

7. The price system and the microeconomy (A Level)

Starter Quiz ·

A-Level Economics

Name: _____ Score: _____

1. Total utility from 2 then 3 ice creams is 18 then 24. What is the marginal utility of the 3rd?

2. An indifference curve joins all consumption bundles that give:

- ☐ maximum profit
- ☐ zero utility
- ☐ the same total cost
- ☐ the same level of satisfaction

3. Allocative efficiency occurs where:

- ☐ price = marginal cost
- ☐ price = average cost
- ☐ output is zero
- ☐ total revenue is maximised

4. Marginal social cost (MSC) equals marginal private cost plus the:

- ☐ total revenue
- ☐ fixed cost
- ☐ subsidy
- ☐ external cost

5. Total cost is 120 to make 10 units. What is the average cost per unit?

6. A firm sells 30 units at a price of 5. What is total revenue ($TR = P \times Q$)?

7. In perfect competition, each firm is a:

- ☐ price-maker
- ☐ price-taker
- ☐ cartel
- ☐ monopolist

8. A profit-maximising monopolist sets output where:
- ☐ output is maximised
 - ☐ $AR = AC$
 - ☐ price = 0
 - ☐ $MR = MC$, then prices off the demand curve
9. Diseconomies of scale (e.g. poor communication) can raise long-run average cost if a firm grows too large.
- ☐ True ☐ False
10. A sales-maximising firm tends to produce less output than a profit-maximising one.
- ☐ True ☐ False

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Answers ·

A-Level Economics

1. **6**

$$MU = \text{change in } TU = 24 - 18 = 6.$$

2. **the same level of satisfaction**

Every point on one indifference curve yields equal utility.

3. **price = marginal cost**

$P = MC$ means the value of the last unit equals its cost – allocatively efficient.

4. **external cost**

$$MSC = MPC + \text{external cost imposed on third parties.}$$

5. **12**

$$AC = TC / Q = 120 / 10 = 12.$$

6. **150**

$$TR = 5 \times 30 = 150.$$

7. **price-taker**

With many firms and an identical product, each must accept the market price.

8. **MR = MC, then prices off the demand curve**

$MR = MC$ gives the profit-maximising quantity; the price comes from demand at that quantity.

9. **True**

Beyond the optimum scale, LRAC rises – the right side of the U.

10. **False**

False. Sales (revenue) maximisation is at $MR = 0$, which is a higher output and lower price than profit maximisation at $MR = MC$.