



# IB Economics – Theory of the Firm I

## Exam Practice Questions: 1.18 Perfect Competition

### 2. IB ECONOMICS PAPER 2 EXAMINATION QUESTIONS

Question ONE

**[25 marks]**

The table below is for an individual firm operating in perfect competition. It provides output and cost data.

Units of output	Total cost (TC, \$)	Total variable cost (TVC, \$)	Average total cost (ATC, \$)	Average variable cost (AVC, \$)	Marginal cost (MC, \$)
0	50				
1	80				
2	90				
3	95				
4	105				
5	125				
6	170				

- a. Calculate TVC, ATC and MC for each level of output. **[4 marks]**
- b. Plot the ATC, AVC and MC cost data **and** draw the cost curves. **[3 marks]**
- c. Use your diagram to identify the firm's shutdown price **and** breakeven price. Outline how these two points were identified. **[4 marks]**
- d. Identify the long-run shutdown price for the firm. **[1 mark]**
- e. Identify the price **and** level of output at which the profit maximising firm would earn a normal profit. **[2 marks]**
- f. State the condition which is needed for a firm to achieve productive (technical) efficiency, **and** identify at which level of output this would occur for the firm. **[2 marks]**
- g. State the condition which is needed for a firm to achieve allocative efficiency, and identify at which price per unit of output this would occur for the firm. **[2 marks]**
- h. Outline **four** assumptions of the model of perfect competition. **[4 marks]**

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- i. At a price of \$20 per unit and assuming the firm is maximising profits (minimising losses) determine the amount of economic profit, and outline whether or not the firm would remain in business in the short run. **[3 marks]**

Source: [www.IBDeconomics.com](http://www.IBDeconomics.com)