

## CHAPTER 10

# Competition Policy and Regulation

Topic	Question numbers
10.1 Industrial concentration	1-36
Competition policy	1-7
Merger types	8-24
Competition law	25-30
Merger guidelines	31-36
10.2 Industrial regulation	37-57
Natural monopoly	37-47
Problems with industrial regulation	48-54
Legal cartel theory	55
Deregulation	56-57
10.3 Social regulation	58-73
Distinguishing features	58-64
The optimal level of social regulation	65-71
Two reminders	72
Less government is not always better than more	73
The last word	74-75
True-false questions	76-92

## Chapter 10 Competition Policy and Regulation

1. Industrial concentration is said to exist whenever:

- A) firms in an industry receive above-normal profits in the short run.
- B) a single firm or a small number of firms control all, or a major portion of, the output of a particular industry.
- C) a unique product is produced by a single firm.
- D) the product price in an industry exceeds marginal cost in the long run.

Ans: B Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: The competition policy Type: Definition

2. One defence of industrial concentration is the contention that:

- A) large market shares and high profits result from superior products.
- B) monopolies and oligopolies often pay higher than market wage rates.
- C) monopolists and oligopolists can force resource suppliers to supply inputs at lower-than-competitive prices.
- D) the prices that monopolists and oligopolists charge tend to equal average cost in the long run.

Ans: A Level: Moderate Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: The competition policy Type: Application

3. Industrial concentration:

- A) may understate the degree of competition because of inter-industry competition, foreign competition, and potential competition.
- B) has resulted entirely from economies of scale.
- C) has made the distribution of income less unequal.
- D) has largely eliminated economic profits.

Ans: A Level: Moderate Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: The competition policy Type: Application

4. The main purpose of the competition policy is:

- A) to encourage firms to produce where  $P > MC$ .
- B) the elimination of both negative and positive externalities.
- C) to prevent the monopolization of industries.
- D) to regulate natural monopolies.

Ans: C Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: The competition policy Type: Application

## Chapter 10 Competition Policy and Regulation

5. Which is generally considered to be true of large business firms having monopoly power?
- A) Society's resources are allocated more efficiently with such firms than with small firms.
  - B) The existence of such firms leads to a more equal distribution of income.
  - C) Such firms often experience substantial economies of scale where existing technology is highly advanced.
  - D) By supporting lobbyists and politicians with many different viewpoints, such firms make possible a wider diffusion of political power.

Ans: C Level: Moderate Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: The competition policy Type: Application

6. The market system often does not function competitively because:
- A) market failures arise from the production of public goods.
  - B) a few large firms dominate major industries.
  - C) technological advance is limited.
  - D) capital accumulation is slow.

Ans: B Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: The competition policy Type: Application

7. The major problem with an unregulated monopoly is that the monopolist will produce:
- A) less output and sell at a higher price than would be the case in pure competition.
  - B) more output and sell at a higher price than would be the case in pure competition.
  - C) more output and sell at a lower price than would be the case in pure competition.
  - D) less output and sell at a lower price than would be the case in pure competition.

Ans: A Level: Moderate Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: The competition policy Type: Application

8. The merger of a manufacturing firm in one industry with another manufacturing firm in the same industry is called a:
- A) horizontal merger.
  - B) vertical merger.
  - C) secondary merger.
  - D) conglomerate merger.

Ans: A Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Definition

## Chapter 10 Competition Policy and Regulation

9. The merger of a firm in one industry with a firm in the same industry that sells similar products is called a:
- A) vertical merger.
  - B) secondary merger.
  - C) horizontal merger.
  - D) conglomerate merger.

Ans: C Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Definition

10. A merger between McDonald's and Burger King would be an example of a:
- A) conglomerate merger.
  - B) horizontal merger.
  - C) vertical merger.
  - D) parallel merger.

Ans: B Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Application

11. An example of a horizontal merger is one between an airline and:
- A) a chain of hotels.
  - B) another airline.
  - C) an aluminum company.
  - D) a car rental company.

Ans: B Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Application

12. A vertical merger involves a combining of one or more firms:
- A) as the result of one firm purchasing the assets of the other.
  - B) that are operating in entirely different industries.
  - C) operating at different stages of the production process in a given industry.
  - D) operating at the same stage of the production process.

Ans: C Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Definition

## Chapter 10 Competition Policy and Regulation

13. A merger between an automobile manufacturer and a maker of automobile tires is an example of a:

A) conglomerate merger.  
B) horizontal merger.  
C) vertical merger.  
D) tying contract.

Ans: C Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Application

14. Refer to the table below. A merger between Firms 2 and 3 in Alpha would be a:

The following table shows market shares of firms in hypothetical industries. Assume these distinct industries with no buyer-seller relationships or competition among them.

Market share of firms in industry

<u>Industry</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
Alpha	30	30	20	20	--	--
Beta	80	10	5	3	1	1
Cappa	25	25	25	25	--	--
Delta	20	20	20	20	10	10

A) vertical merger.  
B) horizontal merger.  
C) diagonal merger.  
D) conglomerate merger.

Ans: B Level: Moderate Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Application

15. A merger between one firm and another firm that is its supplier is known as a:

A) horizontal merger.  
B) parallel merger.  
C) conglomerate merger.  
D) vertical merger.

Ans: D Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Definition

## Chapter 10 Competition Policy and Regulation

16. If Tyson Corporation, a firm that grows and processes chickens, combines with Kentucky Fried Chicken, the resulting merger would be an example of a:
- A) horizontal merger.
  - B) geographic merger.
  - C) vertical merger.
  - D) conglomerate merger.

Ans: C Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Application

17. "Vertical integration" refers to mergers between firms:
- A) making unrelated types of products.
  - B) at the same stage of production of the same end product.
  - C) at the same stage of production of different end products.
  - D) at different stages of production of the same end product.

Ans: D Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Definition

18. Conglomerate mergers are combinations of:
- A) many small firms.
  - B) firms producing the same product.
  - C) firms producing unrelated products.
  - D) firms operating at different stages in a given production process.

Ans: C Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Definition

19. When one firm acquires another firm engaged in a different industry, this is known as a:
- A) vertical merger.
  - B) conglomerate merger.
  - C) horizontal merger.
  - D) violation of the law.

Ans: B Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Definition

20. Conglomerate mergers are combinations of:
- A) many small firms.
  - B) firms producing the same product.
  - C) firms producing unrelated products.
  - D) firms operating at different stages in a given production process.

Ans: C Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Definition

## Chapter 10 Competition Policy and Regulation

21. One of the main causes of industrial concentration is:

- A) to reduce the concentration ratio.
- B) merger of the firms.
- C) to create more competition.
- D) to prevent monopoly power.

Ans: B Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Definition

22. A merger of several firms operating in different industries--for example, a trucking company, a fast-food chain, and a brokerage house--is called:

- A) an integrated merger.
- B) a conglomerate merger.
- C) a vertical merger.
- D) a horizontal merger.

Ans: B Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Definition

23. A merger between a maker of household detergents and a fast food chain would be an example of:

- A) a horizontal merger.
- B) an interlocking directorate.
- C) a conglomerate merger.
- D) a tying contract.

Ans: C Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Application

## Chapter 10 Competition Policy and Regulation

24. Refer to the table below. A merger between Firm 1 in Alpha and Firm 2 in Delta would be a:

The following table shows market shares of firms in hypothetical industries. Assume these distinct industries with no buyer-seller relationships or competition among them.

Market share of firms in industry

Industry	1	2	3	4	5	6
Alpha	30	30	20	20	--	--
Beta	80	10	5	3	1	1
Cappa	25	25	25	25	--	--
Delta	20	20	20	20	10	10

- A) vertical merger.
- B) horizontal merger.
- C) conglomerate merger.
- D) diagonal merger.

Ans: C Level: Moderate Main Topic: 10.1 Industrial concentration Page: 254  
Subtopic: Merger types Type: Application

25. The basic purpose of competition law is to:
- A) achieve subsidies for American business.
  - B) limit monopoly power in industry.
  - C) control prices to protect consumers.
  - D) enforce laws that restrict competition.

Ans: B Level: Easy Main Topic: 10.1 Industrial concentration Page: 255  
Subtopic: The competition law Type: Definition

26. Which type of merger is most likely to be the focus of competition law scrutiny and enforcement?
- A) conglomerate
  - B) horizontal
  - C) vertical
  - D) natural

Ans: B Level: Easy Main Topic: 10.1 Industrial concentration Page: 255  
Subtopic: The competition law Type: Application



## Chapter 10 Competition Policy and Regulation

27. Which has tended to reduce the importance of competition law?

- A) industrial policy
- B) the break-up of Bell Canada
- C) the rule of reason decision
- D) global competition in markets

Ans: D Level: Easy Main Topic: 10.1 Industrial concentration Page: 255  
Subtopic: The competition law Type: Calculation

28. Laws and government actions designed to prevent monopoly and promote competition are the focus of:

- A) social regulation.
- B) industrial regulation.
- C) competition policy.
- D) incomes policy.

Ans: C Level: Easy Main Topic: 10.1 Industrial concentration Page: 255  
Subtopic: The competition law Type: Definition

29. Patent laws are controversial because:

- A) they are in legal conflict with the provisions of competition law.
- B) they are at the core of the problem of whether monopoly is based upon industry structure or behaviour.
- C) while patents encourage innovation, they are also a source of monopoly power.
- D) any firm whose monopoly power is based upon patents is automatically exempt from the competition policy.

Ans: C Level: Moderate Main Topic: 10.1 Industrial concentration Page: 255  
Subtopic: The competition law Type: Application

30. The price fixing charges in Canada are handled under:

- A) civil law.
- B) criminal law.
- C) business law.
- D) combination of civil law and business law.

Ans: B Level: Easy Main Topic: 10.1 Industrial concentration Page: 255  
Subtopic: The competition law Type: Application

## Chapter 10 Competition Policy and Regulation

31. In 1999, Canadian government allowed Air Canada to acquire Canadian Airlines. One of the main reasons for this permission was that:
- A) Air Canada had a better international recognition.
  - B) a horizontal merger is usually allowed if one of the merging firms is suffering major continuing losses.
  - C) it was a vertical merger and these mergers are allowed in Canada.
  - D) Canadian Airline was enjoying a high profit while Air Canada was experiencing huge losses.

Ans: B Level: Moderate Main Topic: 10.1 Industrial concentration Page: 255  
Subtopic: Merger guidelines Type: Application

32. A tying contract is:
- A) a requirement for buyer and seller to involve a third party in the transaction.
  - B) a requirement for the merger of buyer and seller.
  - C) a requirement imposed by a seller that a buyer purchase another of its products as a condition for buying a desired product.
  - D) a requirement imposed by a seller that a buyer purchase all of its products as a condition for buying a desired product.

Ans: C Level: Moderate Main Topic: 10.1 Industrial concentration Page: 255  
Subtopic: Merger guidelines Type: Definition

33. Price discrimination is a common business practice and is rarely challenged by the Competition Tribunal. The exception to this occurs when:
- A) a horizontal merger takes place.
  - B) a vertical merger takes place.
  - C) market power is weak.
  - D) a firm engages in price discrimination as part of a strategy to block entry or drive out competitors.

Ans: D Level: Moderate Main Topic: 10.1 Industrial concentration Page: 255  
Subtopic: Merger guidelines Type: Application

34. The federal government has established a guideline regarding mergers. According to this guideline:
- A) conglomerate mergers are not permitted since such mergers increases the market shares.
  - B) horizontal mergers are allowed since such mergers do not increase the market shares.
  - C) conglomerate mergers are generally permitted while horizontal mergers are not.
  - D) only vertical mergers are permitted.

Ans: C Level: Easy Main Topic: 10.1 Industrial concentration Page: 255  
Subtopic: Merger guidelines Type: Application

## Chapter 10 Competition Policy and Regulation

35. Which of the following is most likely to be in conflict with strict enforcement of competition policy?
- A) promoting exports
  - B) reducing poverty
  - C) reducing farm surpluses
  - D) reducing inflation

Ans: A Level: Easy Main Topic: 10.1 Industrial concentration Page: 256-257  
Subtopic: Merger guidelines Type: Application

36. The enforcement of competition laws is more difficult and subject to controversy in case of:
- A) agriculture industry.
  - B) oil industry.
  - C) food industry.
  - D) computer and communication industry.

Ans: D Level: Easy Main Topic: 10.1 Industrial concentration Page: 256-257  
Subtopic: Merger guidelines Type: Application

37. A firm is likely to be a natural monopoly:
- A) when the demand for its product or service is inelastic.
  - B) if it is producing an inferior good.
  - C) if economies of scale are experienced over the full range of output.
  - D) because government grants it an exclusive franchise.

Ans: C Level: Easy Main Topic: 10.2 Industrial regulation Page: 257  
Subtopic: Natural monopoly Type: Definition

38. The condition where a single firm can supply an entire market at a lower unit cost than could a number of competing firms defines a:
- A) dominant firm oligopoly.
  - B) natural monopoly.
  - C) structured market.
  - D) trust.

Ans: B Level: Easy Main Topic: 10.2 Industrial regulation Page: 257  
Subtopic: Natural monopoly Type: Definition

## Chapter 10 Competition Policy and Regulation

39. If economies of scale in an industry are so extensive that a single firm can supply the entire market at lower unit cost than could a number of competing firms, this industry is called a(n):
- A) conglomerate.
  - B) natural monopoly.
  - C) oligopoly.
  - D) restraint of trade.

Ans: B Level: Easy Main Topic: 10.2 Industrial regulation Page: 257  
Subtopic: Natural monopoly Type: Definition

40. Generally speaking, if a firm faces decreasing average total costs of production throughout its range of output, then:
- A) more firms will enter the market.
  - B) it will be unable to remain in business.
  - C) the firm is a natural monopoly.
  - D) the firm is able to earn only a normal profit.

Ans: C Level: Easy Main Topic: 10.2 Industrial regulation Page: 257  
Subtopic: Natural monopoly Type: Definition

41. A market in which a single seller is required for efficient production is called a(n):
- A) regulated industry.
  - B) natural monopoly.
  - C) oligopoly.
  - D) competitive market.

Ans: B Level: Easy Main Topic: 10.2 Industrial regulation Page: 257  
Subtopic: Natural monopoly Type: Definition

42. What is a major characteristic of a natural monopoly?
- A) the firm is a single seller of a resource.
  - B) its sets price equal to marginal revenue.
  - C) there is extensive product advertising.
  - D) there is a large range for economies of scale.

Ans: D Level: Moderate Main Topic: 10.2 Industrial regulation Page: 257  
Subtopic: Natural monopoly Type: Application

## Chapter 10 Competition Policy and Regulation

43. Which is most likely to be a natural monopoly?

- A) aircraft manufacturing
- B) auto production
- C) electricity company
- D) steel companies

Ans: C Level: Easy Main Topic: 10.2 Industrial regulation Page: 257  
Subtopic: Natural monopoly Type: Application

44. What is most likely to happen as the output of a natural monopoly increases over the range of market demand?

- A) there is a small decrease in average total cost and then it increases as output increases.
- B) there is an increase in average total cost and then it decreases as output increases.
- C) average total cost increases as output increases.
- D) average total cost decreases as output increases.

Ans: D Level: Moderate Main Topic: 10.2 Industrial regulation Page: 257  
Subtopic: Natural monopoly Type: Application

45. Legislation designed to regulate natural monopolies would be based on which theory of regulation?

- A) social theory of regulation.
- B) legal cartel.
- C) public interest theory of regulation.
- D) price fixing.

Ans: C Level: Easy Main Topic: 10.2 Industrial regulation Page: 258  
Subtopic: Natural monopoly Type: Application

46. The public interest theory of regulation:

- A) says that industries should be regulated to insure quality service at reasonable prices.
- B) says higher costs may not be passed through to consumers.
- C) protects industries from new competition.
- D) guarantees higher rates for natural monopolies.

Ans: A Level: Easy Main Topic: 10.2 Industrial regulation Page: 258  
Subtopic: Natural monopoly Type: Definition

## Chapter 10 Competition Policy and Regulation

47. The theory of regulation designed to deal with "natural monopolies" is called:

- A) legal cartel theory.
- B) public interest theory.
- C) potential competition theory.
- D) social regulation theory.

Ans: B Level: Moderate Main Topic: 10.2 Industrial regulation Page: 258  
Subtopic: Natural monopoly Type: Definition

48. The effectiveness of regulation is sometimes criticized because:

- A) regulators try to please everybody.
- B) of the high profits in regulated industries.
- C) regulators don't know how to regulate industries.
- D) regulators usually have been associated with the industries they regulate.

Ans: D Level: Easy Main Topic: 10.2 Industrial regulation Page: 258  
Subtopic: Problems with industrial regulation Type: Application

49. Industrial policy comprises:

- A) anti-combines, industrial regulation, and social regulation.
- B) industrial regulation and social regulation only.
- C) government actions promoting the economic growth of key industries or firms.
- D) attempts by natural monopolists to restrict output and raise price.

Ans: C Level: Moderate Main Topic: 10.2 Industrial regulation Page: 258  
Subtopic: Problems with industrial regulation Type: Definition

50. Which of the following statements best describes the concept of an industrial policy?

- A) use low-interest loans, loan guarantees, special tax treatment, and foreign trade protection to strengthen certain Canadian industries.
- B) concentrate on anti-combines enforcement and free-trade to strengthen competition.
- C) provide tuition and living expense allowances to students for vocational and college education.
- D) leave the development of high-tech industries to Germany and Japan and concentrate on service industries in Canada.

Ans: A Level: Moderate Main Topic: 10.2 Industrial regulation Page: 258  
Subtopic: Problems with industrial regulation Type: Definition

## Chapter 10 Competition Policy and Regulation

51. Industrial policy:

- A) applies to nearly all firms in the economy while industrial regulation applies to only a few.
- B) is generally opposed by the affected firms while industrial regulation is usually welcomed.
- C) promotes profitability of selected industries or firms while industrial regulation generally reduces the firms' revenues or increases their costs.
- D) has lost favour the past two decades while industrial regulation has been expanded to several new industries.

Ans: C Level: Moderate Main Topic: 10.2 Industrial regulation Page: 258  
Subtopic: Problems with industrial regulation Type: Application

52. Government's announced participation with General Motors, Ford, and Chrysler to develop a highly fuel-efficient gasoline engine is an example of:

- A) social regulation.
- B) competition policy.
- C) industrial regulation.
- D) industrial policy.

Ans: D Level: Easy Main Topic: 10.2 Industrial regulation Page: 258  
Subtopic: Problems with industrial regulation Type: Application

53. The principal objective of industrial regulation is to:

- A) increase product safety.
- B) promote improvements in the quality of life.
- C) protect the public from the market power of natural monopolies.
- D) solve problems associated with industry such as the problems of water and air pollution.

Ans: C Level: Easy Main Topic: 10.2 Industrial regulation Page: 258  
Subtopic: Problems with industrial regulation Type: Application

54. Which of the following is the most valid criticism of the regulation of natural monopolies and other firms subject to regulation by regulatory commissions?

- A) it is difficult to find enough honest people to serve on regulatory commissions.
- B) such regulation is unnecessary and amounts to creeping socialism.
- C) many members of such commissions are appointed rather than being elected.
- D) regulated firms may have little incentive to contain costs since they are assured a "fair" return above costs.

Ans: D Level: Moderate Main Topic: 10.2 Industrial regulation Page: 258  
Subtopic: Problems with industrial regulation Type: Application

## Chapter 10 Competition Policy and Regulation

55. Regulation of business, according to the legal cartel theory, stems from:

- A) the public wanting protection from potentially capricious firms.
- B) economists who see greater efficiency in regulated industries.
- C) lawyers whose jobs are more secure in cartels.
- D) firms wanting to be regulated.

Ans: D Level: Easy Main Topic: 10.2 Industrial regulation Page: 259  
Subtopic: Legal cartel theory Type: Application

56. Supporters of deregulation of previously regulated industries argued that it would result in:

- A) increased monopoly power.
- B) lower rates of innovation.
- C) increased bureaucratic control.
- D) decreased prices of goods and services.

Ans: D Level: Easy Main Topic: 10.2 Industrial regulation Page: 259  
Subtopic: Deregulation Type: Application

57. Critics of the deregulation of industry argued that (among other things) deregulation would lead to:

- A) higher prices for industry products.
- B) more competition among firms in an industry.
- C) more output produced by the industry.
- D) a decline in bureaucratic inefficiencies in that industry.

Ans: D Level: Moderate Main Topic: 10.2 Industrial regulation Page: 259  
Subtopic: Deregulation Type: Application

58. Government regulation concerning the conditions under which goods are produced and the physical characteristics of goods is known as:

- A) industrial regulation.
- B) social regulation.
- C) economic regulation.
- D) competition policy regulation.

Ans: B Level: Easy Main Topic: 10.3 Social regulation Page: 260  
Subtopic: Distinguishing features Type: Definition



## Chapter 10 Competition Policy and Regulation

59. Social regulation:

- A) was developed as a substitute for industrial regulation.
- B) has declined in importance in recent years.
- C) applies more broadly and affects more people than industrial regulation.
- D) is more concerned with the overall standard of living of society rather than with details of production processes.

Ans: C Level: Moderate Main Topic: 10.3 Social regulation Page: 260  
Subtopic: Distinguishing features Type: Application

60. The Occupational Safety and Health Administration is an example of:

- A) industrial regulation.
- B) social regulation.
- C) competition policy regulation.
- D) public utility regulation.

Ans: B Level: Easy Main Topic: 10.3 Social regulation Page: 260  
Subtopic: Distinguishing features Type: Application

61. Which is a primary concern of social regulation?

- A) price fixing
- B) per se violation
- C) product design
- D) industry profits

Ans: C Level: Easy Main Topic: 10.3 Social regulation Page: 260  
Subtopic: Distinguishing features Type: Application

62. Social regulation differs from industrial regulation:

- A) in that social regulation applies to virtually all industries, while industrial regulation applies to a restricted number.
- B) in that social regulation is involved in the details of the production process, while industrial regulation is not.
- C) in that social regulation has expanded more rapidly in recent years than has industrial regulation.
- D) in all of the above ways.

Ans: D Level: Moderate Main Topic: 10.3 Social regulation Page: 260  
Subtopic: Distinguishing features Type: Application

## Chapter 10 Competition Policy and Regulation

63. A major difference between industrial regulation and social regulation is that industrial regulation:

- A) covers many industries across the economy.
- B) has expanded rapidly since the 1970s.
- C) is targeted at the prices charged, the costs of production, and amount of profit.
- D) focuses on product design, employment conditions, and the production process.

Ans: C Level: Moderate Main Topic: 10.3 Social regulation Page: 260  
Subtopic: Distinguishing features Type: Application

64. Administrative costs of social regulation:

- A) are considerably lower than compliance costs.
- B) are higher than compliance costs.
- C) are roughly equal to compliance costs.
- D) tend to fall once a regulatory commission gets fully established.

Ans: A Level: Moderate Main Topic: 10.3 Social regulation Page: 260  
Subtopic: Distinguishing features Type: Application

65. The marginal costs and benefits of social regulation:

- A) are easy to measure for determining the optimal level of such regulation.
- B) are difficult to measure for determining the optimal level of such regulation.
- C) are irrelevant in determining the optimal level of such regulation.
- D) focuses on price regulations charged by natural monopolists.

Ans: B Level: Moderate Main Topic: 10.3 Social regulation Page: 260-261  
Subtopic: The optimal level of social regulation Type: Application

66. Defenders of social regulation point out that:

- A) social regulation is a better alternative than unregulated natural monopoly.
- B) critics who stress the high administrative and compliance costs of social regulation underestimate the social benefits which the regulations produce.
- C) the number of regulatory agencies has declined over the past two decades.
- D) social regulations reduce product prices.

Ans: B Level: Moderate Main Topic: 10.3 Social regulation Page: 261  
Subtopic: The optimal level of social regulation Type: Application

## Chapter 10 Competition Policy and Regulation

67. Supporters of social regulation contend that:

- A) the existence of natural monopoly requires a regulatory response from government.
- B) there is a pressing need to eliminate price fixing in U.S. business.
- C) costs are the price that must be paid for a better society.
- D) benefits of public ownership of businesses are greater than the costs.

Ans: C Level: Moderate Main Topic: 10.3 Social regulation Page: 261  
Subtopic: The optimal level of social regulation Type: Application

68. Critics of social regulation would argue that it:

- A) decreases prices.
- B) increases output.
- C) increases competition.
- D) decreases product innovation.

Ans: D Level: Easy Main Topic: 10.3 Social regulation Page: 261  
Subtopic: The optimal level of social regulation Type: Application

69. Which is not a major criticism of social regulation?

- A) It is anticompetitive.
- B) It will increase product prices.
- C) It will increase the rate of innovation in the economy.
- D) It will impose a larger burden on small firms compared to large firms.

Ans: C Level: Easy Main Topic: 10.3 Social regulation Page: 261  
Subtopic: The optimal level of social regulation Type: Application

70. Critics of social regulation argue that it:

- A) increases the price level.
- B) dampens incentives to invest and innovate.
- C) is a relatively greater burden for small firms than for large firms.
- D) has all of the above effects.

Ans: D Level: Easy Main Topic: 10.3 Social regulation Page: 261  
Subtopic: The optimal level of social regulation Type: Application

71. A criticism of social regulation is that it:

- A) contributes to the growth of natural monopoly.
- B) increases the rate of innovation in the economy.
- C) decreases the influence of the Federal government on business.
- D) results in many unintended and costly side effects.

Ans: D Level: Moderate Main Topic: 10.3 Social regulation Page: 261  
Subtopic: The optimal level of social regulation Type: Application

## Chapter 10 Competition Policy and Regulation

72. A caption for a reminder to proponents of social regulation is that:

- A) "there is no free lunch."
- B) "the rule of reason will prevail."
- C) "the public interest will prevail."
- D) "protect the greatest number."

Ans: A Level: Moderate Main Topic: 10.3 Social regulation Page: 262  
Subtopic: Two reminders Type: Application

73. A caption for a reminder to opponents of social regulation is:

- A) "demand the lowest price."
- B) "less government is not always better."
- C) "social regulations promote exports."
- D) "restraints of trade must be outlawed."

Ans: B Level: Moderate Main Topic: 10.3 Social regulation Page: 263  
Subtopic: Less government is not always better than more Type: Application

74. According to the U.S. District Court, which of the following antitrust acts was violated by the Microsoft?

- A) Clayton Act
- B) Section I of the Sherman Act
- C) Section II of the Sherman Act
- D) Federal Trade Commission Act

Ans: B Level: Easy Main Topic: Last Word Page: 263-264  
Type: Application

75. In 2001 a U.S. District higher court ruled that:

- A) Microsoft engaged in a deliberate assault upon entrepreneurial efforts
- B) Microsoft was not involved in any wrong doing
- C) Microsoft created a natural monopoly
- D) Microsoft created a joint venture

Ans: A Level: Easy Main Topic: Last Word Page: 263-264  
Type: Application

76. As used in this chapter, the term "industrial concentration" refers to industries in which businesses are large absolutely and relative to the market.

Ans: True Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Type: Definition

## Chapter 10 Competition Policy and Regulation

77. Labour unions are largely exempt from the competition policy.

Ans: True Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Type: Application

78. Horizontal mergers may be anticompetitive because non-merged firms are foreclosed from selling their products to the buying firm.

Ans: False Level: Moderate Main Topic: 10.1 Industrial concentration  
Page: 254 Type: Application

79. A conglomerate merger is a merger between firms at different stages of the production process.

Ans: False Level: Easy Main Topic: 10.1 Industrial concentration Page: 254  
Type: Application

80. Natural monopolies occur where economies of scale are so extensive that several firms can produce the product at minimum cost.

Ans: False Level: Easy Main Topic: 10.2 Industrial regulation Page: 257  
Type: Definition

81. The regulation of natural monopolies has been criticized because it creates a tendency to use too much labour and too little capital in the production process.

Ans: False Level: Moderate Main Topic: 10.2 Industrial regulation Page: 258  
Type: Application

82. Public regulation rather than public ownership has been the primary means used to ensure that the behaviour of natural monopolists is socially acceptable.

Ans: True Level: Easy Main Topic: 10.2 Industrial regulation Page: 258  
Type: Application

83. The legal cartel theory indicates that, in any industry where market demand and the long-run average total cost curve intersect close to the latter's minimum, government regulation is mandatory and desirable.

Ans: False Level: Moderate Main Topic: 10.2 Industrial regulation Page: 259  
Type: Definition

## Chapter 10 Competition Policy and Regulation

84. The rationale underlying the legal cartel theory of regulation of natural monopolies is to allow the consumers of their goods or services to benefit from the economies of scale.

Ans: False    Level: Moderate    Main Topic: 10.2 Industrial regulation    Page: 259  
Type: Application

85. Under the legal cartel theory of regulation, firms do not want to be regulated by government.

Ans: False    Level: Moderate    Main Topic: 10.2 Industrial regulation    Page: 259  
Type: Application

86. Deregulation of industries since the 1970s has resulted in only small gains in economic efficiency for the Canadian economy.

Ans: False    Level: Moderate    Main Topic: 10.2 Industrial regulation    Page: 259  
Type: Application

87. Critics of deregulation suggest that it has reduced prices and led to more competition in deregulated industries.

Ans: False    Level: Moderate    Main Topic: 10.2 Industrial regulation    Page: 259  
Type: Application

88. The marginal costs and benefits of social regulation are difficult to measure for determining the optimal level of such regulation.

Ans: True    Level: Moderate    Main Topic: 10.3 Social regulation    Page: 260  
Type: Application

89. The administrative costs of social regulation exceed the compliance costs of social regulation.

Ans: False    Level: Easy    Main Topic: 10.3 Social regulation    Page: 260-261  
Type: Application

90. Social regulation consists of regulation of the conditions under which products are made, the impact of products on society, and the physical qualities of the products.

Ans: True    Level: Easy    Main Topic: 10.3 Social regulation    Page: 260-261  
Type: Definition

## Chapter 10 Competition Policy and Regulation

91. Supporters of social regulation contend that it has provided net benefits to society in the form of greater safety, a better environment, and less discrimination.

Ans: True   Level: Easy   Main Topic: 10.3 Social regulation   Page: 261  
Type: Application

92. Social regulation raises product prices in two ways. It does so directly because compliance cost normally get passed to consumers, and it does so indirectly by reducing labour productivity.

Ans: True   Level: Easy   Main Topic: 10.3 Social regulation   Page: 262  
Type: Application

Unauthorized