Name [redacted]

Economics 132 Answer Sheet

Either Answer all the Multiple Choice Questions or All the Essay Questions

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

+46

Essay Questions 5 points each Name____

1. In what ways, if any, do the demand schedules for a purely competitive firm and a pure monopolist differ? What significance does this have for the price-output behavior of each?

2..What conditions must exist in order for a pure monopolist to achieve economic profits? Is the profitability of a firm's operation a good index of the degree of monopoly power it possesses?

3.Do you agree or disagree with the statement that: "A monopolist always charges the highest possible price." Explain.

4.How does monopoly compare with pure competition in terms of price, output, and efficiency?

5.Explain the relationship between the price elasticity of demand and price discrimination. Give two examples.

6..How does economic rivalry take place in monopolistic competition? Describe the different aspects of product differentiation and price competition.

7. Describe how and why Graceland University engages in price discrimination.

8. Why don't oligopolies end up behaving like monopolies.

9. Describe the relationship between barriers to entry and long run economic profit.

10. Why do prices tend to be more inflexible in oligopolies than in other market structure?

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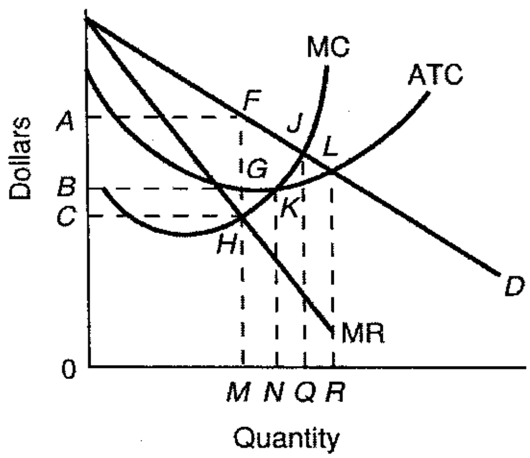
1. Pure monopolists may earn economic profits in the long run because:
   A) of advertising.
   B) of rising average fixed costs.
   C) marginal revenue is constant as sales increase.
   D) of barriers to entry.

Use the following to answer questions 2-6:



2. Refer to the above diagram for a nondiscriminating monopolist. The profit-maximizing output for this firm is *M*. A) True B) False

3. Refer to the above diagram for a nondiscriminating monopolist. At the profit-maximizing output the firm's economic profit will be *BAFG*. A) True B) False

4. Refer to the above diagram for a nondiscriminating monopolist. At output *R* economic profits will be zero. A) True B) False

5. Refer to the above diagram for a nondiscriminating monopolist. At output *Q* production will be unprofitable. A) True B) False

6. Refer to the above diagram for a nondiscriminating monopolist. The profit-maximizing price for this firm is *J*. A) True B) False

7. A pure monopolist will maximize profits by producing at that output where price and marginal cost are equal. A) True B) False

8. In the short run a pure monopolist will charge the highest price the market will bear for its product. A) True B) False

9. Pure monopolists always earn economic profits. A) True B) False

10. Because of the ability to influence price, a pure monopolist can increase price and increase volume of sales simultaneously. A) True B) False

Use the following to answer questions 11-13:

Answer the next question(s) on the basis of the following demand and cost data for a pure monopolist:

Demand Data		**Cost Data**				
Price	**Quantity demanded**	**Output**	**Total cost**	TR	MR	MC
$5.50	3	3	$ 5	16.5		
5.00	4	4	6	20	3.5	1
4.50	5	5	6.50	22.5	2.5	.50
3.85	6	6	7.50	23.1	.6	1
3.35	7	7	9	23.45	.35	1.5
2.90	8	8	11	23.2	-.25	2
2.50	9	9	14	22.5	-.7	3

11. Refer to the above data. Equilibrium price for the monopolist will be:
    A) $5.00. B) $3.35. C) $4.50. D) $2.90.

12. Refer to the above data. The equilibrium level of output will be:
    A) 6 units. B) 5 units. C) 4 units. D) 7 units.

13. Refer to the above data. The monopolist will realize a:
    A) loss of $14. B) profit of $7.50. C) profit of $16. D) profit of $8.50.

14. In the short run a pure monopolist's profit:
    A) may be positive, zero, or negative.
    B) will be zero.
    C) are always positive.
    D) will be maximized where price equals average total cost.

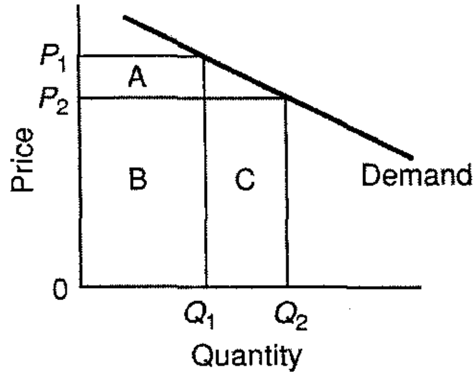
15. If a monopolist engages in price discrimination, we can expect:
    A) profits to increase and output to fall.
    B) the demand curve to lie below the marginal revenue curve.
    C) both profits and output to increase.
    D) both profits and output to decrease.

16. Which of the following is *not* a precondition for price discrimination?
    A) The good or service cannot be resold by original buyers.
    B) The seller must possess some degree of monopoly power.
    C) The seller must be able to segment the market, that is, to distinguish buyers with different elasticities of demand.
    D) The commodity involved must be a durable good.

17. A perfectly discriminating pure monopolist will charge each buyer:
    A) the maximum price each would be willing to pay.
    B) that price which equals the buyer's marginal cost.
    C) different prices to compensate for differences in the characteristics of the product.
    D) the same price if per unit cost is constant for each unit of the product.

18. Which of the following approximates a pure monopoly?
    A) the foreign exchange market
    B) the soft drink market
    C) the Kansas City wheat market
    D) the diamond market

Use the following to answer questions 19-20:



19. Refer to the above diagram. If price is reduced from P_1 to P_2, total revenue will:
 A) increase by A minus C.
 B) decrease by C minus A.
 C) decrease by A minus C.
 D) increase by C minus A.

20. Refer to the above diagram. The quantity difference between areas A and C for the indicated price reduction measures:
 A) marginal cost. B) a welfare or efficiency loss. C) monopoly price. D) marginal revenue.

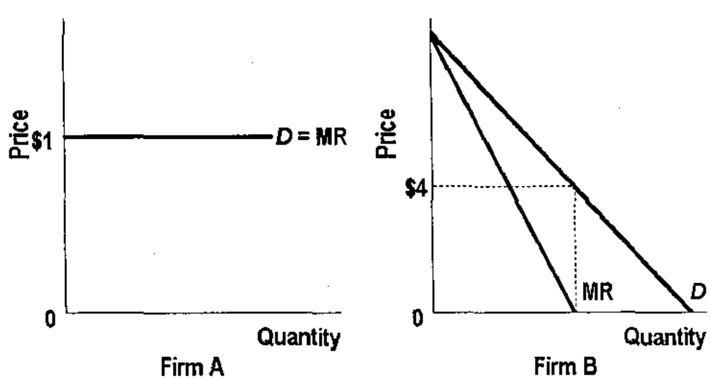
Use the following to answer question 21:

Answer the next question(s) on the basis of the demand schedule shown below:

Price	Quantity demanded
$7	1
6	2
5	3
4	4
3	5

21. Refer to the above data. The marginal revenue obtained from selling the third unit of output is:
 A) $1. B) $5. C) $3. D) $6.

Use the following to answer questions 22-23:



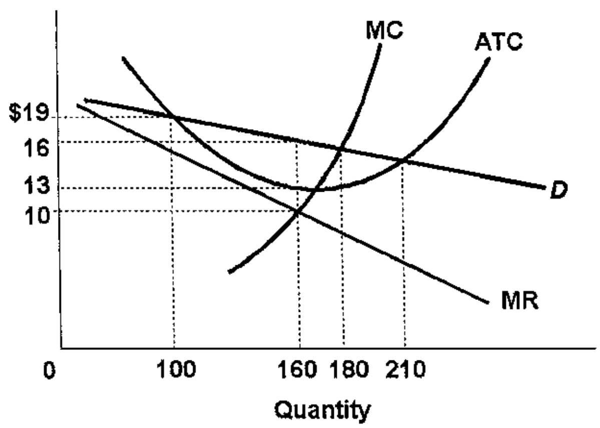
22. Refer to the above diagrams. Both firms are selling their products in purely competitive markets. A) True B) False

23. Refer to the above diagrams. The demand for Firm A's product is perfectly elastic. A) True B) False

24. If a regulatory commission wants to provide a natural monopoly with a fair return, it should establish a price that is equal to:
A) minimum average fixed cost. B) marginal revenue. C) average total cost. D) marginal cost.

25. In equilibrium which of the following conditions are common to both unregulated monopoly and to pure competition?
A) MR = MC B) MC = P C) P = MR D) MC = ATC

Use the following to answer questions 26-28:



26. Refer to the above diagram for a monopolistically competitive firm in short-run equilibrium. This firm's profit-maximizing price will be:
A) $19. B) $16. C) $10. D) $13.

27. Refer to the above diagram for a monopolistically competitive firm in short-run equilibrium. The profit-maximizing output for this firm will be:
A) 180. B) 100. C) 210. D) 160.

28. Refer to the above diagram for a monopolistically competitive firm in short-run equilibrium. This firm will realize an economic:
A) profit of $480. B) loss of $320. C) profit of $600. D) profit of $360. E) loss of $280.

29. In the long run, new firms will enter a monopolistically competitive industry:
A) even though losses are incurred in the short run.
B) until economic profits are zero.
C) provided economies of scale are being realized.
D) until minimum average total cost is achieved.

Use the following to answer questions 30-32:

Y's prices

X \ Y	$6	$5	$4
X's prices $7	16 \ 12	15 \ 14	13 \ 15
$6	19 \ 9	16 \ 11	14 \ 13
$5	18 \ 7	17 \ 9	15 \ 10

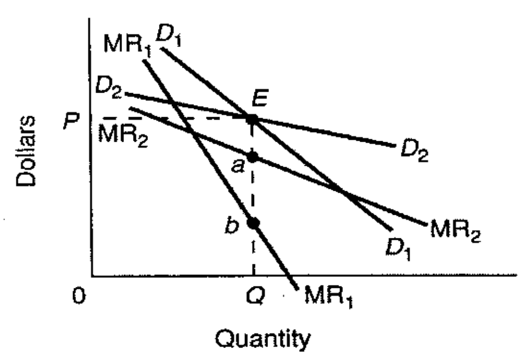
30. Refer to the above profits-payoff table for a duopoly. If the firms are acting independently and firm X sets its price at $6, firm Y will achieve the largest profit by selecting:
A) $6. B) $4. C) a price between $5 and $6. D) a price higher than $6.

31. Refer to the above profits-payoff table for a duopoly. If initially firms X and Y are charging $5 and $4 respectively:
A) X will find it advantageous to raise its price if it was certain Y would not alter its price.
B) both firms would find it advantageous to collude to raise their prices by $1 each.
C) Y will find it advantageous to raise its price if it was certain X would not alter its price.
D) the two firms will be maximizing joint profits.

32. Refer to the above profits-payoff table for a duopoly. If initially firm X's price was $6 and Y's price was $5:
A) Y would find it profitable to raise price by $1, provided X would also raise price by $1.
B) Y would find it profitable to cut price, provided X also cut price.
C) both firms would profit by simultaneously lowering their prices by $1.
D) X would find it profitable to cut price, provided Y also cut price.

33. The kinked-demand curve model of oligopoly:
A) assumes a firm's rivals will ignore a price cut but match a price increase.
B) embodies the possibility that changes in unit costs will have no effect on equilibrium price and output.
C) assumes a firm's rivals will ignore any price change it may initiate.
D) assumes a firm's rivals will match any price change it may initiate.

Use the following to answer questions 34-35:



34. Refer to the above diagram for a noncollusive oligopolist. Suppose that the firm is initially in equilibrium at point E where the equilibrium price and quantity are P and Q. Which of the following statements is correct?
A) Demand curves D_1 and D_2 both assume that rivals will ignore any price change initiated by this oligopolist.
B) Demand curves D_1 and D_2 both assume that rivals will match any price change initiated by this oligopolist.
C) Demand curve D_2 assumes that rivals will match any price change initiated by this oligopolist.
D) Demand curve D_1 assumes that rivals will match any price change initiated by this oligopolist.

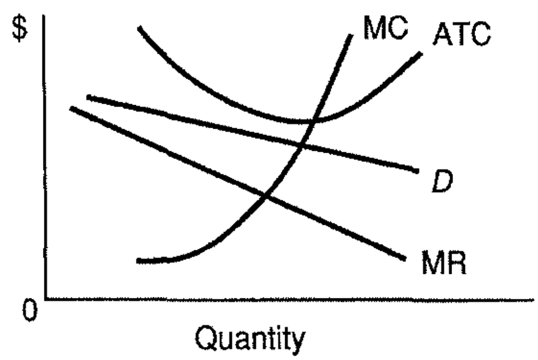
35. Refer to the above diagram for a noncollusive oligopolist. We assume that the firm is initially in equilibrium at point E where the equilibrium price and quantity are P and Q. If the firm's rivals will ignore any price increase but match any price reduction, over what range might marginal cost rise without disturbing equilibrium price and output?
A) ab B) Qb C) Qa D) bE

36. Oligopolistic firms engage in collusion to:
A) earn greater profits.
B) realize allocative efficiency, that is, the $P = \text{MC}$ level of output.
C) increase production.
D) minimize unit costs of production.

37. Cartels are difficult to maintain in the long run because:
A) individual members may find it profitable to cheat on agreements.
B) entry barriers are insignificant in oligopolistic industries.
C) they are illegal in all industrialized countries.
D) it is more profitable for the industry to charge a lower price and produce more output.

38. If the firms in an oligopolistic industry can establish an effective cartel, the resulting output and price will approximate those of:
A) a monopolistically competitive producer.
B) a pure monopoly.
C) an industry with a low four-firm concentration ratio.
D) a purely competitive producer.

39.



The monopolistically competitive firm shown in the above figure:
A) is in long-run equilibrium.
B) might realize an economic profit or a loss, depending on its choice of output level.
C) cannot operate profitably, at least in the short run.
D) can realize an economic profit.

40. Long-run equilibrium for a monopolistically competitive firm where economic profits are zero results from:
A) product differentiation and development.
B) rising marginal costs.
C) a perfectly elastic product demand curve.
D) relatively easy entry.

41. The monopolistically competitive seller maximizes profits by equating price and marginal cost. A) True B) False

42. The larger the number of firms and the less the degree of product differentiation, the greater will be the elasticity of a monopolistically competitive seller's demand curve. A) True B) False

43. Generally speaking, the larger the number of firms in an oligopolistic industry, the more difficult it is for those firms to collude. A) True B) False

44. Product differentiation is present in:
A) oligopolistic markets only.
B) purely competitive markets only.
C) both monopolistically competitive and oligopolistic markets.
D) monopolistically competitive markets only.

45. In which of the following industry structures is the entry of new firms the most difficult?
A) pure monopoly B) monopolistic competition C) pure competition D) oligopoly

46. An industry comprised of four firms, each with approximately 25 percent of the total market for a product, is an example of:
A) monopolistic competition B) pure monopoly C) pure competition D) oligopoly

47. An industry comprised of a very large number of sellers that are producing a homogeneous or standardized product is called:
A) monopolistic competition B) oligopoly C) pure competition D) pure monopoly

48. An industry comprised of a small number of firms, each of which considers the potential reactions of its rivals in making price-output decisions is called:
A) pure competition B) oligopoly C) pure monopoly D) monopolistic competition

49. In which of the following market models do individual firms exert no control over product price?
A) monopolistic competition B) pure competition C) pure monopoly D) oligopoly

50. Which of the following correctly arrays the various market structures in terms of their similarities to one another?
A) pure competition, oligopoly, monopolistic competition, pure monopoly
B) pure competition, pure monopoly, monopolistic competition, oligopoly
C) pure competition, oligopoly, pure monopoly, monopolistic competition
D) pure monopoly, oligopoly, monopolistic competition, pure competition

Use the following to answer questions 51-53:

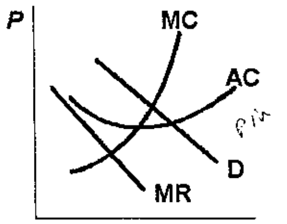


Figure A

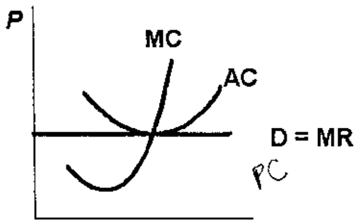


Figure B

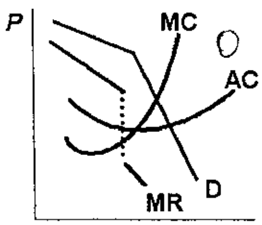


Figure C

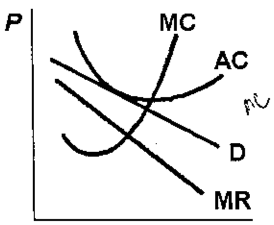


Figure D

51. The purely competitive market model is portrayed in the above figures by:
A) Figure A. B) Figure B. C) both Figures B and D. D) Figure C.

52. Refer to the above figures. We would expect industry entry and exit to be relatively easy in:
A) Figure A only. B) Figure C only. C) both Figures A and C. D) both Figures B and D.

53. Refer to the above figures. Long-run economic profits are most likely to occur in:
A) Figures A and B. B) Figure B only. C) Figure D. D) Figures A and C.

54. If some firms leave a monopolistically competitive industry, the demand curves of the remaining firms will:
A) become more elastic. B) shift to the right. C) be unaffected. D) shift to the left.