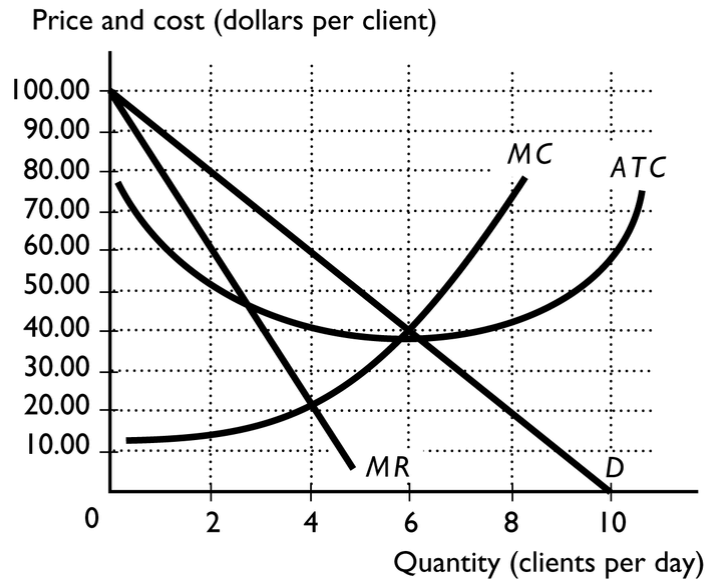


Economics 103 Spring 2012: Multiple choice review questions for final exam. Exam will cover chapters on perfect competition, monopoly, monopolistic competition and oligopoly up to the Nash equilibrium

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) What is the difference between perfect competition and monopolistic competition? 1) _____
A) Perfect competition has a large number of small firms while monopolistic competition does not.
B) In monopolistic competition, firms produce identical goods, while in perfect competition, firms produce slightly different goods.
C) Perfect competition has no barriers to entry, while monopolistic competition does.
D) In perfect competition, firms produce identical goods, while in monopolistic competition, firms produce slightly different goods.
E) Perfect competition has barriers to entry while monopolistic competition does not.
- 2) In a perfectly competitive market, the type of decision a firm has to make is different in the short run than in the long run. Which of the following is an example of a perfectly competitive firm's short-run decision? 2) _____
A) the profit-maximizing level of output
B) whether or not to change its plant size
C) how much to spend on advertising and sales promotion
D) what price to charge buyers for the product
E) whether or not to enter or exit an industry
- 3) The firm's over-riding objective is to 3) _____
A) maximize economic profit.
B) avoid an economic loss.
C) maximize total revenue.
D) maximize normal profit.
E) earn a normal profit.
- 4) The price charged by a perfectly competitive firm is 4) _____
A) higher the more the firm produces.
B) different than the price charged by competing firms.
C) the same as the market price.
D) indeterminate.
E) lower the more the firm produces.
- 5) A profit-maximizing output for a single-price monopoly is determined by the intersection of the _____ curves and the profit-maximizing price is found on the _____ curve. 5) _____
A) total revenue and total cost, total revenue
B) marginal cost and marginal revenue; marginal revenue
C) demand and supply; supply
D) marginal cost and marginal revenue; demand
E) marginal cost and average total cost; demand
- 6) A single-price monopoly has marginal revenue and marginal cost equal to \$19 at 15 units of output where the price on the demand curve is \$38. At this output, average total cost is \$15. What is the total profit earned? 6) _____
A) \$225 B) \$570 C) \$19 D) \$285 E) \$345

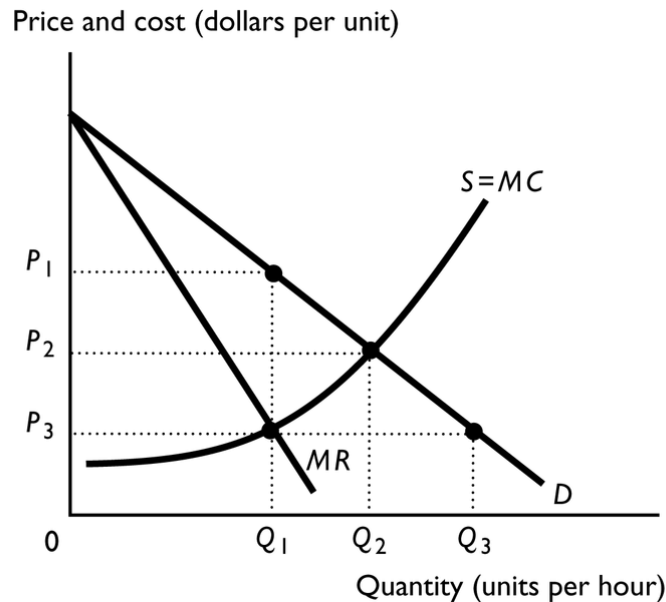
- 7) Rate of return regulation is designed to allow a natural monopoly to _____
- A) underestimate its average cost.
 - B) earn zero normal profit.
 - C) earn an economic profit.
 - D) earn a normal profit.
 - E) compete with any firm entering the market.
- 8) Which of the following is true about monopolistic competition but false about perfect competition? _____
- A) Firms can earn an economic profit in the short run.
 - B) There are a large number of independently acting sellers.
 - C) There are no barriers to entry.
 - D) Firms compete on their product's price as well as its quality and marketing.
 - E) Firms cannot earn an economic profit in the long run.
- 9) What does monopolistic competition have in common with monopoly? _____
- A) mutual interdependence
 - B) the ability to collude with respect to price
 - C) a large number of firms
 - D) a downward-sloping demand curve
 - E) barriers to entry
- 10) Firms in monopolistic competition have demand curves that are _____
- A) U-shaped.
 - B) horizontal.
 - C) downward sloping.
 - D) vertical.
 - E) upward sloping.



- 11) Kevin owns a personal training gymnasium in Orlando. The above figure shows the demand and cost curves for his firm, which competes in a monopolistically competitive market. Kevin will train how many clients per day? 11) _____
- A) between 2 and 4
 B) 6
 C) 10
 D) 4
 E) None of the above answers is correct.
- 12) Kevin owns a personal training gymnasium in Orlando. The above figure shows the demand and cost curves for his firm, which competes in a monopolistically competitive market. What price will Kevin charge per session? 12) _____
- A) \$20 B) \$80 C) \$60 D) \$100 E) \$40
- 13) In monopolistic competition, the products of different sellers are 13) _____
- A) similar but slightly different.
 B) unique without any close or perfect substitutes.
 C) perfect substitutes.
 D) identical.
 E) either identical or differentiated.
- 14) When a monopolistically competitive firm's demand curve shifts leftward, what happens to its marginal revenue curve? 14) _____
- A) It disappears.
 B) Nothing, the marginal revenue curve is unchanged.
 C) It shifts leftward.
 D) It shifts rightward.
 E) None of the above is correct because the effect on the marginal revenue curve depends on whether the demand was initially elastic or inelastic.

- 15) Firms in an oligopoly 15) _____
- i. are independent of each others' actions.
 - ii. can each influence the market price.
 - iii. charge a price equal to marginal revenue.
- A) i only
 - B) i and iii
 - C) ii only
 - D) iii only
 - E) i, ii, and iii
- 16) When oligopolies seek to operate as a single-price monopoly, the firms produce at the point 16) _____
where:
- A) $MR = MC$.
 - B) $P = MR$.
 - C) $P < ATC$.
 - D) $P = MC$.
 - E) $MC = ATC$.
- 17) A cartel is a collusive agreement among a number of firms that is designed to 17) _____
- A) expand output and lower prices but not to a predatory level.
 - B) expand output and lower prices to a predatory level.
 - C) restrict output and raise prices.
 - D) expand output and raise prices.
 - E) restrict output and lower prices to a predatory level.
- 18) When oligopolies operate like firms in perfect competition, the firms produce at the point where 18) _____
the
- A) price exceeds the average total cost by the greatest amount.
 - B) price exceeds the marginal cost by the greatest amount.
 - C) marginal cost equals the average total cost.
 - D) price is less than the marginal cost.
 - E) marginal cost equals the price.
- 19) If one firm in a duopoly increases its production by one unit beyond the monopoly output, that 19) _____
firm's profit _____, the other firm's profit _____, and the *total* profit of the duopoly
_____.
- A) increases; increases; increases
 - B) increases; decreases; decreases
 - C) does not change; does not change; does not change
 - D) increases; does not change; increases
 - E) increases; decreases; does not change
- 20) A Nash equilibrium is defined as 20) _____
- A) each player taking the action that is best for all the players.
 - B) forming a cartel with strong penalties for cheaters.
 - C) earning zero economic profit in the long run.
 - D) relying on other game players to realize the benefit of cooperation.
 - E) each player taking the best possible action given the action of the other player.

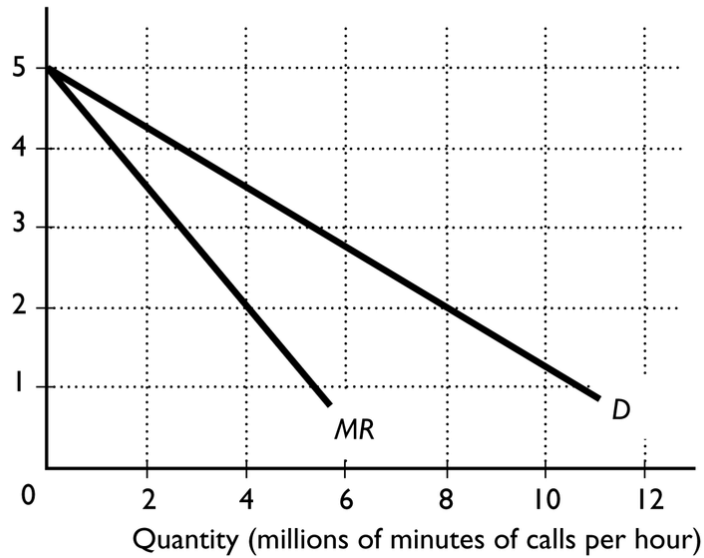
- 21) In a prisoners' dilemma game, in the Nash equilibrium 21) _____
 A) neither player gets his or her best outcome.
 B) both players get their best outcome.
 C) one player gets his or her best outcome and the other player does not.
 D) collusion would not alter the outcome.
 E) Either answer A or C might be correct depending on whether the players communicate with each other or do not communicate with each other.
- 22) In the prisoners' dilemma, each player is _____ regardless of the other player's actions. 22) _____
 A) better off confessing
 B) forced to confess
 C) better off denying
 D) forced to deny
 E) going to go free
- 23) In an oligopoly, output is 23) _____
 A) greater than the output in perfect competition.
 B) somewhere between the output in monopoly and that in perfect competition outcomes.
 C) in all circumstances the same as the output in perfect competition.
 D) less than the output in monopoly.
 E) in all circumstances the same as the output in monopoly.



- 24) Which of the following is true? In the above figure, if the market is 24) _____
 A) a monopoly, output will be Q_3 and price will be P_3 .
 B) perfect competition, output will be Q_3 and price will be P_3 .
 C) perfect competition, output will be Q_1 and price will be P_1 .
 D) a monopoly, output will be Q_1 and price will be P_3 .
 E) perfect competition, output will be Q_2 and price will be P_2 .

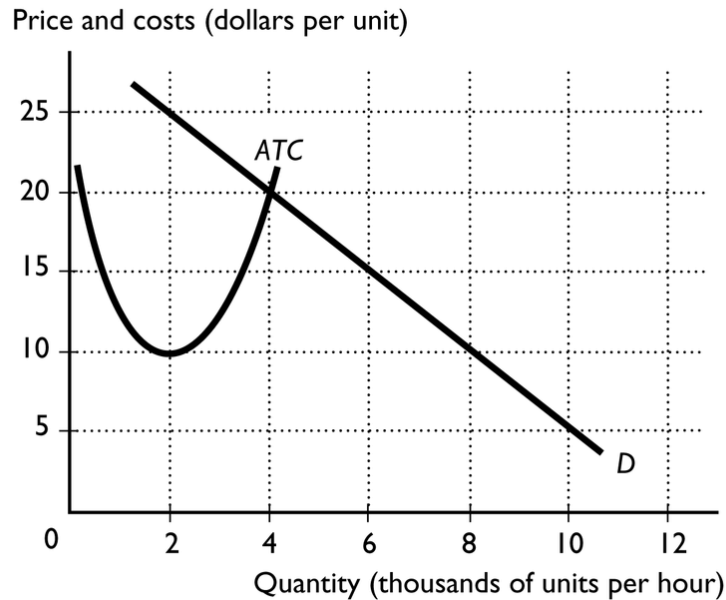
- 25) In the above figure, the output of an oligopoly will range between _____
A) Q_2 and Q_3 .
B) 0 and Q_1 .
C) Q_1 and Q_2 .
D) Q_1 and Q_3 .
E) 0 and Q_2 .
- 26) A Nash equilibrium in the duopoly game _____
A) means that one player has greater market power.
B) will always lead to equilibrium in which the firms' total profit is the largest.
C) can occur only if firms cooperate with each other.
D) means that a firm must be able to determine its actions *and* the actions of its competitor.
E) occurs when each player takes the best possible action regardless of the strategy chosen by other firms.
- 27) The major dilemma facing Boeing and Airbus is the _____
A) fact that neither will respond to the behavior of the other.
B) fact that if each firm separately tries to maximize its profit, it might wind up with less profit than otherwise.
C) fact that when they collude to maximize their profit, the other firm's profit might be larger than its profit.
D) certainty surrounding the reaction of each firm to the behavior of the other firm.
E) competition from other firms that drives their economic profit to zero.

Price and costs (cents per minute)



- 28) The above figure shows the market demand curve for long-distance telephone calls. Suppose the marginal cost of a long-distance telephone call is 2¢ a minute for a call no matter how many minutes of calls are made and there are 3 firms in the industry. If the firms in the industry operate as perfect competitors, there are _____ minutes of calls made per hour.
- A) between 0 and 3 million
 - B) more than 3 million and less than or equal to 5 million
 - C) more than 5 million and less than or equal to 7 million
 - D) more than 9 million
 - E) more than 7 million and less than or equal to 9 million

28) _____

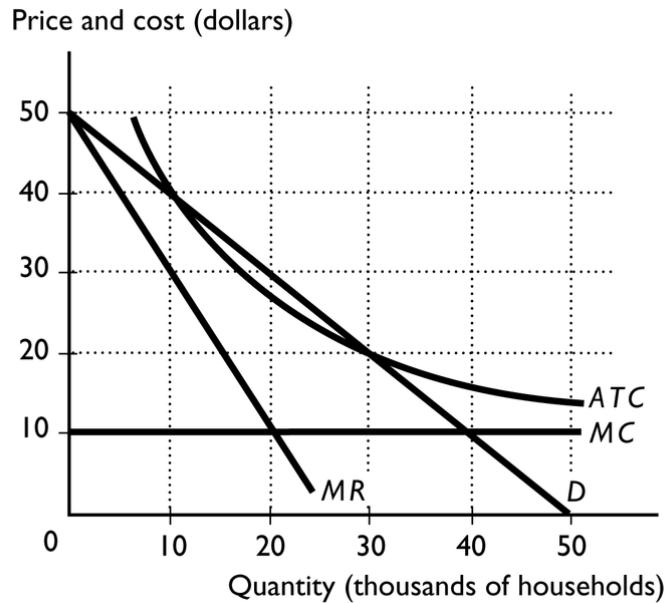


- 29) The figure above shows the market demand curve and the *ATC* curve for a firm. If all firms in the market have the same *ATC* curve, the lowest price at which a firm could stay in business in the long run is _____ per unit and the quantity demanded in the market at that price is _____ units per hour. 29) _____
- A) \$20; 2,000
 B) \$10; 4,000
 C) \$20; 8,000
 D) \$10; 8,000
 E) \$20; 4,000
- 30) The figure above shows the market demand curve and the *ATC* curve for a firm. If all firms in the market have the same *ATC* curve, the efficient scale for one firm is _____ units per hour. 30) _____
- A) 2,000
 B) 4,000
 C) 8,000
 D) 10,000
 E) more than 10,000
- 31) Which of the following is correct? 31) _____
- A) In the long run, a firm in monopolistic competition earns zero economic profit and its price is equal to the minimum average total cost.
 B) In the long run, a firm in monopolistic competition can earn an economic profit because of product differentiation.
 C) A firm in perfect competition operates at maximum average total cost in the long run.
 D) In the long run, a firm in monopolistic competition maximizes its profit at a point where price is equal to average total cost but the average total cost is not minimized.
 E) A firm in monopolistic competition does not have excess capacity in the long run.

- 32) A cartel is most likely to occur in _____
A) perfect competition as firms compete by reducing cost.
B) oligopoly as firms compete to lower price and increase their own profits.
C) monopolistic competition where firms collude to increase profits.
D) monopoly because it faces no competition.
E) oligopoly as firms act together to raise prices and increase profits.
- 33) When firms in monopolistic competition are making an economic profit, firms will _____
A) enter the industry, and demand will decrease for the original firms.
B) exit the industry, and demand will increase for the firms that remain.
C) enter the industry and then will exit the industry.
D) enter the industry, and demand will increase for the original firms.
E) exit the industry, and demand will decrease for the firms that remain.
- 34) Herb's Inc. has a large share of its market and is tempted to collude with the few firms that are in its market. Herb's operates in _____
A) a perfectly competitive market.
B) collusively protected market.
C) a monopoly market.
D) a monopolistically competitive market.
E) an oligopoly.
- 35) A cartel is _____
A) a market structure with a large number of small firms.
B) a market with only two firms.
C) a group of firms acting together to raise price, decrease output, and increase economic profit.
D) a market structure with a small number of large firms.
E) another name for an oligopoly.
- 36) For a firm in monopolistic competition, the efficient scale is the amount of output at which _____ is a minimum. _____
A) marginal cost
B) fixed cost
C) average total cost
D) average variable cost
E) average fixed cost
- 37) A firm in monopolistic competition _____ influence its price and _____ influence the market average price. _____
A) cannot; cannot
B) can; only in the short run can
C) can; cannot
D) cannot; can
E) can; can

- 38) At a long-run equilibrium in monopolistic competition, price equals 38) _____
A) marginal cost but not marginal revenue.
B) average total cost.
C) marginal revenue and marginal cost.
D) marginal revenue but not marginal cost.
E) zero.
- 39) In monopolistic competition there are _____ barriers to entry, so therefore in the long run, 39) _____
economic profit _____.
A) no; is substantial
B) many; equals zero
C) no; equals zero
D) many; is substantial
E) many; might be earned depending on the degree of product differentiation
- 40) The major difference between monopolistic competition and monopoly is 40) _____
A) monopoly is a price setter and a firm in monopolistic competition is a price taker.
B) how the quantity of output is determined.
C) only a monopoly can earn an economic profit in the long run.
D) only a firm in monopolistic competition can earn an economic profit in the short run.
E) only firms in monopolistic competition are protected by barriers to entry.
- 41) If a monopolistically competitive seller's marginal cost is \$3.56, the firm will decrease its output 41) _____
if
A) its marginal revenue is less than \$3.56.
B) its marginal revenue is equal to \$3.56.
C) its marginal revenue is more than \$3.56.
D) its average total cost is equal to \$4.00.
E) Both answers B and D are correct.
- 42) In monopolistic competition, profit is maximized by producing so that marginal revenue 42) _____
A) equals price.
B) equals average total cost but not marginal cost.
C) equals marginal cost and which are less than price.
D) equals marginal cost and equals price.
E) is negative.
- 43) The absence of barriers to entry in monopolistic competition means that in the long run firms 43) _____
A) earn either an economic profit or zero economic profit.
B) earn zero economic profit.
C) incur an economic loss.
D) earn an economic profit.
E) earn either zero economic profit or suffer an economic loss.

- 44) With an average cost pricing rule, the quantity produced by the natural monopoly is _____ 44) _____
the quantity produced with a marginal cost pricing rule.
A) less than
B) greater than
C) not comparable to
D) equal to
E) greater than in the long run and less than in the short run than
- 45) Because of the number of firms in monopolistic competition 45) _____
A) each firm has a large market share.
B) it is possible for the firms to collude.
C) one firm has the ability to dictate market conditions.
D) each firm must carefully monitor what its competitors do.
E) no one firm can dominate the market.
- 46) If a large number of firms are competing, the market could be 46) _____
A) monopolistic competition or monopoly.
B) perfect competition or monopoly.
C) oligopoly or monopoly.
D) perfect competition or monopolistic competition.
E) monopolistic competition or oligopoly.
- 47) With a natural monopoly 47) _____
A) no regulation is necessary because it is a natural monopoly.
B) regulation takes the form of breaking the company into several competing firms.
C) regulation takes the form of forcing the company out of business.
D) regulation can take the form of average cost pricing to allow coverage of costs.
E) regulation takes the form of forcing competition from new firms.
- 48) If a natural monopoly is regulated using 48) _____
A) a total cost pricing rule, the firm will exit the industry.
B) a marginal cost pricing rule, the firm maximizes its profit.
C) an average cost pricing rule, the firm maximizes its profit.
D) a marginal cost pricing rule, the firm incurs an economic loss.
E) an average cost pricing rule, the firm incurs an economic loss.
- 49) Price cap regulation is defined as regulation that 49) _____
A) imposes a price ceiling on the regulated firm.
B) is essentially the same as rate of return regulation.
C) uses average cost pricing to ensure costs are covered.
D) uses marginal cost pricing to ensure efficient output.
E) encourages firms to exaggerate costs to increase profits.
- 50) The process of price cap regulation includes which of the following? 50) _____
i. a price ceiling.
ii. marginal cost pricing.
iii. average cost pricing
A) i and ii B) i and iii C) ii only D) ii and iii E) i only

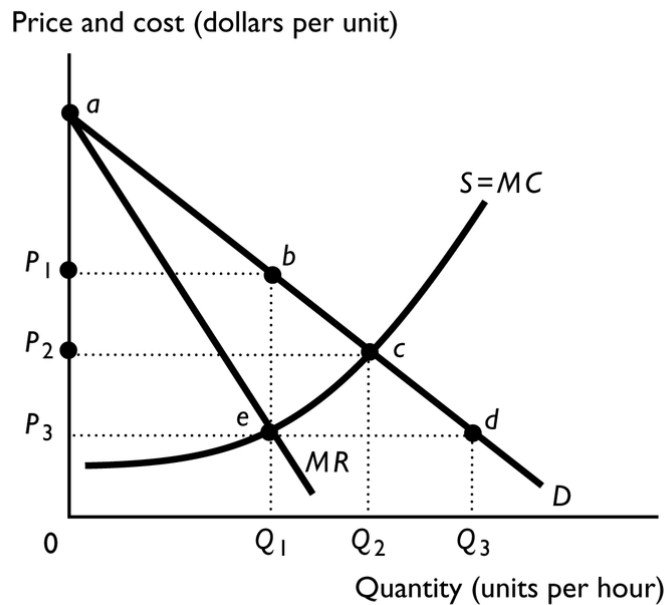


- 51) The above figure represents the market for cable television in Oakland, Florida. Time Warner Communications (TWC) is the sole provider of cable television to the residents of this Central Florida community. If TWC is left unregulated, what is the price of cable television in Oakland? 51) _____
- A) \$10 B) \$20 C) \$50 D) \$30 E) \$40
- 52) The above figure represents the market for cable television in Oakland, Florida. Time Warner Communications (TWC) is the sole provider of cable television to the residents of this Central Florida community. If TWC is left unregulated, how many households in Oakland are served? 52) _____
- A) 40,000 B) 50,000 C) 10,000 D) 30,000 E) 20,000
- 53) If a regulatory agency sets the price equal to marginal cost for a natural monopoly, the 53) _____
- A) price is the same as the unregulated monopoly price.
 B) firm earns an economic profit, though not the maximum economic profit.
 C) firm earns a normal profit.
 D) firm earns the maximum economic profit.
 E) government might have to provide a subsidy to the firm to keep it in business.
- 54) Capture theory is 54) _____
- A) a model about perfect competition.
 B) a theory that explains behavior of competitive firms.
 C) an economic theory of regulation.
 D) the theory that regulators capture firms' attention by dictating a very low price.
 E) the same as the public interest theory.
- 55) A monopoly creates a deadweight loss because the monopoly 55) _____
- A) sets a price that is too low.
 B) produces less than the efficient quantity.
 C) produces more than the efficient quantity.
 D) does not maximize profit.
 E) earns a normal profit.

- 56) Which of the following explains why the marginal cost pricing rule results in an economic loss for a natural monopoly? 56) _____
- A) The ATC curve is downward sloping throughout the relevant range, therefore the MC is lower than the ATC .
 - B) The MC is constant and equal to price.
 - C) Because output is determined by setting MC equal to the price, consumer surplus is maximized.
 - D) The demand curve is downward sloping, therefore price falls as quantity increases.
 - E) The firm's MR is always less than its price.
- 57) _____ natural monopolies is a commonly used, potential solution to the problems presented by natural monopolies. 57) _____
- A) Giving incentives to firms to become
 - B) Breaking up firms that are
 - C) Regulating
 - D) Refusing to grant patents to
 - E) Outlawing price discrimination by
- 58) With perfect price discrimination, the level of output 58) _____
- A) is the same as the amount produced by any monopoly that price discriminates.
 - B) equals the amount produced by a single-price monopoly.
 - C) is the same as the amount produced in a perfectly competitive market.
 - D) exceeds the efficient quantity.
 - E) is unknown.
- 59) Comparing a perfectly competitive market to a single-price monopoly with the same costs, we see that 59) _____
- A) the monopoly market always is more efficient in the use of resources.
 - B) the monopoly market achieves efficiency in resource use while perfectly competitive market does not.
 - C) both markets are equally efficient in their use of resources.
 - D) the perfectly competitive market achieves efficiency in resource use while the monopoly market does not.
 - E) None of the above answers is correct because comparing a perfectly competitive market to a monopoly is impossible.
- 60) When a perfectly competitive industry is taken over by a monopoly, some consumer surplus is transferred to the monopolist in the form of 60) _____
- A) taxes.
 - B) marginal cost.
 - C) deadweight loss.
 - D) economic profit.
 - E) average variable cost.

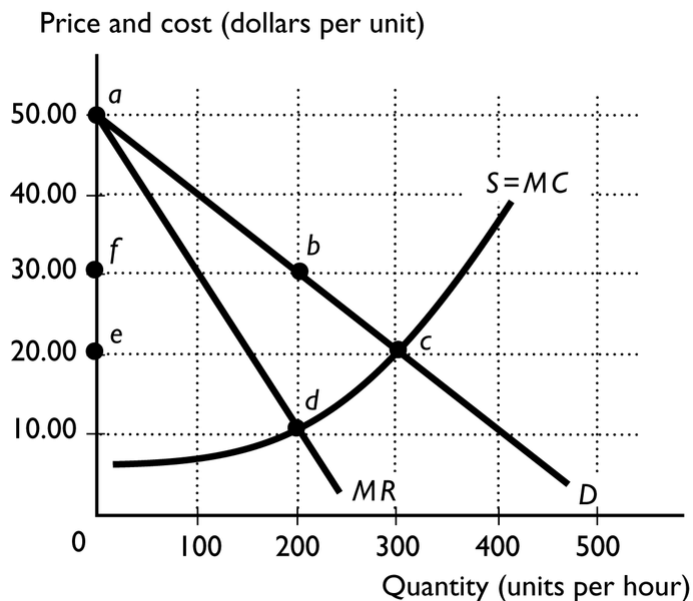
- 61) With price discrimination, a monopoly 61) _____
 A) produces less output than if it does not price discriminate.
 B) converts consumer surplus into deadweight loss.
 C) converts producer surplus into economic profit.
 D) can charge a single price to all customers.
 E) converts consumer surplus into economic profit.

- 62) A price-discriminating monopoly 62) _____
 A) cannot offer discounts.
 B) cannot control the price of its product.
 C) sells a larger quantity than it would if it were a single-price monopoly.
 D) is illegal.
 E) makes a smaller economic profit than it would if it were a single-price monopoly.



- 63) In the above figure, a perfectly competitive market will have a price of _____ and a single-price monopoly will have a price of _____. 63) _____
 A) P_1 and quantity of Q_1 ; P_2 and quantity of Q_2
 B) P_2 and quantity of Q_2 ; P_3 and quantity of Q_1
 C) P_2 and quantity of Q_1 ; P_1 and quantity of Q_1
 D) P_2 and quantity of Q_2 ; P_1 and quantity of Q_1
 E) P_3 and quantity of Q_3 ; P_1 and quantity of Q_1

- 64) A single-price monopoly transfers 64) _____
 A) economic profit to the government.
 B) consumer surplus to producers.
 C) producer surplus to consumers.
 D) economic profit to deadweight loss.
 E) economic profit to consumers.



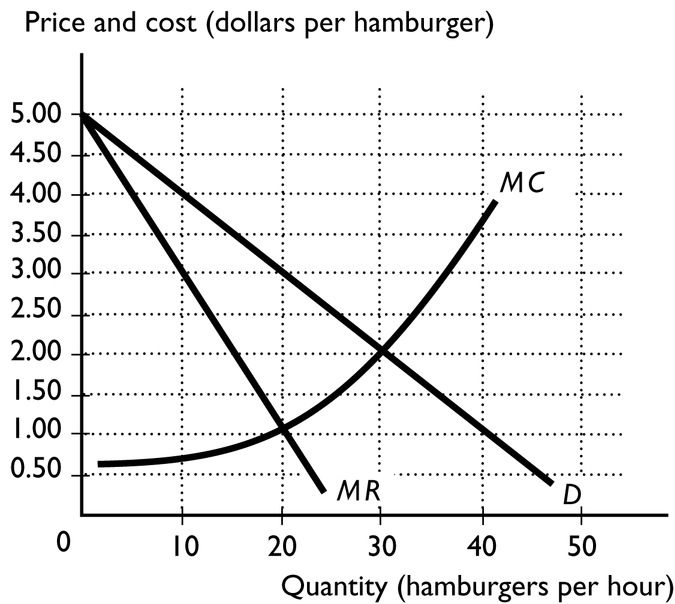
- 65) The figure above shows the demand curve, marginal revenue curve, and marginal cost curve. The amount of consumer surplus when the market has a monopoly producer is _____
- A) *ace*. B) *bcef*. C) *bcd*. D) *abf*. E) *acd*.
- 66) The figure above shows the demand curve, marginal revenue curve, and marginal cost curve. The amount of consumer surplus when the market has a monopoly producer is _____ and the amount of consumer surplus when the market is perfectly competitive is _____.
- A) *abf; ace* B) *ace; bcd* C) *ace; abf* D) *abf; bcd* E) *bcd; ace*
- 67) Compared to a perfectly competitive market, a single-price monopoly sets _____
- A) a higher price.
 B) a lower price.
 C) the same price.
 D) a price that might be higher, lower, or the same depending on whether the monopoly's marginal revenue curve lies above, below, or on its demand curve.
 E) a price that might be higher, lower, or the same depending on whether the monopoly's marginal cost curve lies above, below, or on its marginal revenue curve.
- 68) Compared to a perfectly competitive industry, a single-price monopoly produces _____
- A) the same output.
 B) more output.
 C) less output.
 D) some amount that might be more, less, or the same depending on whether the monopoly's marginal revenue curve lies above, below, or on its demand curve.
 E) some amount that might be more, less, or the same depending on whether the monopoly's marginal cost curve lies above, below, or on its marginal revenue curve.

69) Mark owns a cattle ranch near Hugo, Oklahoma. Mark is currently producing beef at an output level where marginal revenue exceeds marginal cost. In order to maximize his profit, Mark should _____

- A) decrease his output.
- B) shut down his ranch.
- C) increase his output.
- D) not change his output.
- E) probably change his output, but more information is needed to determine if he should increase, decrease, or not change it.

70) When compared to a perfectly competitive market, a single-price monopoly with the same costs produces _____ output and charges _____ price.

- A) a smaller; a lower
- B) a larger; a lower
- C) a smaller; a higher
- D) a smaller; the same
- E) the same; a higher



71) Suppose the Busy Bee Café is the monopoly producer of hamburgers in Hugo, Oklahoma. The above figure represents the demand, marginal revenue, and marginal cost curves for this establishment. What quantity will the Busy Bee produce to maximize its profit? _____

- A) 20 hamburgers per hour
- B) 50 hamburgers per hour
- C) 10 hamburgers per hour
- D) 0 hamburgers per hour.
- E) 30 hamburgers per hour

Price(dollars)	Quantity(units)
6	1
5	2
4	3
3	4
2	5
1	6

72) The above table gives the demand schedule for a monopoly. The demand is elastic at all prices between _____
 between
 A) \$3 and \$1.
 B) \$5 and \$1.
 C) \$4 and \$3.
 D) \$6 and \$1.
 E) \$6 and \$4.

73) The above table gives the demand schedule for a monopoly. The demand is inelastic over the entire price range between _____
 A) \$6 and \$4.
 B) \$6 and \$1.
 C) \$3 and \$1.
 D) \$4 and \$3.
 E) \$5 and \$1.

74) If the Boston Red Sox baseball team is currently charging a ticket price where its demand is inelastic, then the Red Sox's marginal revenue is _____
 A) positive.
 B) zero.
 C) undefined.
 D) maximized.
 E) negative.

Quantity (units)	Price (dollars per unit)
1	8
2	7
3	6
4	5
5	4
6	3

75) The table above gives the demand for a monopolist's output. What is the total revenue in when 3 units of output are produced? _____
 A) \$18 B) \$20 C) \$21 D) \$6

76) The table above gives the demand for a monopolist's output. What is the marginal revenue when output is increased from 5 to 6 units? _____
 A) \$18 B) -\$2 C) \$4 D) \$3

- 77) The demand curve facing a single-price monopoly is 77) _____
A) the same as only the marginal revenue curve.
B) the same as both the marginal revenue curve and the marginal cost curve.
C) below the marginal revenue curve.
D) above the marginal revenue curve.
E) the same as only the marginal cost curve.
- 78) A single-price monopoly can sell 10 units of its product at a price of \$45 each but to sell 11 units, 78) _____
the monopoly must cut the price to \$44. What is the marginal revenue of the extra unit sold?
A) \$484 B) \$450 C) \$34 D) -\$1 E) \$44
- 79) A single-price monopoly faces a linear demand curve. If the marginal revenue for the second 79) _____
unit is \$20, then the marginal revenue for the
A) third unit is also \$20.
B) third unit is less than \$20.
C) first unit is less than \$20.
D) third unit is more than \$20.
E) more information is needed to determine if the marginal revenue for the third unit is more
than, less than, or equal to \$20.
- 80) For a single-price monopoly, price is 80) _____
A) greater than marginal revenue.
B) equal to marginal revenue.
C) less than marginal revenue because the firm must lower its price in order to sell another
unit of output.
D) less than marginal revenue because the firm cannot increase its total revenue when the
demand curve is downward sloping.
E) equal to zero because the firm is not a price taker.
- 81) For a monopoly, marginal revenue is equal to 81) _____
A) the price of the product.
B) the amount people buy between two prices.
C) the amount people buy at a given price.
D) the change in total revenue brought about by a one-unit increase in quantity sold.
E) the price multiplied by the quantity sold.
- 82) A single-price monopoly 82) _____
A) is able to raise its price as high as it wants and consumers must still buy from it because it
is a monopoly.
B) can lower its price for only a few select consumers if it wants to increase its sales.
C) must practice price discrimination.
D) must lower the price for all customers if it wants to increase its sales.
E) will set its price equal to a consumer's willingness to pay.

- 83) In order for a hotel to successfully price discriminate so that senior citizens are given a discount, the hotel must be able to _____ 83) _____
- A) lower its prices to younger customers too.
 - B) prevent senior citizens from reselling their rooms to younger customers.
 - C) offset the economic loss from charging senior citizens a lower price by lowering the marginal cost of renting rooms to senior citizens.
 - D) shift its demand curve rightward.
 - E) determine if a senior citizen can pay a higher price.
- 84) A price-discriminating monopoly is a monopoly that _____ 84) _____
- A) has a license to sell the product.
 - B) sells its output at a single price to all of its customers.
 - C) illegally charges different customers different prices for the good it produces.
 - D) sells different units of a good or service at different prices.
 - E) has control over the resources used to produce the product.
- 85) A single-price monopoly _____ 85) _____
- A) sets a single price for all consumers.
 - B) asks each consumer what single price they would be willing to pay.
 - C) sets a single, different price for each consumer.
 - D) sells each unit of its output for the single, highest price that the buyer of that unit is willing to pay.
 - E) sets a single, different price for each of two different groups.
- 86) Which of the following statements is correct? _____ 86) _____
- A) Because a monopoly is the only firm in the market, its marginal revenue curve must be the same as the market demand curve.
 - B) Monopolies are guaranteed to earn an economic profit.
 - C) The market demand and the firm's demand are the same for a monopoly.
 - D) Monopolies have perfectly inelastic demand for the product sold.
 - E) Because a monopoly is the only firm in the market, its supply curve is the same as the market demand curve.
- 87) Patents _____ 87) _____
- A) remove legal barriers to entry.
 - B) are prohibited in the United States.
 - C) are a legal barrier to entry.
 - D) decrease the incentive to innovate.
 - E) create economies of scale.

- 88) A natural monopoly's average cost curve 88) _____
- i. intersects the demand curve while the average cost curve slopes downward.
 - ii. reaches its minimum before it intersects the demand curve.
 - iii. intersects the demand curve below the intersection of the marginal cost curve and the demand curve.
- A) i, ii, and iii.
 - B) ii only.
 - C) i and iii.
 - D) iii only.
 - E) i only.
- 89) For a natural monopoly, economies of scale 89) _____
- A) as well as constant returns to scale and diseconomies of scale exist along the long-run average cost curve at least until it crosses the market demand curve..
 - B) are totally absent.
 - C) and diseconomies of scale exist along the long-run average cost curve at least until it crosses the market demand curve.
 - D) lead to a legal barrier to entry.
 - E) exist along the long-run average cost curve at least until it crosses the market demand curve.
- 90) A natural monopoly 90) _____
- A) occurs when one firm controls a natural resource.
 - B) arises when one firm can meet the entire market demand at a lower average total cost than two or more firms.
 - C) arises as a result of legal barriers to entry.
 - D) Both answers A and B are correct.
 - E) Both answers A and C are correct.
- 91) A natural barrier to entry is defined as a barrier that arises because of 91) _____
- A) technology that allows economies of scale over the entire relevant range of output.
 - B) patents or licenses that exclude others from producing a good or service.
 - C) many firms producing the good and thereby allowing choice for all consumers.
 - D) one firm owning a key natural resource.
 - E) anticompetitive practices by a firm that keep other firms from producing.
- 92) A monopoly 92) _____
- A) must determine the price it will charge.
 - B) cannot price discriminate because such a pricing strategy is illegal in the United States.
 - C) faces extensive competition from firms making close substitutes.
 - D) has no control over the price it must charge.
 - E) Both answers B and C are correct.

- 93) One of the requirements for a monopoly is that 93) _____
A) products are high priced.
B) there is a unique product with no close substitutes.
C) there are several close substitutes for the product.
D) there is no barrier to entry.
E) the product cannot be produced by small firms.
- 94) A monopoly is a market with 94) _____
A) no barriers to entry.
B) many substitutes.
C) one supplier.
D) many suppliers each producing an identical product.
E) many suppliers each producing a slightly different product.
- 95) Technology reduces the average cost of production, so in the long run 95) _____
i. perfectly competitive firms produce at a lower average cost.
ii. the market price of the good falls.
iii. firms with older plants either exit the market or adopt the new technology.
A) i and ii.
B) i only.
C) iii only.
D) i and iii.
E) i, ii, and iii.
- 96) When a firm adopts new technology, generally its 96) _____
A) cost curves are unaffected.
B) cost curves shift downward.
C) production permanently decreases.
D) supply curve shifts leftward.
E) cost curves shift upward.
- 97) Suppose a perfectly competitive market is in long-run equilibrium with a price of \$12. Then 97) _____
there is a permanent increase in demand. As a result, in the short run the market price _____
and in the long run the number of firms _____ and the price is _____ the price was in the
short run.
A) falls; decreases; is equal to
B) rises; does not change; lower than
C) rises; increases; higher than
D) rises; increases; lower than
E) rises; does not change; is equal to
- 98) Keith is a perfectly competitive carnation grower. The market price is \$2 per dozen carnations. 98) _____
Keith's average total cost to grow carnations is \$2.50 per dozen. In the long run, Keith will
A) continue to earn an economic profit.
B) raise his price to more than \$2.50 per dozen carnations.
C) raise his price to \$2.50 per dozen carnations.
D) exit the industry if the price and his costs do not change.
E) incur an economic loss.

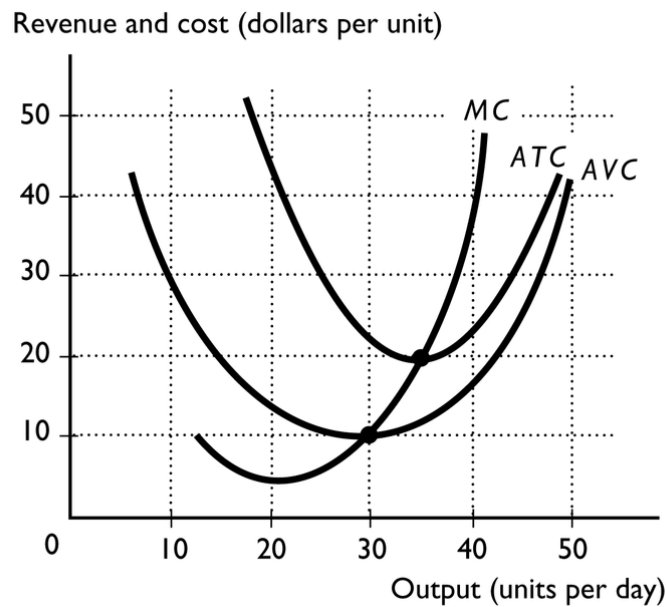
- 99) In the long run, existing firms exit a perfectly competitive market 99) _____
A) only if economic profits are zero.
B) only if they incur an economic loss.
C) if they earn a positive economic profit.
D) if they either earn only a normal profit or if they incur an economic loss.
E) if normal profits are greater than zero.
- 100) Suppose a perfectly competitive market is in short-run equilibrium. Firms that are incurring a _____ economic loss _____. 100) _____
A) persistent; exit the industry and shift the market supply curve rightward
B) temporary; decrease their production but definitely stay open
C) persistent; exit the industry and shift the market supply curve leftward
D) temporary; exit the industry
E) persistent; increase their output to increase their profit
- 101) Suppose a perfectly competitive market is in long-run equilibrium and then there is a permanent increase in the demand for that product. The new long-run equilibrium will have 101) _____
A) a permanent decrease in supply.
B) fewer firms in the market.
C) the same number of firms in the market.
D) probably a different number of firms, but it is not possible to determine if there will be more or fewer firms.
E) more firms in the market.
- 102) The cranberry market is perfectly competitive. Reports that consuming cranberries can lead to improved health result in a permanent increase in the demand for cranberries and an immediate upward jump in the price of cranberries. As time passes, the price of cranberries _____ and the initial firms' economic _____. 102) _____
A) rises still higher; loss will be eliminated
B) rises still higher; profit will not change
C) falls; profit will not change
D) falls; loss will be increased
E) falls; profit will be eliminated
- 103) In the long run, a perfectly competitive firm 103) _____
A) makes zero economic profit.
B) makes an economic profit.
C) can make an economic profit, zero economic profit, or incur an economic loss.
D) incurs an economic loss.
E) can make either an economic profit or a normal profit.
- 104) Juan's Software Service Company is in a perfectly competitive market. Juan has total fixed cost of \$25,000, average variable cost for 1,000 service calls is \$45, and marginal revenue is \$75. Juan's makes 1,000 service calls a month. What is his economic profit? 104) _____
A) \$25,000 B) \$45,000 C) \$75,000 D) \$5,000 E) \$50,000

105) A perfectly competitive firm definitely earns an economic profit in the short run if price is _____

A) equal to average total cost.
 B) greater than average total cost.
 C) greater than average variable cost.
 D) equal to marginal cost.
 E) greater than marginal cost.

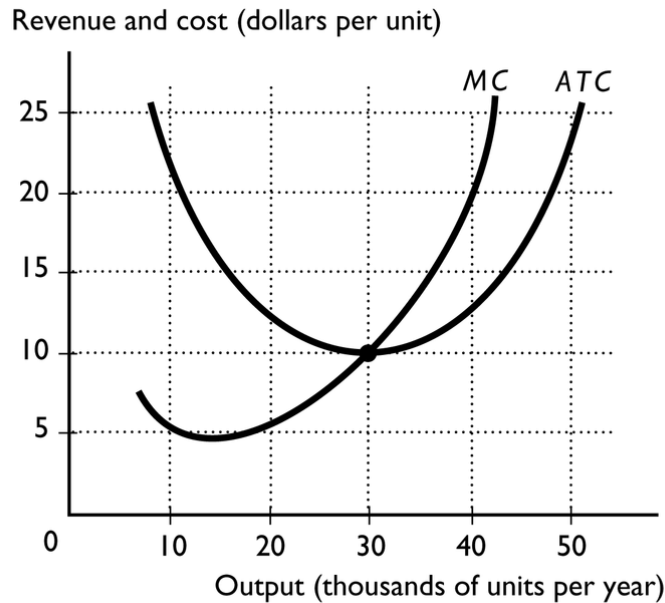
106) In the short run, a perfectly competitive firm _____

A) must make zero economic profit.
 B) must make an economic profit.
 C) None of the above answers is correct.
 D) must incur an economic loss.
 E) might make an economic profit, an economic loss, or a normal profit.



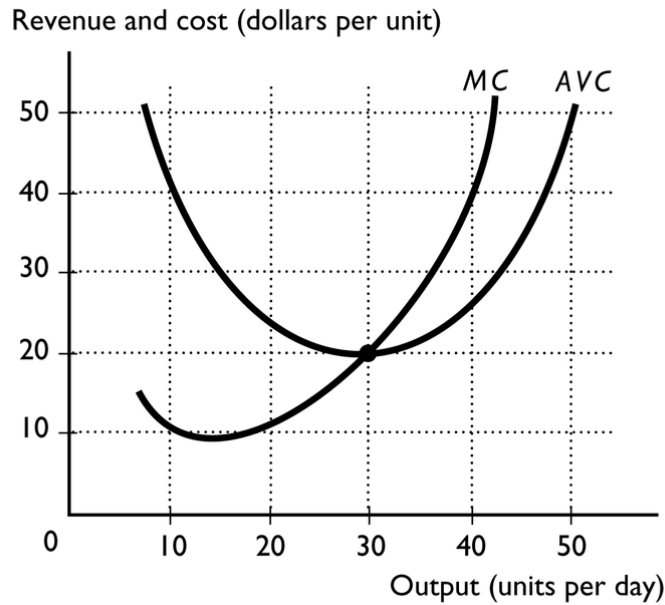
107) The above figure shows a perfectly competitive firm. If the market price is \$20 per unit, the firm _____

A) will stay open to produce and will earn a normal profit.
 B) will definitely shut down to minimize its losses.
 C) will stay open to produce and will incur an economic loss.
 D) might shut down but more information is needed about the fixed cost.
 E) will stay open to produce and will earn an economic profit.



- 108) The above figure shows a perfectly competitive firm. If the market price is \$15, the firm _____
- A) is earning an economic profit.
 B) is incurring an economic loss.
 C) is earning a normal profit.
 D) might shut down but more information is needed about the *AVC*.
 E) will immediately shut down.
- 109) A perfectly competitive firm is producing 50 units of output and selling at the market price of \$23. The firm's average total cost is \$20. What is the firm's total cost? _____
- A) \$20 B) \$150 C) \$23 D) \$1,000 E) \$1,150
- 110) Suppose that marginal revenue for a perfectly competitive firm is \$20 . When the firm produces 10 units, its marginal cost is \$20, its average total cost is \$22, and its average variable cost is \$17. Then to maximize its profit in the short run, the firm _____
- A) must decrease its output to increase its profit.
 B) should shut down.
 C) must increase its output to increase its profit.
 D) should not change its production because it is already maximizing its profit and is earning a normal profit.
 E) should stay open and incur an economic loss of \$20.
- 111) Peter's Pencils is a perfectly competitive company producing pencils. Suppose Peter is producing 1,000 pencils an hour. If the total cost of 1,000 pencils is \$500, the market price per pencil is \$2, and the marginal cost is \$2, then Peter _____
- A) has an economic profit because marginal revenue is equal to marginal cost at this output level.
 B) should decrease his output to increase his profit.
 C) is not maximizing his profit but is earning a normal profit anyway.
 D) should increase his output to increase his profit.
 E) is maximizing his profit and is earning an economic profit.

- 112) In the short run, a perfectly competitive firm can experience which of the following? 112) _____
- i. an economic profit
 - ii. an economic loss but it continues to stay open
 - iii. an economic loss equal to its total fixed cost when it shuts down
- A) i and ii
 - B) i, ii, and iii
 - C) i and iii
 - D) only i
 - E) ii and iii
- 113) For a perfectly competitive corn grower in Nebraska, the marginal revenue curve is 113) _____
- A) the same as its demand curve.
 - B) upward sloping.
 - C) downward sloping.
 - D) vertical at the profit maximizing quantity of production.
 - E) U-shaped.
- 114) Suppose a perfectly competitive firm's minimum average variable cost is \$3 when it produces 50. If the price is \$2 and the firm's marginal cost is \$2, the firm should 114) _____
- A) continue to produce 50.
 - B) continue to operate, but to determine the amount of production needs more information than is given.
 - C) continue to produce, but produce less than 50.
 - D) shut down.
 - E) continue to produce, but produce more than 50.
- 115) A perfectly competitive firm will continue to operate in the short run when the market price is below its average total cost if the 115) _____
- A) marginal cost is minimized.
 - B) price is at least equal to the minimum average variable cost.
 - C) price is also less than the minimum average variable cost.
 - D) marginal revenue is greater than marginal cost.
 - E) total fixed costs are less than total revenue.
- 116) A perfectly competitive firm will shutdown when the price is just below the minimum point on the 116) _____
- A) marginal revenue curve.
 - B) average fixed cost curve.
 - C) average total cost curve.
 - D) average variable cost curve.
 - E) marginal cost curve.



- 117) The above figure illustrates a perfectly competitive firm. If the market price is \$40 a unit, to maximize its profit (or minimize its loss) the firm should _____
- A) produce more than 10 and less than 30 units.
 - B) produce more than 30 units and less than 40 units..
 - C) produce 40 units.
 - D) shut down.
 - E) produce 30 units.
- 118) In a perfectly competitive industry, when a firm is producing so that its total revenue equals its total cost, the firm is _____
- A) definitely not maximizing its profit.
 - B) earning zero economic profit, that is, earning a normal profit.
 - C) incurring an economic loss.
 - D) earning an economic profit.
 - E) None of the above answers is correct because the relationship between total revenue and total cost has nothing to do with the firm's profit or loss.
- 119) For a perfectly competitive firm, marginal revenue is _____
- A) equal to the change in profit from selling one more unit.
 - B) less than the price.
 - C) equal to the price.
 - D) undefined because the firm's demand curve is horizontal.
 - E) greater than the price.

- 120) If the market price of a product is \$14 and all sellers are price takers, then which of the following is correct? 120) _____
- A) Each seller can earn more total revenue by raising the price he or she charges above \$14.
 - B) The demand curve for each seller's product is a downward-sloping straight line.
 - C) Each seller's total revenue is graphed as an upside-down U-shaped curve.
 - D) The demand curve for each seller's product is a downward-sloping but not necessarily a straight line.
 - E) Each seller's total revenue line is graphed as an upward-sloping straight line.
- 121) For the perfectly competitive broccoli producers in California, the *market* demand curve for broccoli is 121) _____
- A) a horizontal line.
 - B) nonexistent.
 - C) downward sloping.
 - D) the same as the demand curve each firm faces.
 - E) upward sloping.

Answer Key

Testname: S12_103_FINAL_MC_REVIEW

- 1) D
- 2) A
- 3) A
- 4) C
- 5) D
- 6) E
- 7) D
- 8) D
- 9) D
- 10) C
- 11) D
- 12) C
- 13) A
- 14) C
- 15) C
- 16) A
- 17) C
- 18) E
- 19) B
- 20) E
- 21) A
- 22) A
- 23) B
- 24) E
- 25) C
- 26) E
- 27) B
- 28) E
- 29) D
- 30) A
- 31) D
- 32) E
- 33) A
- 34) E
- 35) C
- 36) C
- 37) C
- 38) B
- 39) C
- 40) C
- 41) A
- 42) C
- 43) B
- 44) A
- 45) E
- 46) D
- 47) D
- 48) D
- 49) A

Answer Key

Testname: S12_103_FINAL_MC_REVIEW

- 50) E
- 51) D
- 52) E
- 53) E
- 54) C
- 55) B
- 56) A
- 57) C
- 58) C
- 59) D
- 60) D
- 61) E
- 62) C
- 63) D
- 64) B
- 65) D
- 66) A
- 67) A
- 68) C
- 69) C
- 70) C
- 71) A
- 72) E
- 73) C
- 74) E
- 75) A
- 76) B
- 77) D
- 78) C
- 79) B
- 80) A
- 81) D
- 82) D
- 83) B
- 84) D
- 85) A
- 86) C
- 87) C
- 88) E
- 89) E
- 90) B
- 91) A
- 92) A
- 93) B
- 94) C
- 95) E
- 96) B
- 97) D
- 98) D

Answer Key

Testname: S12_103_FINAL_MC_REVIEW

- 99) B
- 100) C
- 101) E
- 102) E
- 103) A
- 104) D
- 105) B
- 106) E
- 107) A
- 108) A
- 109) D
- 110) E
- 111) E
- 112) B
- 113) A
- 114) D
- 115) B
- 116) D
- 117) C
- 118) B
- 119) C
- 120) E
- 121) C