AP MICROECONOMICS • EXERCISE SHEET

3.7 Perfect Competition

Name: ____________ Class: ________ Date: __________ **Total: 9 marks**

KEY WORDS perfectly competitive 完全竞争 • perfectly competitive market 完全竞争市场 • price taker 价格接受者 • economic profit 经济利润 • entry 进入

Objective

Build the skills to answer exam questions on **perfect competition**.

You must be able to:

- list the characteristics of a **perfectly competitive market** 完全竞争市场
- explain why a competitive firm is a **price taker** 价格接受者 with $P = MR$
- explain how entry and exit drive long-run equilibrium to $P = MC = \min ATC$
- explain why perfect competition achieves **productive** and **allocative efficiency**

1 Worked examples

Study these first. Each one shows the method for a question type used later.

Characteristics

Many firms, identical products, free entry and exit, and perfect information.

Price taker

Each firm is too small to affect the price, so it faces a **perfectly elastic (horizontal)** demand curve at the market price, with $P = MR$.

Long-run equilibrium

Entry and exit push the market to $P = MC = \text{minimum } ATC$, where firms earn **normal profit** — both **productively** (min ATC) and **allocatively** ($P = MC$) efficient.

2 Practice

2.1 List two characteristics of a perfectly competitive market. [2]

2.2 State why a competitive firm is a price taker. [1]

2.3 State the long-run profit level in perfect competition. [1]

3 Exam-style questions

3.1 A perfectly competitive firm's demand curve is [1]

A downward-sloping
B perfectly elastic (horizontal)
C vertical
D upward-sloping

3.2 In long-run equilibrium, a competitive firm produces where P equals [1]

A $MC = \text{minimum } ATC$
B a value above ATC
C a value below AVC
D a point where $MR > MC$

3.3 A competitive firm sells at the market price of $10.

(a) State its marginal revenue. [1]

(b) State whether it can raise its price above $10, and why. [1]

(c) State its long-run economic profit. [1]