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]

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.

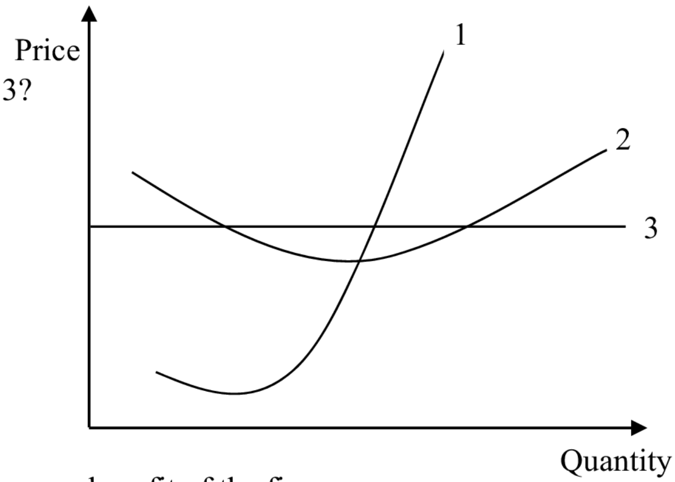
(ii) Should this firm continue in business? Explain your answer. [20]

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)

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)

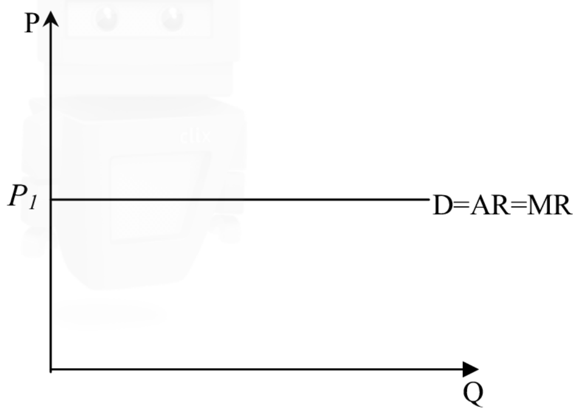
(c) Contrast the characteristics of perfect competition with monopoly under the following headings:

- Barriers to entry;
- Profits in the long run;
- Economies of scale;
- Price discrimination. (20)

[75 marks]

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)

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 **<u>product differentiation</u>**. 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]