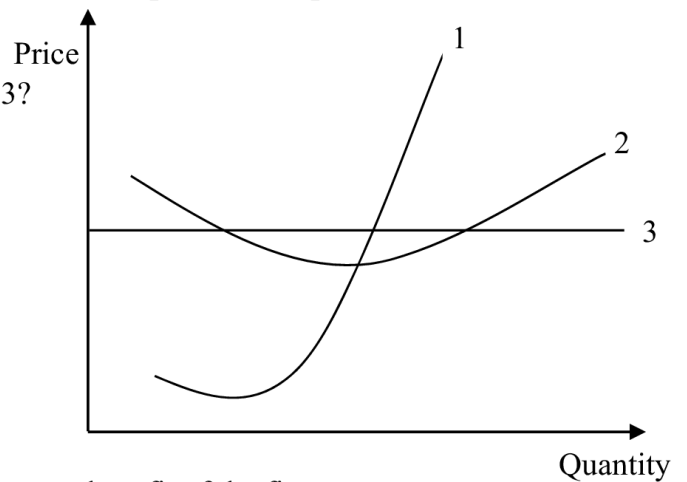
- (i) Using your knowledge of perfect competition, what is the marginal revenue earned by this firm? Explain your answer.
- (ii) Should this firm continue in business? Explain your answer.
- [20]

Question 3

1. The diagram below shows a firm operating under conditions of **perfect competition** in the short run.

- (a) What is represented by the lines numbered 1 to 3?
 Use the answer box provided.

Number	Name
1	
2	
3	



- (b) (i) Show clearly on the diagram the total supernormal profit of the firm.

- (ii) Explain the term **supernormal profit** _____

(16 marks)

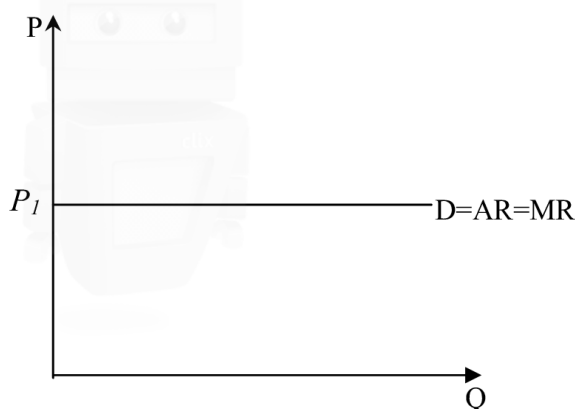
Question 4

2. (a) (i) Explain the reason for the shape of the demand curve of an individual firm in perfect competition.
(ii) Outline **two** advantages of perfect competition. (20)
- (b) (i) Explain, with the aid of a labelled diagram, the equilibrium position of a firm in **short run perfect competition**.
(ii) With the aid of labelled diagrams, explain the impact which the entry of new firms would have on the market **and** on the equilibrium position of the firm. (35)
- (c) Contrast the characteristics of perfect competition with monopoly under the following headings:
- Barriers to entry;
 - Profits in the long run;
 - Economies of scale;
 - Price discrimination.

(20)
[75 marks]

Question 5

2. The diagram below represents the demand curve facing a firm in Perfect Competition.



This demand curve is;

(✓ correct answer)

- Unitary Elastic
- Perfectly Inelastic
- Perfectly Elastic

State the reason for your choice:

(16 marks)

Question 6

2. (a) (i) A firm operating under conditions of perfect competition is a '**price taker**'. Explain the concept of being a 'price taker'.
- (ii) Explain, with the aid of a labelled diagram, the equilibrium position of a firm in **short run perfect competition**.
(25 marks)
- (b) With the aid of a labelled diagram(s), explain the impact which the entry of new firms would have on the market **and** on the equilibrium position of this firm.
(25 marks)
- (c) (i) Many firms today engage in **product differentiation**. Explain this underlined term showing, with suitable examples, how it can be achieved.
- (ii) Explain the effect of product differentiation on the AR and MR curves of a firm, which previously operated under conditions of perfect competition.
(25 marks)
[75 marks]