**Question Bank**

**Chapter 12**

**Profit and Supply for Farms and Firms**

**Think Break Questions** (from Book: p. 176)

1. Using figure 12.4, show what happens to the graph if the price of the output decreased. What would happen to the optimal level of output in this case?
2. Using figure 12.5 as your guide, show what will happen to the marginal, average total, average variable cost of production of potatoes if the price of tractor fuel increases. What will happen to the optimal output level and the level of profit?
3. What would happen to the supply curve in figure 12.7 if immigration laws were relaxed such that the price of farm labor decreased? Relating this back to figure 12.4, what do you think will happen to profit in this case?

***Multiple Choice Questions***

1. What is the name of Margaret’s dog?

a. Lola

b. Scout

c. Honey

2. The US economy is a capitalistic economic system.

a. True

b. False

3. A firm is an organization having at least 100 employees that manufacturers a tangible product.

a. True

b. False

4. Production is defined as the process of transforming resources and/or goods from one form, space, or time to another form, space, or time.

a. True

b. False

5. Firms exist because

a. consumers can’t produce everything for themselves.

b. governments can collect taxes from them.

c. their organization is more efficient at producing some good than if the good(s) were produced without the organization.

6. The number of acres devoted to farming in the US is about the same as a century ago.

a. True

b. False

7. As the number of farms in the US has decreased from about 7 million in the 1930s to about 2 million in 2012, the total agriculture output has also declined.

a. True

b. False

8. A farm is any place where at least what dollar value of crops or livestock are sold?

a. $1,000,000

b. $10,000

c. $1,000

9. The average number of commodities grown on a farm, across all sizes, is about

a. 2.

b. 6.

c. 12.

10. Net income is the difference between total revenues and total expenses.

a. True

b. False

11. Operating profit is net income less payments to operator labor and management.

a. True

b. False

12. In 2011 what percentage of all farms had a positive operating profit?

a. 96%

b. 54%

c. 30%

13. Profit is the difference between total revenue and total cost.

a. True

b. False

14. Profit is maximized where

a. total revenue is the greatest.

b. cost is the least.

c. a and b.

d. None of the above.

15. Variable costs are costs that vary with the number of employees whereas fixed costs are constant.

a. True

b. False

16. A price taking firm

a. faces a constant price for every unit of output sold.

b. does not have power to change the price of the output sold.

c. may have a contract for the price of output sold.

d. All of the above.

17. Economic profit is always greater than accounting profit.

a. True

b. False

18. The profit maximizing output occurs where the change in total revenue (marginal revenue) is equal to the change in total cost (marginal cost).

a. True

b. False

19. The firm’s supply curve shows the relationship between the firm’s optimal output level and the price received for the output.

a. True

b. False

20. A movement along the supply curve is a

a. change in supply.

b. change in quantity supplied.

21. A shift in the supply curve can be caused by a

a. change in the price of good being sold.

b. a movement along the supply curve.

c. a change in the price of an input.

22. If the supply elasticity is 0.20, then supply is considered

a. elastic.

b. inelastic.

c. perfectly elastic.

d. perfectly inelastic.

23. All firms have the same supply curve slope.

a. True

b. False

***Short Answer Questions***

1. Give the definition of a firm and then explain why firms exist in the first place.

2. Give a summary of the number of farms, the number of acres farmed, and the productivity of farms over the last century in the United States.

3. Explain how it may be possible for less than half of all farms in the United States to be making an economic profit.

4. Discuss why when considering profitability it is important to consider revenue and cost. Explain why an increase in revenue or a decrease in cost in isolation may be insufficient to increase profit.

5. Explain the difference between supply and quantity supplied using a graph.

***Discussion Questions***

1. Explain the difference in the total approach and the per unit approach to determining optimal output and why the per unit approach is often preferred.

2. Draw and explain the relationship between the firm’s cost functions and its supply curve.

3. Fred is a peanut farmer who always complains that the price of peanuts is too low for me to make any money but “I can’t afford to go out of business because I have to pay off my land note.” Using figure 12.4, where does this imply the price must be located on this graph. Explain the economic intuition of this statement.