DO NOT WRITE IN THIS AREA

**3** Hairdressing salons are assumed to operate under conditions of monopolistic competition.

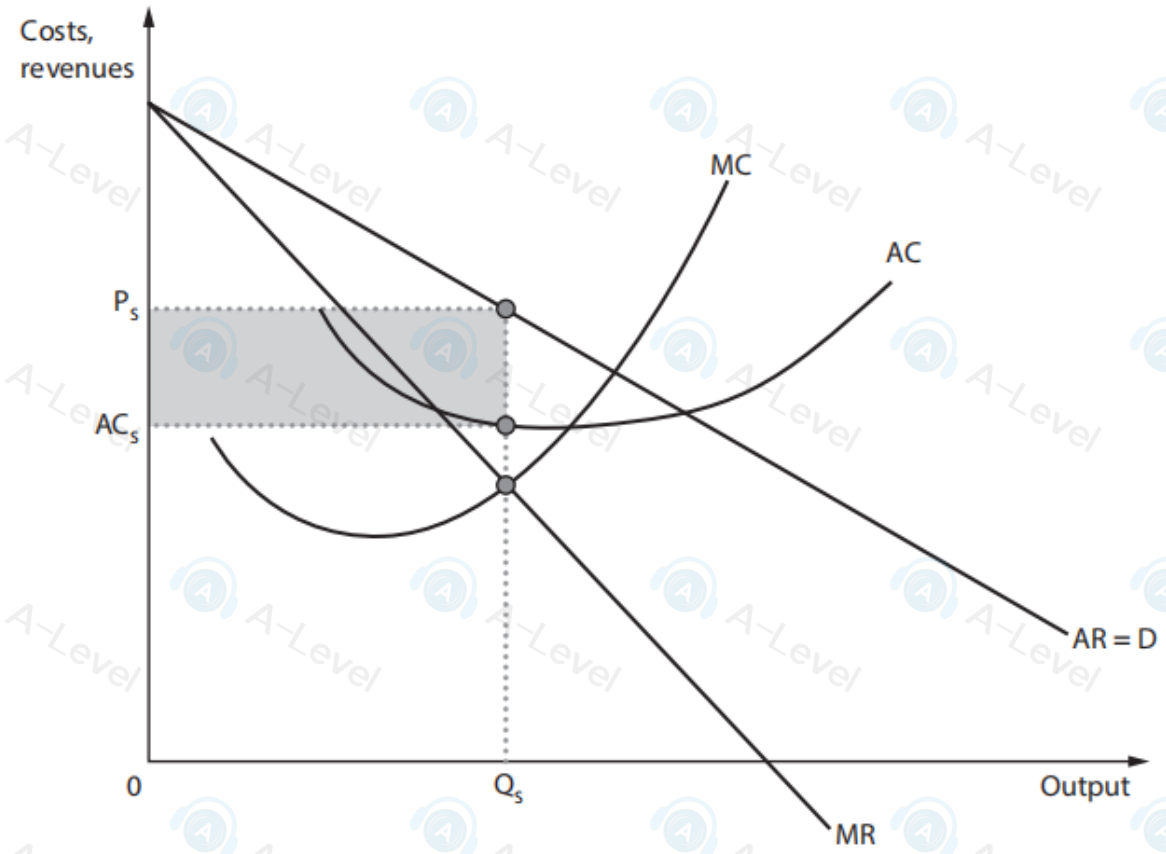
Which **one** of the following will be true for a hairdressing salon in long-run equilibrium?

- ☒ **A** It is productively efficient
- ☒ **B** It makes supernormal profit
- ☒ **C** It is allocatively efficient
- ☒ **D** It makes normal profit

**(Total for Question 3 = 1 mark)**

DO NOT WRITE IN THIS AREA

**3** The diagram illustrates the profit-maximising output for a street food seller in Taiwan operating in a monopolistically competitive market.




Which **one** of the following can be deduced from this information?

- ☒ **A** The street food seller is operating at the short-run equilibrium output
- ☒ **B** The street food seller is operating at the long-run equilibrium output
- ☒ **C** The street food seller is operating at the productively efficient level of output
- ☒ **D** The street food seller is operating at the allocatively efficient level of output

**(Total for Question 3 = 1 mark)**

**1** A pineapple producer in Costa Rica, operating in a perfectly competitive market, is currently making supernormal profits.

Which **one** of the following is the most likely outcome in the long-run?

- ☒ **A** The producer will make more supernormal profit
- ☒ **B** The producer's output will decrease but industry output will increase
- ☒ **C** The producer will leave the market
- ☒ **D** The market concentration will increase

**(Total for Question 1 = 1 mark)**

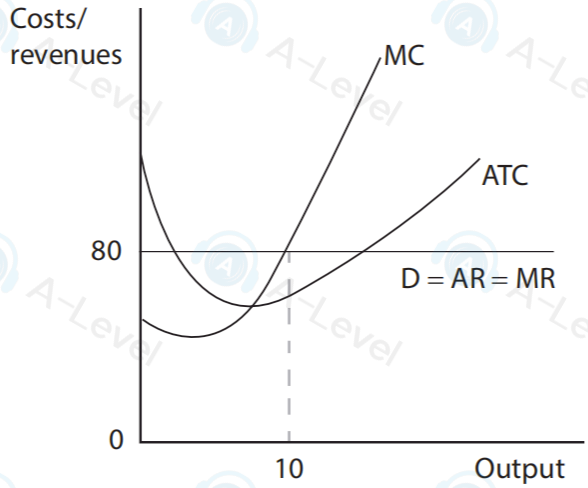
**9** There are many hotel businesses in the Philippines that operate in a monopolistically competitive market.

To what extent would a perfectly competitive market be more efficient than a monopolistically competitive market?

Illustrate your answer with an appropriate diagram(s).

**(Total for Question 9 = 20 marks)**

**2** The diagram shows the short-run profit-maximising equilibrium of a street food seller in Beijing.




Which **one** of the following can be deduced from the information provided?

- ☒ **A** The productively efficient level of output is being produced
- ☒ **B** The allocatively inefficient level of output is being produced
- ☒ **C** There would be an incentive for new firms to enter the market
- ☒ **D** Firms will always make supernormal profits in this market

**(Total for Question 2 = 1 mark)**

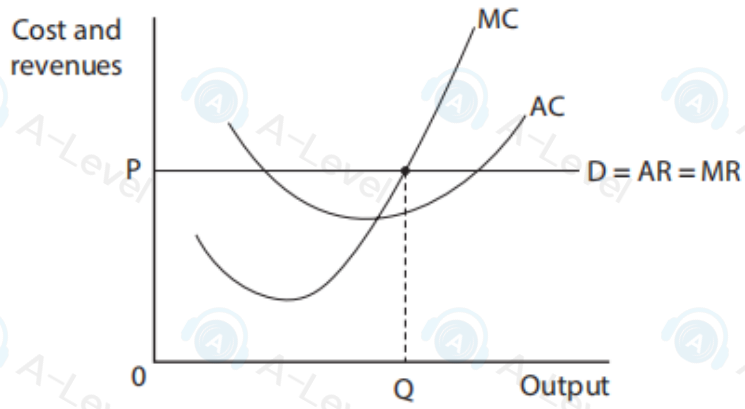
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AR

**6** A small fruit farm in Namibia is operating in a perfectly competitive market. Which of the following is true for such a firm in long-run equilibrium?

| | Allocative efficiency | Profit |
|---|---|---|
| ☒ **A** | No | Supernormal |
| ☒ **B** | No | Normal |
| ☒ **C** | Yes | Supernormal |
| ☒ **D** | Yes | Normal |

**(Total for Question 6 = 1 mark)**

**4** The diagram shows the short-run costs and revenues for a farmer producing wheat in India.




Which **one** of the following is most likely to occur in the long-run?

☒ **A** Additional wheat farmers will enter the market

☒ **B** Some wheat farmers will leave the market

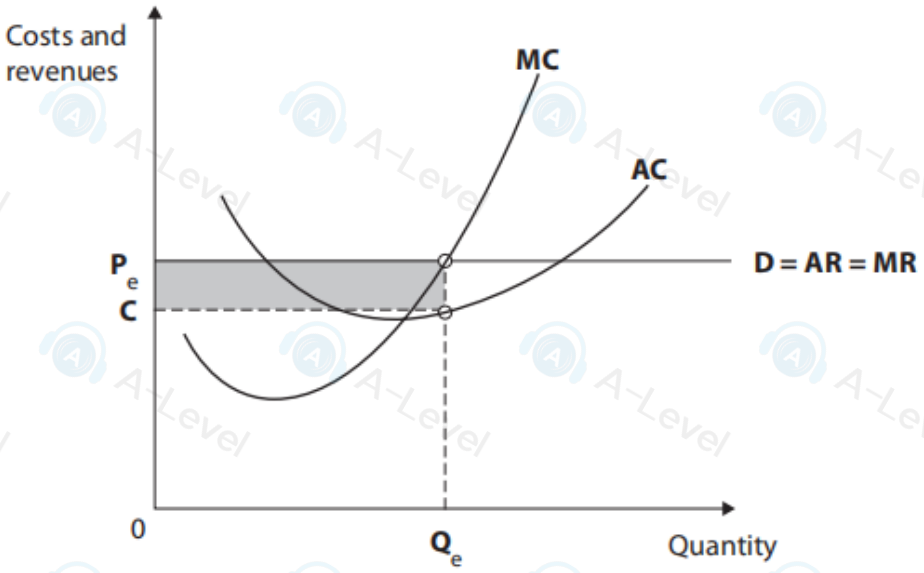
☒ **C** The wheat farmer will make supernormal profit

☒ **D** The wheat farmer will make a loss

**(Total for Question 4 = 1 mark)**

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

**3** The diagram shows the short-run profit maximising equilibrium for an agricultural business operating in a perfectly competitive market.




*Ceteris paribus*, which **one** of the following is the most likely outcome in the long-run?

- ☒ **A** The agricultural business will make normal profit
- ☒ **B** The agricultural business will shut down
- ☒ **C** The agricultural business will increase its output
- ☒ **D** The agricultural business will increase its price

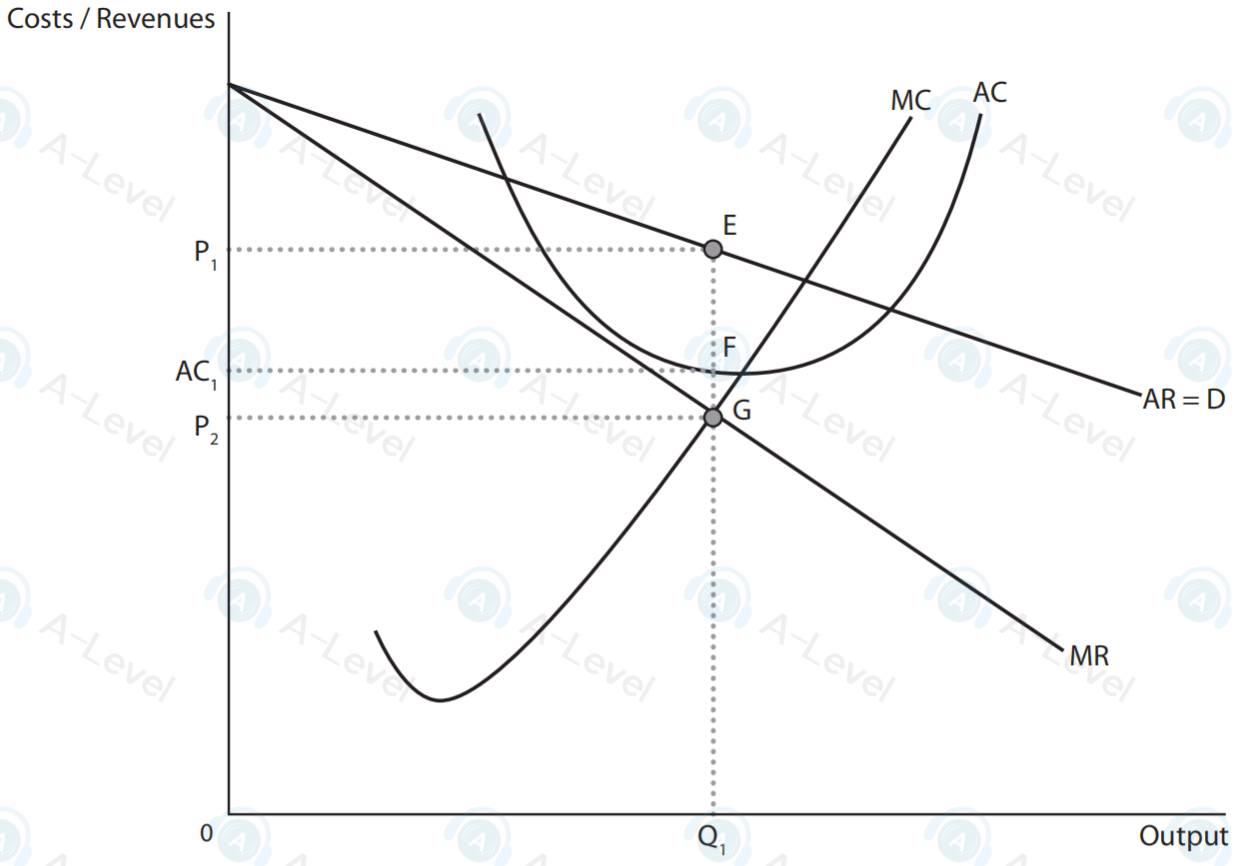
**(Total for Question 3 = 1 mark)**

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

**2** The diagram shows the short-run cost and revenue curves for a hairdresser operating in a monopolistically competitive market in Mumbai.

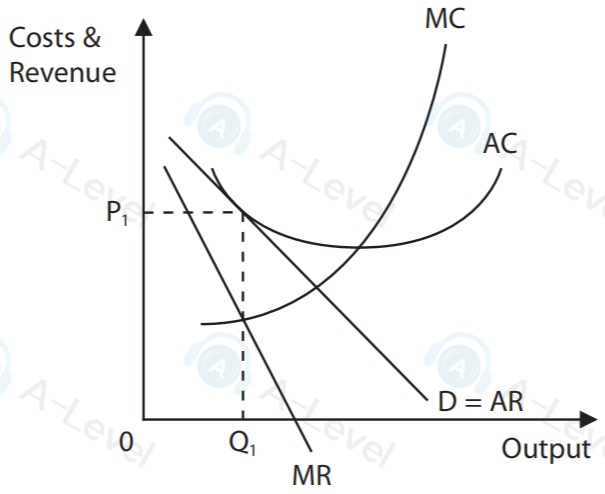



Which **one** of the following can be deduced from the diagram?

- ☒ **A** At output $Q_1$ the firm is maximising its total revenue
- ☒ **B** At output $Q_1$ the firm is minimising its average cost
- ☒ **C** At output $Q_1$ the firm is making normal profit
- ☒ **D** At output $Q_1$ the firm is making supernormal profit

**(Total for Question 2 = 1 mark)**

**2** The diagram shows the long-run equilibrium for a restaurant in Bangkok, Thailand, operating in a monopolistically competitive market.

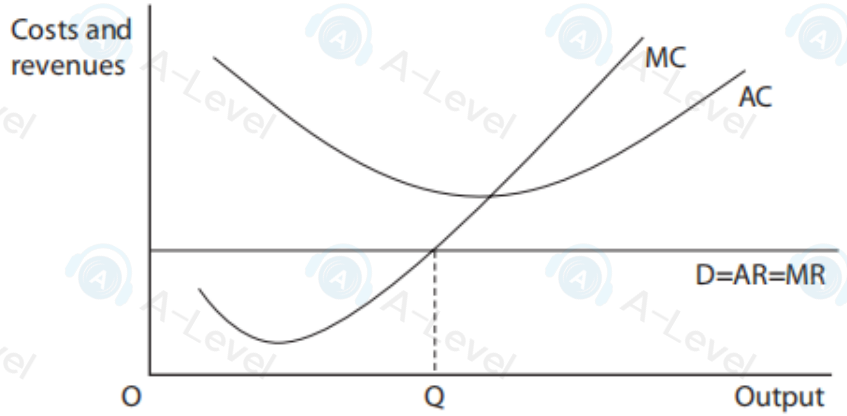



Which **one** of the following can be deduced from the diagram?

- ☒ **A** The firm is producing the allocatively efficient level of output at price $P_1$
- ☒ **B** The firm will leave the industry if average costs fall
- ☒ **C** The firm is producing the productively efficient level of output $Q_1$
- ☒ **D** The firm is making normal profit

**(Total for Question 2 = 1 mark)**

**4** The diagram shows the equilibrium output of a profit-maximising firm operating in a perfectly competitive market.




Which **one** of the following can be deduced from this diagram?

| | Profits of the firm in the short-run | Number of firms in the industry in the long-run |
|---|---|---|
| ☒ **A** | Loss | Increase |
| ☒ **B** | Normal | Decrease |
| ☒ **C** | Normal | Increase |
| ☒ **D** | Loss | Decrease |

**(Total for Question 4 = 1 mark)**

DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA
DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

**6** Which **one** of the following combinations best describes a profit-maximising firm operating in a monopolistically competitive market in the long-run?

| | | Efficiency | Profit |
|---|---|---|---|
| ☒ | **A** | Productively inefficient | Normal profit |
| ☒ | **B** | Productively efficient | Supernormal profit |
| ☒ | **C** | Allocatively inefficient | Supernormal profit |
| ☒ | **D** | Allocatively efficient | Normal profit |

**(Total for Question 6 = 1 mark)**

**3** A hairdressing business in Sri Lanka is operating in a monopolistically competitive market.

Which **one** of the following combinations would apply to such a business in long-run equilibrium?

| | Profit | Allocatively efficient |
|---|---|---|
| **A** | Normal | No |
| **B** | Supernormal | No |
| **C** | Normal | Yes |
| **D** | Supernormal | Yes |

**(Total for Question 3 = 1 mark)**

DO NOT WRITE IN THIS AREA

**6** A farm producing wheat is operating in a monopolistically competitive market.
Which **one** of the following will apply to this firm?

☒ **A** Allocative inefficiency in the long-run

☒ **B** Productive efficiency in the short-run

☒ **C** Supernormal profit in the long-run

☒ **D** Allocative efficiency in the short-run

**(Total for Question 6 = 1 mark)**