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# Principles of Economics ( English Medium) - ICOM Part 1 Economics English Medium Chapter 9 Short Questions Preparation

Q1. Define equilibrium of the firm.

**Ans 1:** Equilibrium means a situation in which two opposite forces are exactly equal. The basic aim of the firm is to get maximum profit. Firm will expand its output when higher profits are expected.

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Q2. How many situations of firm's equilibrium are there under perfect competition in short-run.

**Ans 1:** There are four main situations of firm's equilibrium under perfect competition:
1. Super normal profit
2. Normal profit.
3. Normal loss.
4. Heavy loss.

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Q3. Describe firm's equilibrium under perfect competition in long run and draw its diagram.

**Ans 1:** In long-run mostly firms earn normal profit because of the reasons.
1. In long run the number of firms in the industry can change.
2. In case of losses, some of the existing firms leave the industry.

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Q4. Define bilateral monopoly.

**Ans 1:** It is the market situation where there is only one seller and only buyer, having complete control over purchase, price and output known as bilateral monopoly.

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Q5. What is meant by optimum level of output for a firm ?

**Ans 1:** The level of output where marginal production is maximum and marginal cost is minimum is called optimum level of production.

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Q6. Give four demerits of monopoly.

**Ans 1:** There are following demerits of monopoly:
1. Consumer's exploitation.
2. Increase in unequal distribution of wealth.
3. Misallocation of resources.
4. Lack of innovations.

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Q7. Define 'abnormal profit' in perfect competition.

**Ans 1:** Firm will earn abnormal profits when total revenues are greater than total costs.
(TR > TC) OR (P > AC)

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Q8. Define normal 'loss' and draw the diagram in perfect competiton.

**Ans 1:** Firm will face loss when total revenues are less than total costs.
(TR < TC) OR (P < AC)

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Q9. What are the conditions of firm's equilibrium under PC and monopoly or profit maximalization ?

**Ans 1:** There are two conditions of firm's equilibrium :
Necessary Condition:
1. Marginal cost should equal to marginal revenue, (MC = MR)
Sufficient Condition:
2. Marginal Cost curve must cut marginal revenue curve from below.

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Q10. How many approaches are used to explain the equilibrium of the firm ?

**Ans 1:** There are two approaches.
1. Total revenue and Total Cost approach.
2. Marginal Revenues and Marginal Cost approach.

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