

Practice—13&14

- 1) The key characteristics of a monopolistically competitive market structure include
 - A) few sellers.
 - B) sellers selling similar but differentiated products.**
 - C) high barriers to entry.
 - D) sellers acting to maximize revenue

- 2) In monopolistic competition there is/are
 - A) many sellers who each face a downward-sloping demand curve.**
 - B) a few sellers who each face a downward-sloping demand curve.
 - C) only one seller who faces a downward-sloping demand curve.
 - D) many sellers who each face a perfectly elastic demand curve.

- 3) A monopolistically competitive firm faces a downward-sloping demand curve because
 - A) it is able to control price and quantity demanded.
 - B) there are few substitutes for its product.
 - C) of product differentiation.**
 - D) its market decisions are affected by the decisions of its rivals.

- 4) A monopolistically competitive firm will
 - A) charge the same price as its competitors do.
 - B) always produce at the minimum efficient scale of production.
 - C) have some control over its price because its product is differentiated.**
 - D) produce an output level that is productively and allocatively efficient.

- 5) For a monopolistically competitive firm, marginal revenue
 - A) equals the price.
 - B) is greater than the price.
 - C) is less than the price.**
 - D) and price are unrelated.

- 6) The value of the four-firm concentration ratio that many economists consider indicative of the existence of an oligopoly in a particular industry is
 - A) anything greater than 10 percent.
 - B) anything greater than 20 percent.
 - C) anything greater than 30 percent.
 - D) anything greater than 40 percent.**

- 7) Oligopolies are difficult to analyze because
 - A) the firms are so large.
 - B) demand and cost curves do not exist for these types of industries.
 - C) how firms respond to a price change by a rival is uncertain.**
 - D) oligopolies are a recent development so economists have not had time to develop models.

- 8) In an oligopoly market
 - A) the pricing decisions of all other firms have no effect on an individual firm.
 - B) individual firms pay no attention to the behavior of other firms.
 - C) advertising of one firm has no effect on all other firms.
 - D) one firm's pricing decision affects all the other firms.**

- 9) An oligopolist's demand curve is
- A) identical to that of a perfectly competitive firm.
 - B) identical to that of a monopolistically competitive firm.
 - C) vertical on a price-quantity diagram.
 - D) unknown because a response of firms to price changes by rivals is uncertain.**
- 10) Interdependence of firms is most common in
- A) monopolistically competitive industries.
 - B) monopolistic industries.
 - C) monopolistically competitive and oligopolistic industries.
 - D) oligopolistic industries.**
- 11) Oligopolies exist and do not attract new rivals because
- A) of competition.
 - B) of barriers to entry.**
 - C) the firms keep profits and prices so low that no rivals are attracted.
 - D) there can be no product differentiation.
- 12) A monopoly is a seller of a product
- A) with many substitutes.
 - B) without a close substitute.**
 - C) with a perfectly inelastic demand.
 - D) without a well-defined demand curve
- 13) A monopoly is characterized by all of the following *except*
- A) there are only a few sellers, each selling a unique product.**
 - B) entry barriers are high.
 - C) there are no close substitutes to the firm's product.
 - D) the firm has market power
- 14) A monopolist faces
- A) a perfectly elastic demand curve.
 - B) a perfectly inelastic demand curve.
 - C) a horizontal demand curve.
 - D) a downward-sloping demand curve**
- 15) A monopoly differs from monopolistic competition in that
- A) a monopoly has market power while a firm in monopolistic competition does not have any market power.
 - B) a monopoly can never make a loss but a firm in monopolistic competition can.
 - C) in a monopoly there are significant entry barriers but there are low barriers to entry in a monopolistically competitive market structure.**
 - D) a monopoly faces a perfectly inelastic demand curve while a monopolistic competitor faces an elastic demand curve.
- 16) Consider the following characteristics:
- a. a market structure with barriers to entry
 - b. demand curves that are easily identified
 - c. firm cannot make zero profits in the long run
 - d. firm can reap long-run profits.
- Which of the characteristics in the list above is shared by an oligopolist and a monopolist?
- A) a, b, c, and d
 - B) a, b, and d
 - C) a, c, and d
 - D) a and d**

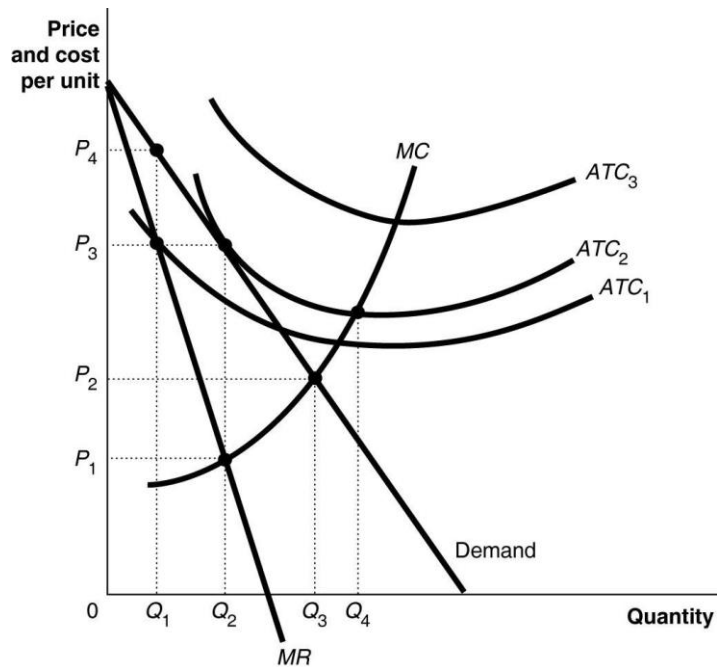
17) A monopolist's profit-maximizing price and output correspond to the point on a graph

A) where average total cost is minimized.

B) where total costs are the smallest relative to price.

C) where marginal revenue equals marginal cost and charging the price on the market demand curve for that output.

D) where price is as high as possible.



The above Figure 1 shows the demand and cost curves facing a monopolist.

18) Refer to Figure 1. To maximize profit, the firm will produce at output level

A) Q1. B) Q2.

C) Q3. D) Q4.

19) Refer to Figure 1. The firm's profit-maximizing price is

A) P1. B) P2.

C) P3. D) P4.

20) Refer to Figure 1. If the firm's average total cost curve is ATC1, the firm will

A) suffer a loss. B) break even.

C) make a profit. D) face competition.

21) Refer to Figure 1. If the firm's average total cost curve is ATC2, the firm will

A) suffer a loss. B) break even.

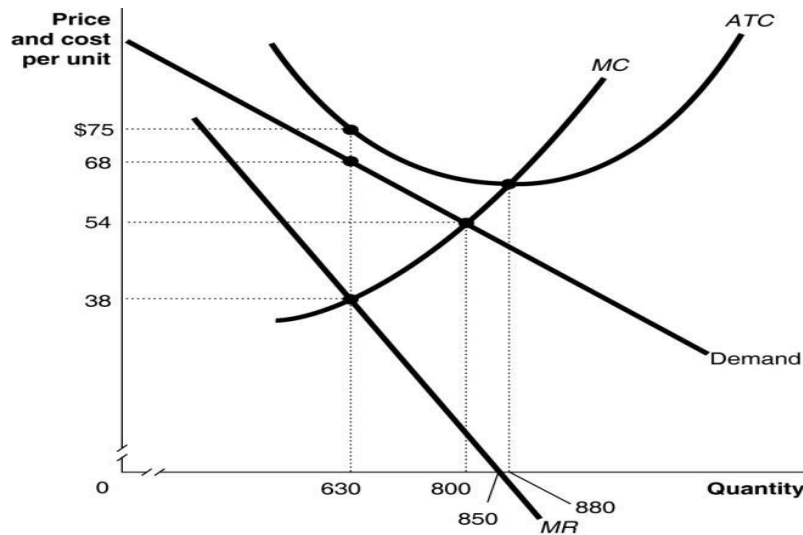
C) make a profit. D) face competition

22) Refer to Figure 1. If the firm's average total cost curve is ATC3, the firm will

A) suffer a loss. B) break even.

C) make a profit.

D) face competition.



The above Figure 2 shows the demand and cost curves facing a monopolist.

23) Refer to Figure 2. Suppose the monopolist represented in the diagram above produces positive output. What is the profit-maximizing/loss-minimizing output level?

A) 630 units

B) 800 units

C) 850 units

D) 880 units

24) Refer to Figure 2. Suppose the monopolist represented in the diagram above produces positive output. What is the price charged at the profit-maximizing/loss-minimizing output level?

A) \$38

B) \$54

C) \$68

D) \$75

25) Refer to Figure 2. Suppose the monopolist represented in the diagram above produces positive output. What is the profit/loss per unit?

A) loss of \$7 per unit

B) profit of \$30 per unit

C) loss of \$21 per unit

D) profit of \$14 per unit

26) A merger between the Ford Motor Company and General Motors would be an example of a

A) vertical merger.

B) horizontal merger.

27) A merger between a health insurance provider and a hospital would be an example of a

A) vertical merger.

B) horizontal merger.

28) For a monopolistically competitive firm, marginal revenue

A) equals the price

B) is greater than the price

C) is less than the price

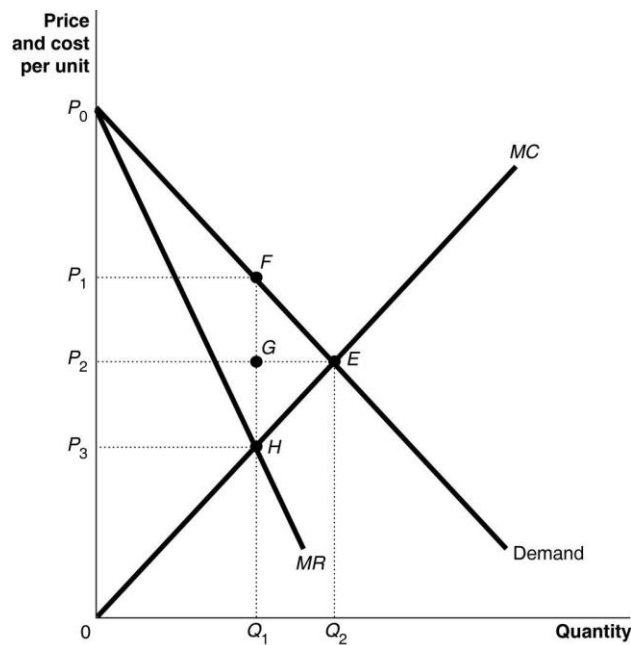
D) and price are unrelated.

29) What is the profit-maximizing rule for a monopolistically competitive firm?

A) to produce a quantity that maximizes market share

- B) to produce a quantity that maximize total revenue
- C) to produce a quantity such that marginal revenue equals to marginal cost**
- D) to produce a quantity such that price equals to marginal cost

- 30) A profit maximizing monopoly's price is
- A) the same as the price that would prevail if the industry was perfectly competitive.
 - B) less than the price that would prevail if the industry was perfectly competitive.
 - C) greater than the price that would prevail if the industry was perfectly competitive.**
 - D) not consistently related to price that would prevail if the market was perfectly competitive.



- 31) Refer to the above Figure. What is the area that represents consumer surplus under a monopoly?
- A) the triangle P0P1F**
 - B) the triangle P0P2E
 - C) the trapezium P1P2EF
 - D) the rectangle P1P3HF

- 32) What is the area that represents producer surplus under a monopoly?
- A) the triangle 0P2E
 - B) the triangle 0P3H
 - C) the trapezium 0P1FH**
 - D) the rectangle P1P3HF

- 33) The deadweight loss due to a monopoly is represented by the area
- A) FHE.**
 - B) FGE.
 - C) GEH.
 - D) FQ1Q2E.