

## Chapter 8 Monopoly

### CHAPTER 8

## Monopoly

Topic	Question numbers
8.1 Characteristics of monopoly	1-91
Examples of monopoly	1-4
Dual objectives of the study of monopoly	5
Barriers to entry	6-12
Monopoly demand	13-91
8.2 Output and price determination	92-141
Cost data	92-96
MR=MC Rule	97-125
No monopoly supply curve	126-128
Misconceptions about monopoly pricing	129-130
Possibility of losses by monopolist	131-141
8.3 Economic effects of monopoly	142-195
Price, output, and efficiency	142-168
Income transfer	169-170
Cost complications	171-193
Assessment and policy options	194-195
8.4 Price discrimination	196-212
Conditions	196-203
Examples of price discrimination	204-209
Graphical analysis	210-212
8.5 Regulated monopoly	213-241
Socially optimal price: $P=MC$	213-225
Fair-return price: $P=ATC$	226-233
Dilemma of regulation	234-241
8.6 Monopoly and deadweight loss	242-243
The last word	244-249
True-False Questions	250-286

## Chapter 8 Monopoly

1. Which of the following approximates a monopoly?

- A) the foreign exchange market
- B) the Winnipeg wheat market
- C) the diamond market
- D) the soft drink market

Ans: C Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 192-193 Subtopic: Examples of monopoly Type: Application

2. Which of the following is a characteristic of monopoly?

- A) close substitute products
- B) barriers to entry
- C) the absence of market power
- D) "price taking"

Ans: B Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 192-193 Subtopic: Examples of monopoly Type: Application

3. Monopoly means:

- A) any market in which the demand curve to the firm is downward sloping.
- B) a standardized product being produced by many firms.
- C) a large number of firms producing a differentiated product.
- D) a single firm producing a product for which there are no close substitutes.

Ans: D Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 192-193 Subtopic: Examples of monopoly Type: Definition

4. Which of the following is correct?

- A) Both perfect competitive and monopolistic firms are "price takers."
- B) Both perfect competitive and monopolistic firms are "price makers."
- C) A perfect competitive firm is a "price taker," while a monopolist is a "price maker."
- D) A perfect competitive firm is a "price maker," while a monopolist is a "price taker."

Ans: C Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 192-193 Subtopic: Examples of monopoly Type: Definition

## Chapter 8 Monopoly

5. The dual objective of studying the monopolistic market structure is:
- A) to know about this market structure as well as understanding monopolistic-Competition and oligopolistic market structures.
  - B) to be able to compare it with the other extreme namely, perfect competition.
  - C) to be able to study the behaviour of some of the industries characterized by that.
  - D) All of the above.

Ans: D Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 192-193 Subtopic: Dual objectives of the study of monopoly  
Type: Application

6. A monopolist is:
- A) any firm realizing all existing economies of scale.
  - B) any firm whose demand curve is downward sloping.
  - C) any firm which can engage in price discrimination.
  - D) a one-firm industry.

Ans: D Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 193-194 Subtopic: Barriers to entry Type: Definition

7. Barriers to entering an industry:
- A) are justified because they result in allocative efficiency.
  - B) are justified because they result in productive efficiency.
  - C) are the basis for monopoly.
  - D) apply only to ly monopolistic industries.

Ans: C Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 193-194 Subtopic: Barriers to entry Type: Application

8. Which of the following is not a barrier to entry?
- A) patents
  - B) X-inefficiency
  - C) economies of scale
  - D) ownership of essential resources

Ans: B Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 194-195 Subtopic: Barriers to entry Type: Application

## Chapter 8 Monopoly

9. What do economies of scale, the ownership of essential raw materials, and patents have in common?
- A) They must all be present before price discrimination can be practiced.
  - B) They are all barriers to entry.
  - C) They all help explain why a monopolist's demand and marginal revenue curves coincide.
  - D) They all help explain why the long-run average cost curve is U-shaped.

Ans: B Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 194-195 Subtopic: Barriers to entry Type: Application

10. Barriers to entry:
- A) exist in economic theory but not in the real world.
  - B) usually result in perfect competition.
  - C) can result from government regulation.
  - D) are typically the result of wrongdoing on the part of a firm.

Ans: C Level: Easy Main Topic: 8.1 Characteristics of monopoly Page: 195  
Subtopic: Barriers to entry Type: Application

11. Which is a barrier to entry?
- A) patents
  - B) revenue maximization
  - C) profit maximization
  - D) elastic product demand

Ans: A Level: Easy Main Topic: 8.1 Characteristics of monopoly Page: 195  
Subtopic: Barriers to entry Type: Application

12. One of the major barriers to entry under monopoly arises from:
- A) the availability of close substitutes for a product.
  - B) ownership of essential resources.
  - C) the price taking ability of the firm.
  - D) diseconomies of scale.

Ans: B Level: Easy Main Topic: 8.1 Characteristics of monopoly Page: 195  
Subtopic: Barriers to entry Type: Application

## Chapter 8 Monopoly

13. A monopolistic industry:

- A) has no entry barriers.
- B) has a downward sloping demand curve.
- C) produces a product or service for which there are many close substitutes.
- D) earns only a normal profit in the long run.

Ans: B Level: Easy Main Topic: 8.1 Characteristics of monopoly Page: 196  
Subtopic: Monopoly demand Type: Application

14. The demand curve faced by a monopolist:

- A) may be either more or less elastic than that faced by a single perfect competitive firm.
- B) is less elastic than that faced by a single perfect competitive firm.
- C) has the same elasticity as that faced by a single perfect competitive firm.
- D) is more elastic than that faced by a single perfect competitive firm.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 196 Subtopic: Monopoly demand Type: Application

15. The monopolist's demand curve:

- A) is the industry demand curve.
- B) shows a direct or positive relationship between price and quantity demanded.
- C) tends to be inelastic at high prices and elastic at low prices.
- D) is identical to its marginal revenue curve.

Ans: A Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 196 Subtopic: Monopoly demand Type: Application

16. The demand curve confronting a monopolist is:

- A) horizontal.
- B) the same as the industry's demand curve.
- C) more elastic than the demand curve confronting a competitive firm.
- D) derived by vertically summing the individual demand curves for the buyers.

Ans: B Level: Easy Main Topic: 8.1 Characteristics of monopoly Page: 196  
Subtopic: Monopoly demand Type: Application

17. The monopolist's demand curve:

- A) is less elastic than a perfect competitive firm's demand curve.
- B) is perfectly elastic.
- C) coincides with its marginal revenue curve.
- D) is perfectly inelastic.

Ans: A Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 196 Subtopic: Monopoly demand Type: Application

## Chapter 8 Monopoly

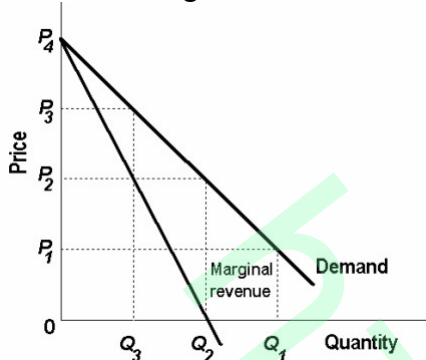
18. Which of the following is characteristic of a monopolist's demand curve?

- A) Average revenue is less than price.
- B) Its elasticity is 1 at all levels of output.
- C) Price and marginal revenue are equal at all levels of output.
- D) It is the same as the market demand curve.

Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly

Page: 196 Subtopic: Monopoly demand Type: Application

19. Refer to the diagram. This firm is selling in:



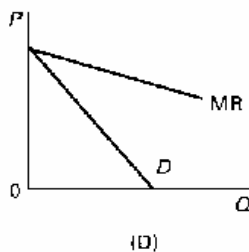
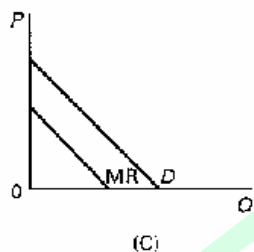
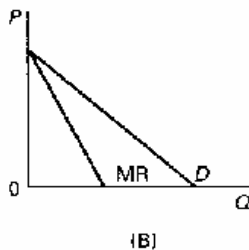
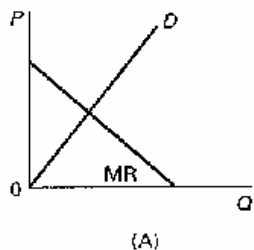
- A) a market in which there are an extremely large number of other firms producing the same product.
- B) an imperfectly competitive market.
- C) a market in which demand is elastic at all prices.
- D) a perfect competitive market.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly

Page: 196-197 Subtopic: Monopoly demand Type: Graphic

## Chapter 8 Monopoly

20. Which of the graphs below shows the correct relationship between demand and marginal revenue?



- A) A
- B) B
- C) C
- D) D

Ans: B Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 196 -197 Subtopic: Monopoly demand Type: Graphic

21. The marginal revenue curve for a monopolist:

- A) is a straight, upward sloping curve.
- B) rises at first, reaches a maximum, and then declines.
- C) is positive at low levels of output, then becomes negative at high output levels.
- D) is a straight line, parallel to the horizontal axis.

Ans: C Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Application

22. At which of the following combinations of price and marginal revenue (P, MR) is the price elasticity of demand greater than 1?

- A)  $P = 15, MR = 8$
- B)  $P = 12, MR = 0$
- C)  $P = 8, MR = -2$
- D)  $P = 4, MR = -4$

Ans: A Level: Difficult Main Topic: 8.1 Characteristics of monopoly Page: 197  
Subtopic: Monopoly demand Type: Application

## Chapter 8 Monopoly

23. The monopolist that is non-discriminating must decrease price on all units of a product sold in order to sell additional units. This explains why:
- A) there are barriers to entry in monopoly.
  - B) a monopoly has a perfectly elastic demand curve.
  - C) marginal revenue is less than average revenue.
  - D) total revenues are greater than total costs at the profit maximizing level of output.

Ans: C Level: Difficult Main Topic: 8.1 Characteristics of monopoly Page: 197  
Subtopic: Monopoly demand Type: Application

24. A monopolist will find that marginal revenue:
- A) exceeds average revenue or price.
  - B) is identical to price.
  - C) is sometimes greater and sometimes less than price.
  - D) is less than average revenue or price.

Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Application

25. If a non-discriminating imperfect competitive firm is selling its 100th unit of output for \$35, its marginal revenue:
- A) may be either greater or less than \$35.
  - B) will also be \$35.
  - C) will be less than \$35.
  - D) will be greater than \$35.

Ans: C Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Application

26. A monopolist's demand curve:
- A) is perfectly inelastic.
  - B) coincides with its marginal revenue curve.
  - C) lies below its marginal revenue curve.
  - D) lies above its marginal revenue curve.

Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Application



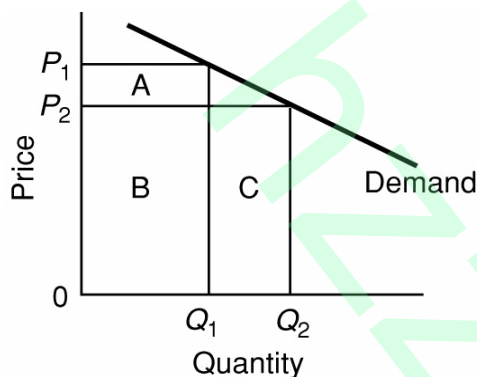
## Chapter 8 Monopoly

27. For an imperfect competitive firm:

- A) total revenue is a straight, upward sloping line because a firm's sales are independent of product price.
- B) the marginal revenue curve lies above the demand curve because any reduction in price applies to all units sold.
- C) the marginal revenue curve lies below the demand curve because any reduction in price applies only to the extra unit sold all units sold.
- D) the marginal revenue curve lies below the demand curve because any reduction in price applies to all units sold.

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly Page: 197  
Subtopic: Monopoly demand Type: Application

Use the following to answer questions 28-30:



28. Refer to the diagram above. If price is reduced from  $P_1$  to  $P_2$ , total revenue will:

- A) increase by A minus C.
- B) increase by C minus A.
- C) decrease by A minus C.
- D) decrease by C minus A.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly Page: 197  
Subtopic: Monopoly demand Type: Graphic

29. Refer to the diagram above. The quantity difference between areas A and C for the indicated price reduction measures:

- A) marginal cost.
- B) marginal revenue.
- C) monopoly price.
- D) a welfare or efficiency loss.

Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly Page: 197  
Subtopic: Monopoly demand Type: Graphic

## Chapter 8 Monopoly

30. The diagram above implies that whenever a firm's demand curve is downward sloping:
- A) price discrimination is not possible.
  - B) monopolists will be more efficient than competitors.
  - C) the demand and marginal revenue curves will coincide.
  - D) marginal revenue is less than price.

Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Graphic

31. Refer to the below data. The marginal revenue obtained from selling the third unit of output:

<u>Price</u>	<u>Quantity demanded</u>
\$7	1
6	2
5	3
4	4
3	5

- A) is \$3.
- B) is \$1.
- C) is \$6.
- D) is \$5.

Ans: A Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Calculation

32. A monopolistic firm has a sales schedule such that it can sell 10 prefabricated garages per week at \$10,000 each, but if it restricts its output to 9 per week it can sell these at \$11,000 each. The marginal revenue of the tenth unit of sales per week is:
- A) \$900.
  - B) \$9,000.
  - C) \$10,000.
  - D) \$1,000.

Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Calculation

## Chapter 8 Monopoly

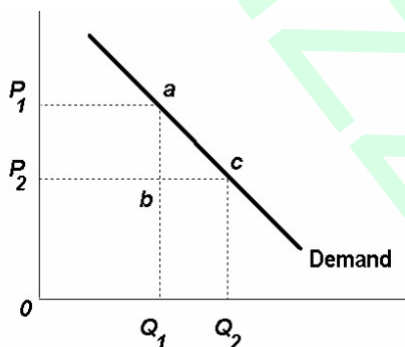
33. With respect to the monopolist's demand curve it can be said that:
- A) the stronger the barriers to entry, the more elastic is the monopolist's demand curve.
  - B) price exceeds marginal revenue at all outputs greater than 1.
  - C) demand is perfectly inelastic.
  - D) marginal revenue equals price at all outputs.

Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly Page: 197  
Subtopic: Monopoly demand Type: Application

34. Price exceeds marginal revenue for the monopolist because the:
- A) law of diminishing returns is inapplicable.
  - B) demand curve is downward sloping.
  - C) monopolist produces a smaller output than would a perfect competitive firm.
  - D) demand curve lies below the marginal revenue curve.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Application

Use the following to answer questions 35-36:



35. If the firm in the diagram above lowers price from  $P_1$  to  $P_2$ , it will:
- A) lose  $P_1P_2ba$  in revenue from the price cut but increase revenue by  $Q_1bcQ_2$  from the increase in sales.
  - B) lose  $P_1P_2ca$  in revenue from the price cut but increase revenue by  $Q_1acQ_2$  from the increase in sales.
  - C) incur a decline in total revenue because it is operating on the elastic segment of the demand curve.
  - D) incur an increase in total revenue because it is operating on the inelastic segment of the demand curve.

Ans: A Level: Difficult Main Topic: 8.1 Characteristics of monopoly Page: 197  
Subtopic: Monopoly demand Type: Graphic

## Chapter 8 Monopoly

36. The quantitative difference between areas  $Q_1bcQ_2$  and  $P_1P_2ba$ , in the diagram above, measures:
- A) marginal cost.
  - B) total revenue.
  - C) marginal revenue.
  - D) average revenue.

Ans: C Level: Difficult Main Topic: 8.1 Characteristics of monopoly Page: 197  
Subtopic: Monopoly demand Type: Graphic

37. A monopolist can sell 20 toys per day for \$8.00 each. To sell 21 toys per day, the price must be cut to \$7.00. The marginal revenue of the 21st toy is:
- A) -\$10.
  - B) -\$13.
  - C) -\$18.
  - D) -\$21.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Calculation

38. A monopolist can sell 20 units of a product per day at a unit price of \$10. To sell another unit it must reduce price to \$9. The marginal revenue of the 21st unit is:
- A) -\$11.
  - B) -\$10.
  - C) \$21.
  - D) \$189.

Ans: A Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Calculation

39. A monopolist can sell 10 units at \$12 per unit and 9 units at \$13 per unit. The marginal revenue from the 10th unit is:
- A) \$1.
  - B) \$3.
  - C) \$12.
  - D) \$120.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Calculation

## Chapter 8 Monopoly

40. For a monopolist marginal revenue is less than price because:
- A) the monopolist's demand curve is perfectly elastic.
  - B) the monopolist's demand curve is perfectly inelastic.
  - C) when a monopolist lowers price to sell more output, the lower price applies to all units sold.
  - D) the monopolist's total revenue curve is linear and slopes upward to the right.

Ans: C Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Application

41. Suppose a monopolist is charging a price of \$12 and the associated marginal revenue is \$9. We thus know that:
- A) demand is inelastic at this price.
  - B) total revenue is increasing.
  - C) the firm is maximizing profits.
  - D) total revenue is at a maximum.

Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly Page: 197  
Subtopic: Monopoly demand Type: Application

42. A monopolist is selling 6 units at a price of \$12. If the marginal revenue of the seventh unit is \$5, then:
- A) price of the seventh unit is \$10.
  - B) price of the seventh unit is \$11.
  - C) price of the seventh unit is greater than \$12.
  - D) firm's demand curve is perfectly elastic.

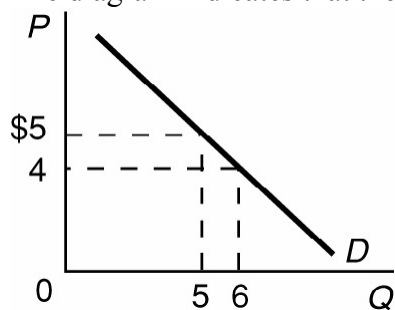
Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly Page: 197  
Subtopic: Monopoly demand Type: Calculation

43. The vertical distance between the horizontal axis and any point on a monopolist's demand curve measures:
- A) the quantity demanded.
  - B) product price and average revenue.
  - C) total revenue.
  - D) product price and marginal revenue.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Application

## Chapter 8 Monopoly

44. The diagram indicates that the marginal revenue of the sixth unit of output is:



- A) \$1.
- B) -\$1.
- C) \$4.
- D) \$24.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Calculation

45. A monopolist finds that it can sell its fiftieth unit of output for \$50. We can surmise that the marginal:

- A) cost of the fiftieth unit is also \$50.
- B) revenue of the fiftieth unit is also \$50.
- C) revenue of the fiftieth unit is less than \$50.
- D) revenue of the fiftieth unit is greater than \$50.

Ans: C Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Application

46. Below is the demand schedule facing Nina, a monopolist selling baskets. What is the change in total revenue if she lowers the price from \$16 to \$14?

Price	Number of baskets sold
\$20	3
\$18	5
\$16	7
\$14	10
\$12	15
\$10	30

- A) \$2
- B) \$14
- C) \$20
- D) \$28

Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 Subtopic: Monopoly demand Type: Calculation

## Chapter 8 Monopoly

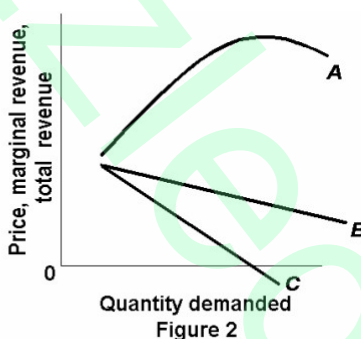
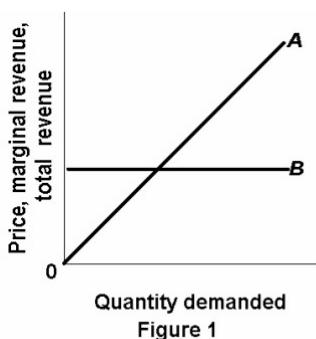
47. Given a downward sloping linear demand curve, when total revenue is decreasing, marginal revenue is:
- A) positive and demand is elastic.
  - B) negative and demand is elastic.
  - C) positive and demand is inelastic.
  - D) negative and demand is inelastic.

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Application

48. For an imperfect competitive firm:
- A) the marginal revenue curve lies above the demand curve.
  - B) the demand and marginal revenue curves coincide.
  - C) the demand curve intersects the horizontal axis where total revenue is at a maximum.
  - D) marginal revenue will become zero at that output where total revenue is at a maximum.

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Application

Use the following to answer questions 49-51:



49. Refer to the two diagrams above for individual firms. Figure 1 pertains to:
- A) an imperfect competitive firm.
  - B) a perfect competitive firm.
  - C) an oligopolist.
  - D) a monopolist.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197 -198 Subtopic: Monopoly demand Type: Graphic

## Chapter 8 Monopoly

50. Refer to the two diagrams above for individual firms. Figure 2 pertains to:
- A) a market characterized by government regulation of price and output.
  - B) either an imperfect competitive or a perfect competitive seller.
  - C) a perfect competitive seller.
  - D) an imperfect competitive seller.

Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Graphic

51. Refer to the two diagrams above for individual firms. In Figure 2 the firm's demand and marginal revenue curves are represented by:
- A) lines B and C respectively.
  - B) lines A and C respectively.
  - C) lines A and B respectively.
  - D) line B.

Ans: A Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Graphic

52. Because the monopolist's demand curve is downward sloping:
- A) MR will equal price.
  - B) price must be lowered to sell more output.
  - C) the elasticity coefficient will increase as price is lowered.
  - D) its supply curve will also be downward sloping.

Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Application

53. In moving down the elastic segment of the monopolist's demand curve, total revenue is:
- A) increasing, and marginal revenue is negative.
  - B) decreasing, and marginal revenue is positive.
  - C) decreasing, and marginal revenue is negative.
  - D) increasing, and marginal revenue is positive.

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Application

54. When the monopolist's demand curve is elastic, marginal revenue:
- A) may be either positive or negative.
  - B) is zero.
  - C) is negative.
  - D) is positive.

Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Application



## Chapter 8 Monopoly

55. When total revenue is increasing:

- A) marginal revenue may be either positive or negative.
- B) the demand curve is relatively inelastic.
- C) marginal revenue is negative.
- D) marginal revenue is positive.

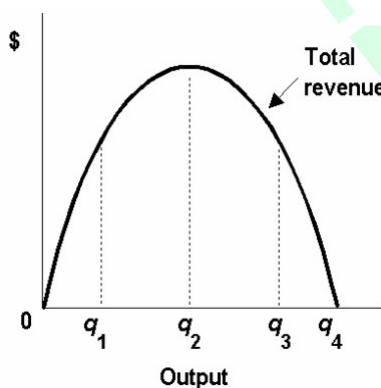
Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Application

56. For a monopolist the relationship between total revenue and marginal revenue is such that:

- A) marginal revenue is positive when total revenue is at a maximum.
- B) total revenue is positive when marginal revenue is increasing, but total revenue becomes negative when marginal revenue is decreasing.
- C) marginal revenue is positive when total revenue is increasing, but marginal revenue becomes negative when total revenue is decreasing.
- D) marginal revenue is positive so long as total revenue is positive.

Ans: C Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Application

Use the following to answer questions 57-59:



57. Refer to the diagram above for a monopolist. Demand is elastic:

- A) for all levels of output less than  $q_2$ .
- B) only for outputs greater than  $q_4$ .
- C) in the  $q_1q_3$  output range.
- D) for all levels of output greater than  $q_2$ .

Ans: A Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Graphic

## Chapter 8 Monopoly

58. Refer to the diagram above for a monopolist. Marginal revenue will be zero at output:

- A)  $q_4$ .
- B)  $q_2$ .
- C)  $q_3$ .
- D)  $q_1$ .

Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Graphic

59. Refer to the diagram above for a monopolist. The profit-seeking monopolist will:

- A) always produce at output  $q_2$ .
- B) always produce more than  $q_2$ .
- C) never produce an output larger than  $q_2$ .
- D) never produce an output larger than  $q_1$ .

Ans: C Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Graphic

60. Assuming no change in product demand, a monopolist:

- A) can increase price and increase sales simultaneously because it dominates the market.
- B) adds an amount to total revenue which is equal to the price of incremental sales.
- C) should produce in the range where marginal revenue is negative.
- D) must lower price to increase sales.

Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Application

61. If a monopolist is operating in a range of output where demand is elastic:

- A) it cannot possibly be maximizing profits.
- B) marginal revenue will be positive but declining.
- C) marginal revenue will be positive and rising.
- D) total revenue will be declining.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Application

## Chapter 8 Monopoly

62. If a monopolist decides to sell one more unit of output, the marginal revenue associated with that unit will be:
- A) equal to its price.
  - B) the price at which that unit is sold less the price reductions which apply to all other units of output.
  - C) the price at which that unit is sold plus the price increases which apply to all other units of output.
  - D) indeterminate unless marginal cost data are known.

Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Subtopic: Monopoly demand Type: Application

63. Assuming a monopolist's demand curve is downward sloping, its total revenue:
- A) is rising.
  - B) is falling.
  - C) may be either rising or falling.
  - D) must be negative.

Ans: C Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

64. When a firm is on the inelastic segment of its demand curve, it can:
- A) increase total revenue by reducing price.
  - B) decrease total costs by decreasing price.
  - C) increase profits by increasing price.
  - D) increase total revenue by more than the increase in total cost by increasing price.

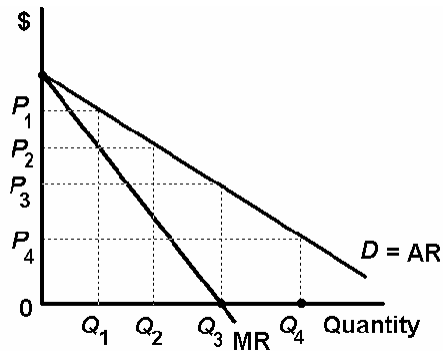
Ans: C Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

65. If a monopolist is operating at an output level where marginal revenue is positive, the firm:
- A) has maximized total revenues.
  - B) could raise revenues by raising prices.
  - C) can always increase profits by lowering its price.
  - D) is operating on the elastic portion of its demand curve.

Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

## Chapter 8 Monopoly

Use the following to answer questions 66-70:



66. Refer to the above graph showing the short-run revenue curves for a monopolist. Total revenue will be greatest at what output level?

A)  $Q_1$   
 B)  $Q_2$   
 C)  $Q_3$   
 D)  $Q_4$

Ans: C Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
 Page: 198-199 Subtopic: Monopoly demand Type: Graphic

67. Refer to the above graph showing the short-run revenue curves for a monopolist. Demand is unit elastic at what price?

A)  $P_1$   
 B)  $P_2$   
 C)  $P_4$   
 D)  $P_3$

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
 Page: 198-199 Subtopic: Monopoly demand Type: Graphic

68. Refer to the above graph showing the short-run revenue curves for a monopolist. At what output level is demand inelastic?

A)  $Q_1$   
 B)  $Q_2$   
 C)  $Q_3$   
 D)  $Q_4$

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
 Page: 198-199 Subtopic: Monopoly demand Type: Graphic

## Chapter 8 Monopoly

69. Refer to the above graph showing the short-run revenue curves for a monopolist. The elastic portion of the demand curve ranges from:

- A) 0 to  $Q_3$ .
- B) 0 to  $Q_2$ .
- C) 0 to  $Q_1$ .
- D)  $Q_3$  to  $Q_5$ .

Ans: A Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

70. Refer to the above graph showing the short-run revenue curves for a monopolist. What price should be charged in order to maximize total revenue?

- A)  $P_1$
- B)  $P_2$
- C)  $P_3$
- D)  $P_4$

Ans: C Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

71. Refer to the following data. At the point where 3 units are being sold, the coefficient of price elasticity of demand:

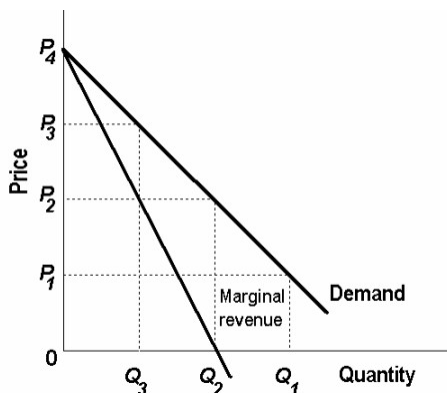
<u>Price</u>	<u>Quantity demanded</u>
\$7	1
6	2
5	3
4	4
3	5

- A) cannot be estimated.
- B) suggests that the market is perfectly competitive.
- C) is less than unity (one).
- D) is greater than unity (one).

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Calculation

## Chapter 8 Monopoly

Use the following to answer questions 72-73:



72. Refer to the diagram above. Demand is relatively elastic:

- A) in the  $P_2P_1$  price range.
- B) in the  $P_2P_4$  price range.
- C) in the  $0P_1$  price range.
- D) only at price  $P_2$ .

Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

73. Refer to the diagram above. Demand is relatively inelastic:

- A) at price  $P_3$ .
- B) at any price below  $P_2$ .
- C) in the  $P_2P_4$  price range.
- D) in the  $P_2P_3$  price range.

Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

74. The monopolist's demand curve is relatively elastic:

- A) in the price range where total revenue is declining.
- B) at all points where the demand curve lies above the horizontal axis.
- C) in the price range where marginal revenue is negative.
- D) in the price range where marginal revenue is positive.

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

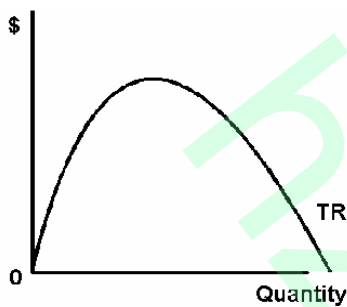
## Chapter 8 Monopoly

75. At which combination of price and marginal revenue would the price elasticity of demand be inelastic?
- A) price equals \$70, marginal revenue equals \$10
  - B) price equals \$60, marginal revenue equals \$5
  - C) price equals \$50, marginal revenue equals \$0
  - D) price equals \$40, marginal revenue equals -\$5

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Calculation

Use the following to answer questions 76-82:

The following graph shows a total revenue curve for a monopolist.



76. Refer to the graph above. The firm's marginal revenue curve is:
- A) downward sloping.
  - B) constant.
  - C) upward sloping.
  - D) U-shaped.

Ans: A Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

77. Refer to the graph above. When the total revenue curve reaches a maximum, marginal revenue is:
- A) positive.
  - B) negative.
  - C) zero.
  - D) greater than price at that level of output.

Ans: C Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

## Chapter 8 Monopoly

78. Refer to the graph above. When the revenue curve is rising as output expands, marginal revenue is:

- A) positive.
- B) negative.
- C) zero.
- D) greater than price at that output level.

Ans: A Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

79. Refer to the graph above. When total revenue rises as output increases, demand is:

- A) elastic.
- B) inelastic.
- C) perfectly inelastic.
- D) perfectly elastic.

Ans: A Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

80. Refer to the graph above. When total revenue declines as output expands, demand is:

- A) elastic.
- B) inelastic.
- C) perfectly inelastic.
- D) perfectly elastic.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

81. Refer to the graph above. When total revenue falls as output expands, marginal revenue is:

- A) positive.
- B) negative.
- C) zero.
- D) greater than demand at that output level.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

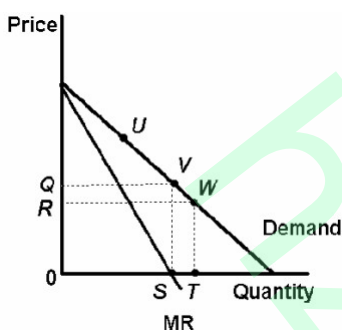


## Chapter 8 Monopoly

82. Refer to the graph above. The profit-maximizing firm will produce in that output level where total revenue is:
- A) rising.
  - B) falling.
  - C) rising and falling.
  - D) zero.

Ans: A Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

83. The graph below shows a linear demand curve. Which of the following statements is not correct?



- A) The demand curve has unit price elasticity at V.
- B) The area 0QVS is greater than the area 0RWT.
- C) The price elasticity of demand is greater at U than at V.
- D) The price elasticity of demand is greater at W than at V.

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

84. A monopoly firm will never charge a price in the inelastic range of its demand curve because lowering price to get into this region will:
- A) increase total revenue, increase total cost, and decrease profit.
  - B) decrease total revenue, increase total cost, and decrease profit.
  - C) increase total revenue, decrease total cost, and decrease profit.
  - D) decrease total revenue, total cost, and profit.

Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

## Chapter 8 Monopoly

85. The region of demand in which the monopolist will choose a price-output combination will be:
- A) inelastic because as price declines and output increases, total revenue will increase.
  - B) inelastic because as price declines and output increases, total revenue will decrease.
  - C) elastic because as price declines and output increases, total revenue will decrease.
  - D) elastic because as price declines and output increases, total revenue will increase.

Ans: D Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

86. A monopolist:
- A) will never produce in the output range where marginal revenue is positive.
  - B) will never produce in the output range where demand is inelastic.
  - C) will never produce in the output range where demand is elastic.
  - D) may produce where demand is either elastic or inelastic, depending on the level of production costs.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

87. Assume a monopolist is currently operating at a price-quantity combination on the inelastic segment of its demand curve. If the monopolist is seeking maximum profits, it should:
- A) retain its current price-quantity combination.
  - B) increase both price and quantity sold.
  - C) charge a higher price.
  - D) charge a lower price.

Ans: C Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

88. A monopolist should never produce in the:
- A) elastic segment of its demand curve because it can increase total revenue and reduce total cost by lowering price.
  - B) inelastic segment of its demand curve because it can increase total revenue and reduce total cost by increasing price.
  - C) inelastic segment of its demand curve because it can always increase total revenue by more than it increases total cost by reducing price.
  - D) segment of its demand curve where the price elasticity coefficient is greater than one.

Ans: B Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

## Chapter 8 Monopoly

89. If a monopolist were to produce in the inelastic segment of its demand curve:

- A) total revenue would be at a maximum.
- B) marginal revenue would be negative.
- C) the firm would be maximizing profits.
- D) it would necessarily incur a loss.

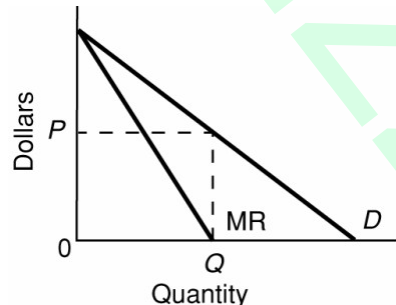
Ans: D Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

90. A profit-maximizing monopolist will set its price:

- A) as far above ATC as possible.
- B) along the elastic portion of its demand curve.
- C) where the marginal cost curve intersects the demand curve.
- D) as close as possible to the minimum point of ATC.

Ans: B Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Application

91. Assume a monopolist is charging price  $P$  and selling output  $Q$  as shown on the diagram. On the basis of this information we can say that:



- A) if marginal costs were somehow zero, the firm would be maximizing its total revenue.
- B) if marginal costs were positive the firm would increase profits by reducing price and selling more output.
- C) the firm is producing where the price elasticity coefficient is less than one.
- D) the firm is a "price taker."

Ans: A Level: Difficult Main Topic: 8.1 Characteristics of monopoly  
Page: 198-199 Subtopic: Monopoly demand Type: Graphic

## Chapter 8 Monopoly

Use the following to answer questions 92-93:

The following demand and cost data is for a monopolist.

Demand data		Cost data	
<u>Price</u>	<u>Quantity demanded</u>	<u>Output</u>	<u>Total cost</u>
\$2.75	3	3	\$4.00
2.50	4	4	4.50
2.25	5	5	4.75
2.00	6	6	5.75
1.75	7	7	7.75

92. Refer to the table above. Equilibrium price of the monopolist will be:

- A) \$2.50.
- B) \$2.25.
- C) \$2.00.
- D) \$1.75.

Ans: B Level: Difficult Main Topic: 8.2 Output and price determination  
Page: 199-200 Subtopic: Cost data Type: Calculation

93. Refer to the table above. The monopolist will realize a:

- A) profit of \$10.00.
- B) profit of \$6.50.
- C) profit of \$4.50.
- D) loss of \$7.23.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-200 Subtopic: Cost data Type: Calculation

## Chapter 8 Monopoly

Use the following to answer questions 94-96:

The following demand and cost data for a monopolist:

<u>Demand Data</u>		<u>Cost Data</u>	
<u>Price</u>	<u>Quantity demand</u>	<u>Output</u>	<u>Total cost</u>
\$5.50	3	3	\$ 5
5.00	4	4	6
4.50	5	5	6.50
3.85	6	6	7.50
3.35	7	7	9
2.90	8	8	11
2.50	9	9	14

94. Refer to the data above. Equilibrium price for the monopolist will be:

- A) \$5.00
- B) \$2.90.
- C) \$3.35.
- D) \$4.50.

Ans: D Level: Difficult Main Topic: 8.2 Output and price determination  
Page: 199-200 Subtopic: Cost data Type: Calculation

95. Refer to the data above. The equilibrium level of output will be:

- A) 4 units.
- B) 7 units.
- C) 6 units.
- D) 5 units.

Ans: D Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-200 Subtopic: Cost data Type: Calculation

96. Refer to the data above. The monopolist will realize a:

- A) profit of \$8.50.
- B) profit of \$7.50.
- C) profit of \$16.
- D) loss of \$14.

Ans: C Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-200 Subtopic: Cost data Type: Calculation

## Chapter 8 Monopoly

97. The  $MR = MC$  rule:

- A) applies only to perfect competition.
- B) applies only to monopoly.
- C) does not apply to monopoly because price exceeds marginal revenue.
- D) applies both to monopoly and perfect competition.

Ans: D Level: Easy Main Topic: 8.2 Output and price determination

Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Application

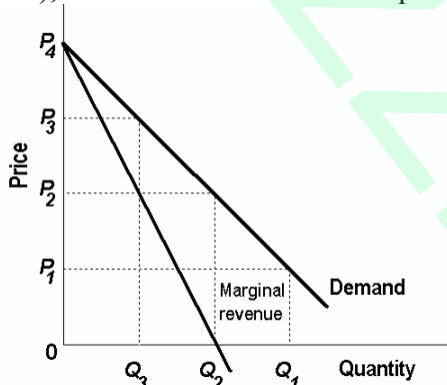
98. A monopolist will maximize profits by producing that output at which marginal cost is equal to:

- A) average total cost.
- B) marginal revenue.
- C) average variable cost.
- D) average cost.

Ans: B Level: Easy Main Topic: 8.2 Output and price determination

Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Application

99. If the product was somehow costless (that is, the total cost of any level of output was zero), the firm would maximize profits by:



- A) selling the product at the highest possible price at which a positive quantity will be demanded.
- B) producing  $Q_1$  units and charging a price of  $P_1$ .
- C) producing  $Q_3$  units and charging a price of  $P_3$ .
- D) producing  $Q_2$  units and charging a price of  $P_2$ .

Ans: D Level: Difficult Main Topic: 8.2 Output and price determination

Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Graphic

## Chapter 8 Monopoly

100. In equilibrium which of the following conditions are common to both unregulated monopoly and to perfect competition?

- A)  $MC = P$
- B)  $MC = ATC$
- C)  $MR = MC$
- D)  $P = MR$

Ans: C Level: Easy Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Formula

101. An unregulated monopolist will maximize profits by producing that output at which:

- A)  $MR = MC$ .
- B)  $P = ATC$ .
- C)  $P = MC$ .
- D)  $MC = AC$ .

Ans: A Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Formula

102. The short-run profit maximizing position of an unregulated monopolist is characterized by:

- A)  $P = \text{minimum ATC}$ .
- B)  $MR = MC$ .
- C)  $P = MC$ .
- D)  $MC = ATC$ .

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Formula

103. Perfect competitive firms and monopolists are similar in that:

- A) the demand curves of both are perfectly elastic.
- B) significant entry barriers are common to both.
- C) both are price makers.
- D) both maximize profit where  $MR = MC$ .

Ans: D Level: Easy Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Application

## Chapter 8 Monopoly

104. Under which of the following situations would a monopolist increase profits by lowering price (and increasing output):
- A) if it discovered that it was producing where  $MC = MR$
  - B) if it discovered that it was producing where its MC curve intersects its demand curve
  - C) if it discovered that it was producing where  $MC < MR$
  - D) under none of the above circumstances because a monopolist would never lower price

Ans: C Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Application

105. Suppose that a monopolist calculates that at present output and sales levels, marginal revenue is \$1.00 and marginal cost is \$2.00. He or she could maximize profits or minimize losses by:
- A) decreasing price and increasing output.
  - B) increasing price and decreasing output.
  - C) decreasing price and leaving output unchanged.
  - D) decreasing output and leaving price unchanged.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Application

106. Suppose that a monopolist calculates that at present output and sales, marginal cost is \$4.00 and marginal revenue is \$3.00. He or she could maximize profits by:
- A) decreasing price and increasing output.
  - B) increasing price and decreasing output.
  - C) decreasing price and leaving output unchanged.
  - D) decreasing output and leaving prices unchanged.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Application



## Chapter 8 Monopoly

107. Using the information below, the monopolist will select its profit-maximizing level of output somewhere within the:

The following table shows the demand schedule facing a monopolist:

P	Qd
\$10	1
7	2
5	3
3	4
1	5

- A) 3-5 unit range of output.
- B) 1-3 unit range of output.
- C) 1-4 unit range of output.
- D) 2-4 unit range of output.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Calculation

108. The data below relate to a monopolist and the product it produces. What is the profit-maximizing output and price for this monopolist?

<u>P</u>	<u>Q</u>	<u>TC</u>
\$22	0	\$20
20	1	24
18	2	27
15	3	32
14	4	40
12	5	49
10	6	59

- A) P = \$14; Q = 4
- B) P = \$15; Q = 3
- C) P = \$12; Q = 5
- D) P = \$18; Q = 2

Ans: A Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Calculation

## Chapter 8 Monopoly

109. A monopolist is producing an output such that  $ATC = \$4$ ,  $P = \$5$ ,  $MC = \$2$ , and  $MR = \$3$ . This firm is realizing:

- A) a loss which could be reduced by producing more output.
- B) a loss which could be reduced by producing less output.
- C) an economic profit which could be increased by producing more output.
- D) an economic profit which could be increased by producing less output.

Ans: C Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Application

110. If a monopolist's marginal revenue is \$3.00 and its marginal cost is \$4.50, it will increase its profits by:

- A) reducing output and raising price.
- B) reducing both output and price.
- C) increasing both price and output.
- D) raising price while keeping output unchanged.

Ans: A Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Application

Use the following to answer question 111:

The following data show the relationship between output, total costs, and total revenue for a monopoly.

<u>Output</u>	<u>TC</u>	<u>TR</u>
50	\$ 750	\$1,000
60	800	1,100
70	950	1,250
80	1,200	1,450
90	1,300	1,500

111. Within which of the following ranges of output will the firm earn maximum economic profits?

- A) 50 to 60 units
- B) 60 to 70 units
- C) 70 to 80 units
- D) 80 to 90 units

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic:  $MR=MC$  Rule Type: Calculation

## Chapter 8 Monopoly

Use the following to answer questions 112-114:

The following is the information regarding the demand and cost of production for a monopolist:

<u>Output</u>	<u>Total</u> <u>cost</u>	<u>Product</u> <u>price</u>
0	\$250	\$500
1	260	300
2	290	250
3	350	200
4	480	150
5	700	100

112. Refer to the above information, how many units would the profit-maximizing monopolist produce?

- A) 1
- B) 2
- C) 3
- D) 4

Ans: C Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Calculation

113. Refer to the above information, the monopolist should set its price at:

- A) \$150.
- B) \$250.
- C) \$200.
- D) \$200.

Ans: D Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Calculation

114. Refer to the above information, at its profit-maximizing output, the monopolist:

- A) incurs a loss.
- B) earns an economic profit of \$250.
- C) earns a normal profit of \$250.
- D) earns an economic profit of \$150.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Calculation

## Chapter 8 Monopoly

115. If the variable costs of a profit-maximizing monopolist decline, the firm should:

- A) produce more output and charge a higher price.
- B) produce more output and charge a lower price.
- C) reduce both output and price.
- D) raise both output and price.

Ans: B Level: Difficult Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Application

116. To maximize profit a monopolist must:

- A) maximize its total revenue.
- B) maximize the difference between marginal revenue and marginal cost.
- C) maximize the difference between total revenue and total cost.
- D) produce where average total cost is at a minimum.

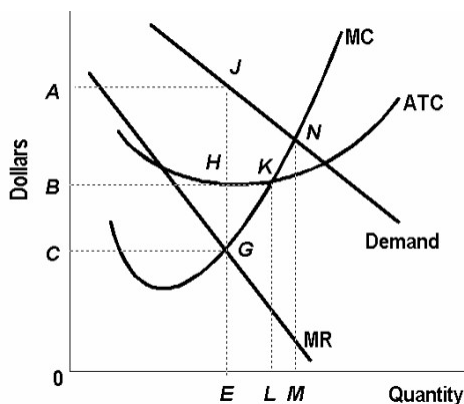
Ans: C Level: Easy Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Application

117. When a monopolist is producing its profit -maximizing output, price will:

- A) be less than MR.
- B) equal neither MC nor MR.
- C) equal MR.
- D) equal MC.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Application

Use the following to answer questions 118-121:



## Chapter 8 Monopoly

118. Refer to the diagram above. To maximize profits or minimize losses this firm should produce:

- A) E units and charge price C.
- B) E units and charge price A.
- C) M units and charge price N.
- D) L units and charge price LK.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Graphic

119. Refer to the diagram above. In equilibrium total revenue will be:

- A) NM times OM.
- B) OEHB.
- C) OEGC.
- D) OAJE.

Ans: D Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Graphic

120. Refer to the diagram above. In equilibrium total cost will be:

- A) NM times OM.
- B) OAJE.
- C) OCGC.
- D) OBHE.

Ans: D Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Graphic

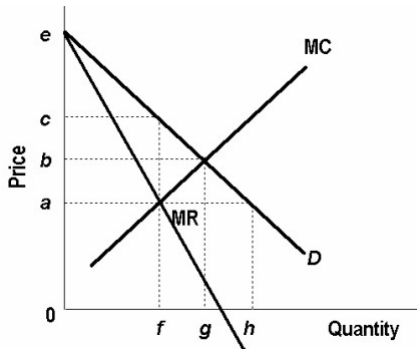
121. Refer to the diagram above. In equilibrium the firm will realize:

- A) an economic profit of ABHJ.
- B) an economic profit of ACGJ.
- C) a loss of GH per unit.
- D) a loss of JH per unit.

Ans: A Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Graphic

## Chapter 8 Monopoly

Use the following to answer questions 122-124:



122. Refer to the diagram above for a monopolist. Monopoly price will be:

- A) e.
- B) c.
- C) b.
- D) a.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Graphic

123. Refer to the diagram above for a monopolist. Monopoly output will be:

- A) between f and g.
- B) h.
- C) g.
- D) f.

Ans: D Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Graphic

124. Refer to the diagram above for a monopolist. Monopoly profit:

- A) cannot be determined from the information given.
- B) will be ae per unit.
- C) will be bc per unit.
- D) will be ac per unit.

Ans: A Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Graphic

## Chapter 8 Monopoly

125. A monopolist:

- A) will realize an economic profit if price exceeds ATC at the equilibrium output.
- B) will realize an economic profit if ATC exceeds MR at the equilibrium output.
- C) will realize an economic loss if MC intersects the downward sloping portion of MR.
- D) always realizes an economic profit.

Ans: A Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Subtopic: MR=MC Rule Type: Application

126. The supply curve for a monopolist is:

- A) perfectly elastic.
- B) upward sloping.
- C) that portion of the marginal cost curve lying above minimum average variable cost.
- D) nonexistent.

Ans: D Level: Easy Main Topic: 8.2 Output and price determination Page: 201  
Subtopic: No monopoly supply curve Type: Application

127. The supply curve for a monopoly is:

- A) the portion of the marginal cost curve that lies above the average variable cost curve.
- B) the portion of the marginal cost curve that lies above the average total cost curve.
- C) the portion of the marginal cost curve that lies above the average fixed cost curve.
- D) nonexistent.

Ans: D Level: Easy Main Topic: 8.2 No monopoly supply curve Page: 201  
Type: Application

128. The supply curve of a monopolist:

- A) is that portion of its marginal cost curve which lies above average variable cost.
- B) is the same as that of a perfect competitive industry.
- C) is its average variable cost curve.
- D) does not exist because prices are not "given" to a monopolist.

Ans: D Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 201 Subtopic: No monopoly supply curve Type: Application

## Chapter 8 Monopoly

129. A profit maximizing monopolist seeks to:
- A) maximize the unit profit.
  - B) maximize the total profit.
  - C) maximize the price of the product she/he sells.
  - D) maximize the quantity of the output she/he sells.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 202 Subtopic: Misconception about monopoly pricing Type: Application

130. A profit maximizing monopolist prefers to:
- A) sell higher quantity of output at a lower price.
  - B) sell a fixed quantity of output at higher price.
  - C) maximize the price of the product she/he sells.
  - D) sell as many units of output as the consumers wish to buy.

Ans: A Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 202 Subtopic: Misconception about monopoly pricing Type: Application

131. If a monopolist is producing at that output where  $P = ATC$ , then:
- A) its economic profits will be zero.
  - B) it will be realizing losses.
  - C) it will be producing less than the profit-maximizing level of output.
  - D) it will be realizing an economic profit.

Ans: A Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 202 Subtopic: Possibility of losses by monopolist Type: Application

132. A monopolist's short-run profit-maximizing or loss-minimizing position is such that price:
- A) equals marginal revenue.
  - B) may be greater or less than ATC.
  - C) will always equal ATC.
  - D) always exceeds ATC.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 202 Subtopic: Possibility of losses by monopolist Type: Application

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

Ans: B Level: Easy Main Topic: 8.2 Output and price determination Page: 202  
Subtopic: Possibility of losses by monopolist Type: Application



## Chapter 8 Monopoly

134. In the short run, a monopolist's economic profits:

- A) are always positive because the monopolist is a price-maker.
- B) are usually negative because of government price regulation.
- C) are always zero because consumers prefer to buy from competitive sellers.
- D) may be positive or negative depending on market demand and cost.

Ans: D Level: Easy Main Topic: 8.2 Output and price determination Page: 202  
Subtopic: Possibility of losses by monopolist Type: Application

135. In the short run, a monopolist's profits:

- A) may be positive, negative, or zero.
- B) are positive because of the monopolist's market power.
- C) are positive if the monopolist's elasticity of demand is less than 1.
- D) are positive if the monopolist's selling price is above average variable cost.

Ans: A Level: Easy Main Topic: 8.2 Output and price determination Page: 202  
Subtopic: Possibility of losses by monopolist Type: Application

136. In the short run a monopolist:

- A) always earns an economic profit.
- B) always earns a normal profit.
- C) always realizes a loss.
- D) may realize an economic profit, a normal profit, or a loss.

Ans: D Level: Easy Main Topic: 8.2 Output and price determination Page: 202  
Subtopic: Possibility of losses by monopolist Type: Application

137. Economic profit in the long run is:

- A) possible for both a monopoly and a competitor.
- B) possible for a monopoly, but not for a competitor.
- C) impossible for both a monopolist and a competitor.
- D) only possible when barriers to entry are nonexistent.

Ans: B Level: Moderate Main Topic: 8.2 Output and price determination Page: 202  
Subtopic: Possibility of losses by monopolist Type: Application

138. Monopolists may earn economic profits in the long run because:

- A) of advertising.
- B) marginal revenue is constant as sales increase.
- C) of barriers to entry.
- D) of rising average fixed costs.

Ans: C Level: Easy Main Topic: 8.2 Output and price determination Page: 202  
Subtopic: Possibility of losses by monopolist Type: Application

## Chapter 8 Monopoly

139. Which of the following statements is incorrect?

- A) A monopolist's 100 percent market share ensures economic profits.
- B) The monopolist's marginal revenue is less than price for any given output greater than 1.
- C) A monopolistic firm produces a product having no close substitutes.
- D) A monopolist's demand curve is the industry demand curve.

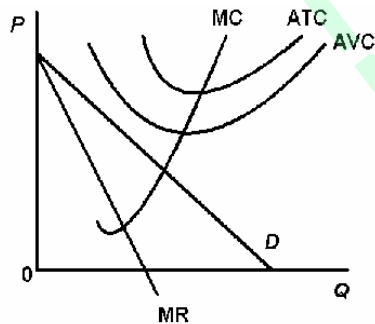
Ans: A Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 202 Subtopic: Possibility of losses by monopolist Type: Application

140. A profit-maximizing firm should shut down in the short run if the average revenue it receives is less than:

- A) average variable cost.
- B) average total cost.
- C) average fixed cost.
- D) marginal cost.

Ans: A Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 202 Subtopic: Possibility of losses by monopolist Type: Application

141. A profit-maximizing monopolist facing the situation shown in the graph below should:



- A) shut down immediately.
- B) continue producing to minimize losses.
- C) continue producing to make economic profits.
- D) continue producing as long as price is greater than marginal cost.

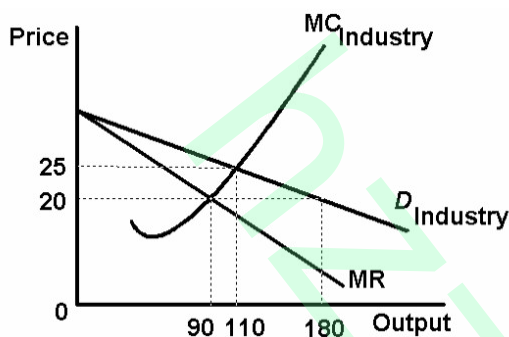
Ans: A Level: Easy Main Topic: 8.2 Output and price determination Page: 202  
Subtopic: Possibility of losses by monopolist Type: Graphic

## Chapter 8 Monopoly

142. Assuming no economies of scale and identical costs, if the firms in a perfect competitive industry were replaced by a profit-maximizing monopolist, the likely result would be a(n):
- A) increase in both price and output.
  - B) unchanged price and reduced output.
  - C) increase in price and unchanged output.
  - D) increase in price and reduced output.

Ans: D Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 203 Subtopic: Price, output, and efficiency Type: Application

143. Based on the graph below, what is the difference between the perfect competitive equilibrium level of output and the monopolist equilibrium level of output?

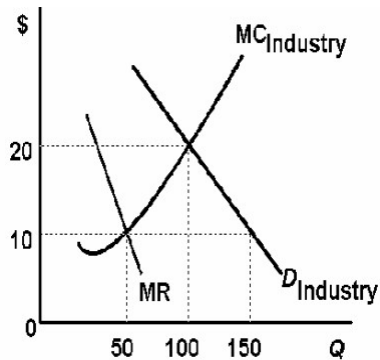


- A) 0
- B) 20
- C) 70
- D) 90

Ans: B Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 203 Subtopic: Price, output, and efficiency Type: Graphic

## Chapter 8 Monopoly

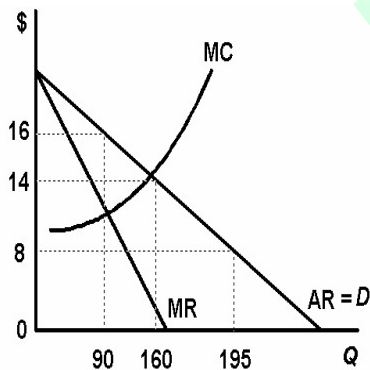
144. Based on the diagram below, what is the difference between the perfect competitive level of output and the monopolist level of output?



- A) 0
- B) 20
- C) 50
- D) 100

Ans: C Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 203 Subtopic: Price, output, and efficiency Type: Graphic

145. Using the graph below, what is the difference between perfect competitive and monopolist output at the industry level?



- A) 0
- B) 35
- C) 105
- D) 70

Ans: D Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 203 Subtopic: Price, output, and efficiency Type: Graphic

## Chapter 8 Monopoly

146. Confronted with the same unit cost data, a monopolistic producer will charge:

- A) the same price and produce the same output as a competitive firm.
- B) a higher price and produce a larger output than a competitive firm.
- C) a higher price and produce a smaller output than a competitive firm.
- D) a lower price and produce a smaller output than a competitive firm.

Ans: C Level: Difficult Main Topic: 8.3 Economic effects of monopoly

Page: 203 Subtopic: Price, output, and efficiency Type: Application

147. If a monopolist produces 100 units of output at a market price of \$5 per unit with marginal revenue per unit equal to \$4, we would expect that if the monopolist's product was provided under perfect competition, quantity would be:

- A) higher than 100 units, price lower than \$5, and  $MR = \text{price}$ .
- B) lower than 100 units, price greater than \$5, and  $MR = \text{price}$ .
- C) higher than 100 units, price greater than \$5, and  $MR = \text{price}$ .
- D) lower than 100 units, price lower than \$5, and  $MR = \text{price}$ .

Ans: A Level: Difficult Main Topic: 8.3 Economic effects of monopoly

Page: 203 Subtopic: Price, output, and efficiency Type: Application

148. Compared to the perfect competitive firm, a monopoly:

- A) is able to use barriers to entry and maintain positive economic profits in the long run.
- B) produces an equal amount of output, but charges higher prices to cover all costs in the market.
- C) is efficient from society's perspective because it has big plants and it uses the newest possible production technology.
- D) will always become competitive in the long run because positive economic profits will induce competitors into the market.

Ans: A Level: Easy Main Topic: 8.3 Economic effects of monopoly Page: 203

Subtopic: Price, output, and efficiency Type: Application

149. If a monopolized industry should become perfect competitive without any change in cost conditions:

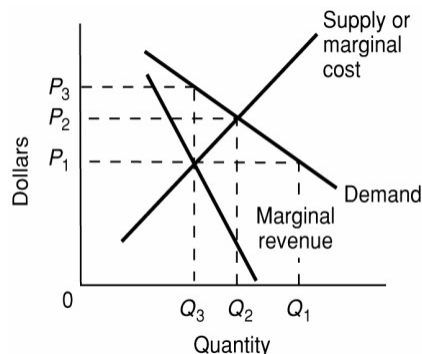
- A) both price and quantity produced will increase.
- B) both price and quantity produced will decrease.
- C) price will increase and quantity produced will decrease.
- D) price will decrease and quantity produced will increase.

Ans: D Level: Easy Main Topic: 8.3 Economic effects of monopoly Page: 203

Subtopic: Price, output, and efficiency Type: Application

## Chapter 8 Monopoly

Use the following to answer questions 150-151:



150. Refer to the diagram above. If this industry is perfectly competitive, the profit-maximizing price and quantity will be:

- A)  $P_2$  and  $Q_2$ .
- B)  $P_1$  and  $Q_1$ .
- C)  $P_3$  and  $Q_3$ .
- D) indeterminate on the basis of the information given.

Ans: A Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Graphic

151. Refer to the diagram above. If this diagram illustrates a monopolistic firm, the profit-maximizing price and quantity will be:

- A)  $P_1$  and  $Q_1$ .
- B)  $P_3$  and  $Q_3$ .
- C)  $P_2$  and  $Q_2$ .
- D) indeterminate on the basis of the information given.

Ans: B Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Graphic

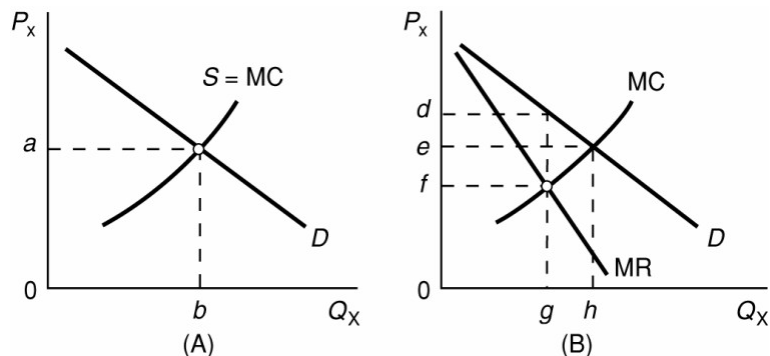
152. Comparing a monopoly and a perfect competitive firm with identical costs, we would find in long-run equilibrium that the monopolist's:

- A) price, output, and average total cost would all be higher.
- B) price and average total cost would be higher, but output would be lower.
- C) price, output, and average total cost would all be lower.
- D) price and output would be lower, but average total cost would be higher.

Ans: B Level: Difficult Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Application

## Chapter 8 Monopoly

Use the following to answer questions 153-158:



153. Refer to the diagrams above. Diagram (A) represents:
- A) equilibrium price and quantity in a perfect competitive industry.
  - B) the monopoly model.
  - C) an industry in which there is productive efficiency but not allocative efficiency.
  - D) a single firm operating in a perfect competitive industry.

Ans: A Level: Easy Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Graphic

154. Refer to the diagrams above. Diagram (B) represents:
- A) the perfect competition model.
  - B) an industry in which there is allocative efficiency but not productive efficiency.
  - C) the monopoly model.
  - D) a long-run constant-cost industry.

Ans: C Level: Easy Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Graphic

155. Refer to the diagrams above. In diagram (B) the profit-maximizing quantity is:
- A)  $g$  and the profit-maximizing price is  $e$ .
  - B)  $h$  and the profit-maximizing price is  $e$ .
  - C)  $g$  and the profit-maximizing price is  $f$ .
  - D)  $g$  and the profit-maximizing price is  $d$ .

Ans: D Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Graphic

## Chapter 8 Monopoly

156. Refer to the diagrams above. With the industry structure represented by diagram:
- A) (A) there will be only a normal profit in the long run, while in (B) an economic profit can persist.
  - B) (A) price exceeds marginal cost, resulting in allocative inefficiency.
  - C) (B) price equals marginal cost, resulting in allocative efficiency.
  - D) (B) equilibrium price and quantity will be e and h, respectively.

Ans: A Level: Difficult Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Graphic

157. Refer to the diagrams above. With the industry structure represented by diagram:
- A) (A) there will be allocative inefficiency.
  - B) (A) economic profit can persist in the long run.
  - C) (B) output will be less than in diagram (A).
  - D) (B) output will be the same as in diagram (A).

Ans: C Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Graphic

158. Refer to the diagrams above. The price will be \_\_\_\_\_ and the quantity will be \_\_\_\_\_ with the industry structure represented by diagram (B) compared to the one represented in (A).
- A) higher; higher.
  - B) higher; lower.
  - C) lower; lower.
  - D) lower; higher.

Ans: B Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Graphic

159. Which of the following statements is correct?
- A) The monopolist will maximize profit by producing at that point on the demand curve where elasticity is unity.
  - B) In seeking the profit-maximizing output the monopolist underallocates resources to its production.
  - C) The monopolist maximizes profits by producing that output at which the differential between price and average cost is the greatest.
  - D) the monopolistic sellers earn only normal profits in the long run.

Ans: B Level: Difficult Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Application



## Chapter 8 Monopoly

160. An important economic problem associated with monopoly is that, at the profit maximizing outputs, resources are:

- A) overallocated because price exceeds marginal cost.
- B) overallocated because marginal cost exceeds price.
- C) underallocated because price exceeds marginal cost.
- D) underallocated because marginal cost exceeds price.

Ans: C Level: Difficult Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Application

161. A single-price monopoly is economically undesirable because, at the profit maximizing output:

- A) marginal revenue exceeds product price at all profitable levels of production.
- B) monopolists always price their products on the basis of the ability of consumers to pay rather than on costs of production.
- C)  $MC > P$ .
- D) society values additional units of the monopolized product more highly than it does the alternative products those resources could otherwise produce.

Ans: D Level: Difficult Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Application

162. At its profit-maximizing output, a monopolist achieves:

- A) neither "productive efficiency" nor "allocative efficiency."
- B) both "productive efficiency" and "allocative efficiency."
- C) "productive efficiency" but not "allocative efficiency."
- D) "allocative efficiency" but not "productive efficiency."

Ans: A Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Application

163. Monopolists are said to be allocatively inefficient because:

- A) they produce where  $MR > MC$ .
- B) at the profit-maximizing output price is greater than AVC.
- C) they produce only the type of product they desire and do not consider the consumer.
- D) at the profit-maximizing output the marginal benefit to society of additional output is greater than the marginal cost to society.

Ans: D Level: Difficult Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Application

## Chapter 8 Monopoly

164. Allocative inefficiency due to unregulated monopoly is characterized by the condition:

- A)  $P = MC$ .
- B)  $P = MR$ .
- C)  $P > MC$ .
- D)  $P > AVC$ .

Ans: C Level: Difficult Main Topic: 8.3 Economic effects of monopoly

Page: 203-204 Subtopic: Price, output, and efficiency Type: Formula

165. The profit-maximizing output of a monopoly is economically inefficient because in equilibrium:

- A) price equals minimum average total cost.
- B) marginal revenue equals marginal cost.
- C) marginal cost exceeds price.
- D) price exceeds marginal cost.

Ans: D Level: Difficult Main Topic: 8.3 Economic effects of monopoly

Page: 203-204 Subtopic: Price, output, and efficiency Type: Application

166. A single-price monopoly is economically inefficient:

- A) only because it produces beyond the point of minimum average total cost.
- B) only because it produces short of the point of minimum average total cost.
- C) because it produces short of minimum average cost and price is greater than marginal cost.
- D) because it produces beyond minimum average total cost and marginal cost is greater than price.

Ans: C Level: Difficult Main Topic: 8.3 Economic effects of monopoly

Page: 203-204 Subtopic: Price, output, and efficiency Type: Application

167. Which is a major criticism of a monopoly as a source of allocative inefficiency?

- A) a monopolist fails to expand output to the level where the consumers' valuation of an additional unit is just equal to its opportunity cost.
- B) a monopolist has no incentive to produce efficiently, because even the inefficient monopolist can be assured of economic profits.
- C) a monopolist will always make profits and that means that prices are too high.
- D) a monopolist has an unfair advantage because it can purchase labour at a lower price than competitive firms in other industries.

Ans: A Level: Difficult Main Topic: 8.3 Economic effects of monopoly

Page: 203-204 Subtopic: Price, output, and efficiency Type: Application

## Chapter 8 Monopoly

168. A monopolist is generally viewed as:

- A) productively efficient, but allocatively inefficient.
- B) productively inefficient, but allocatively efficient.
- C) both productively and allocatively inefficient.
- D) both productively and allocatively efficient.

Ans: C Level: Easy Main Topic: 8.3 Economic effects of monopoly  
Page: 203-204 Subtopic: Price, output, and efficiency Type: Application

169. It has been argued that in general, the existence of monopoly increases the income inequality in a society. This is because:

- A) monopoly profit is distributed equally among all the consumers.
- B) Monopoly increases the efficiency of the market.
- C) Higher income groups own a larger proportion of the corporate stocks.
- D) A monopolist charges a lower price for its product as compared with perfect competition.

Ans: C Level: Easy Main Topic: 8.3 Economic effects of monopoly Page: 204  
Subtopic: Income transfer Type: Application

170. If a monopolist is producing more output than the  $MR = MC$  output:

- A) the firm may, or may not, be maximizing profits.
- B) it will be in the interest of the firm, but not necessarily of society, to reduce output.
- C) it will be in the interest of the firm and society to increase output.
- D) it will be in the interest of the firm and society to reduce output.

Ans: B Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 204 Subtopic: Income transfer Type: Application

171. A natural monopoly occurs when:

- A) long-run average costs decline continuously through the range of demand.
- B) a firm owns or controls some resource essential to production.
- C) long-run average costs rise continuously as output is increased.
- D) economies of scale are obtained at relatively low levels of output.

Ans: A Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 204-205 Subtopic: Cost complications Type: Application

## Chapter 8 Monopoly

172. 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: 8.3 Economic effects of monopoly  
Page: 204-205 Subtopic: Cost complications Type: Definition

173. Which of the following is characteristic of a regulated "natural monopoly"?
- A) extensive economies of scale
  - B) the wasteful duplication of capital facilities in the event of competition
  - C) the provision of an essential service
  - D) all of the above

Ans: D Level: Easy Main Topic: 8.3 Economic effects of monopoly  
Page: 204-205 Subtopic: Cost complications Type: Application

174. A market in which the entire demand for a good or service can be satisfied at the least cost by a single firm is a:
- A) horizontal market.
  - B) natural monopoly.
  - C) contestable market.
  - D) perfect market.

Ans: B Level: Easy Main Topic: 8.3 Economic effects of monopoly  
Page: 204-205 Subtopic: Cost complications Type: Definition

175. Large minimum efficient scale of plant combined with limited market demand may lead to:
- A) natural monopoly.
  - B) patent monopoly
  - C) government franchise monopoly.
  - D) shared monopoly.

Ans: A Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 204-205 Subtopic: Cost complications Type: Application

## Chapter 8 Monopoly

176. The ability of a product to satisfy a large number of consumers simultaneously is called:
- A) Economies of scale
  - B) X-inefficiency
  - C) Price discrimination
  - D) Simultaneous consumption

Ans: D Level: Easy Main Topic: 8.3 Economic effects of monopoly Page: 205  
Subtopic: Cost complications Type: Definition

177. Some firms in the technology sector have achieved economies of scale because costs have been reduced by:
- A) simultaneous consumption.
  - B) socially optimal pricing..
  - C) fair return pricing.
  - D) price discrimination

Ans: A Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 205 Subtopic: Cost complications Type: Application

178. What is the term that refers to increases in the value of a product to each user, including existing users, as the total number of users increases?
- A) income transfer
  - B) price discrimination
  - C) simultaneous consumption
  - D) network effects

Ans: D Level: Easy Main Topic: 8.3 Economic effects of monopoly  
Page: 205 Subtopic: Cost complications Type: Definition

179. Some firms in the technology sector have achieved economies of scale because costs have been reduced by:
- A) price discrimination.
  - B) rent-seeking.
  - C) network effects.
  - D) fair-return pricing.

Ans: C Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 205 Subtopic: Cost complications Type: Application

## Chapter 8 Monopoly

180. The term "X-inefficiency" refers to a situation in which a firm:
- A) is not as technologically progressive as it might be.
  - B) encounters diseconomies of scale.
  - C) fails to realize all existing economies of scale.
  - D) fails to achieve the minimum average total costs attainable at each level of output.

Ans: D Level: Easy Main Topic: 8.3 Economic effects of monopoly  
Page: 205 Subtopic: Cost complications Type: Definition

181. There is some evidence to suggest that X-inefficiency is:
- A) absent whenever two or more producers are competing with one another.
  - B) not encountered in either competitive or monopolistic firms.
  - C) more likely to occur in monopolistic firms than in competitive firms.
  - D) more likely to occur in competitive firms than in monopolistic firms.

Ans: C Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 205 Subtopic: Cost complications Type: Application

182. X-inefficiency is said to occur when a firm's:
- A) average costs of producing any output are greater than the minimum possible average costs.
  - B) marginal costs of producing any output are greater than the minimum possible total costs.
  - C) total costs of producing any output are greater than the minimum possible average costs.
  - D) short-run costs of producing any output are greater than the long-run costs.

Ans: A Level: Easy Main Topic: 8.3 Economic effects of monopoly  
Page: 205 Subtopic: Cost complications Type: Definition

183. In general, the amount of X-inefficiency in an industry:
- A) increases as the amount of competition increases.
  - B) increases as the amount of competition decreases.
  - C) decreases as the amount of competition decreases.
  - D) has no relationship to the amount of competition in an industry

Ans: B Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 205 Subtopic: Cost complications Type: Application

## Chapter 8 Monopoly

184. Which statement is correct?

- A) monopolist firms tend to be more internally efficient than competitive firms because they have a single goal of profit maximization.
- B) monopolist firms are sheltered from competitive forces and such an environment makes them subject to X-inefficiency.
- C) monopolist firms are in industries with low barriers to entry that tend to lower the cost of producing products.
- D) competitive firms tend to be more efficient than monopolist firms because they maximize per unit profits, not total profits.

Ans: B Level: Difficult Main Topic: 8.3 Economic effects of monopoly

Page: 205 Subtopic: Cost complications Type: Application

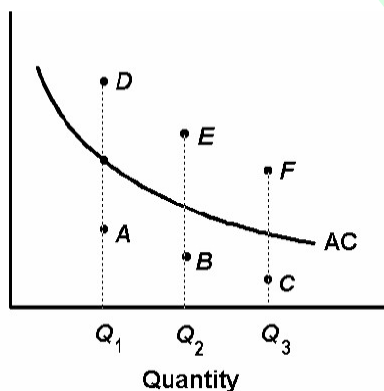
185. In which one of the following market models is X-inefficiency most likely to be the greatest?

- A) perfect competition
- B) oligopoly
- C) monopolistic competition
- D) monopoly

Ans: D Level: Moderate Main Topic: 8.3 Economic effects of monopoly

Page: 205-206 Subtopic: Cost complications Type: Application

Use the following to answer questions 186-189:



186. If the ATC curve in the graph above represents the minimum of the average total cost curve, then examples of X-inefficiency would best be represented by point:

- A) A at output level  $Q_1$  and point D at output level  $Q_1$ .
- B) A at output level  $Q_1$  and point B at output level  $Q_2$ .
- C) E at output level  $Q_2$  and point F at output level  $Q_3$ .
- D) D at output level  $Q_1$  and point C at output level  $Q_3$ .

Ans: C Level: Moderate Main Topic: 8.3 Economic effects of monopoly

Page: 205-206 Subtopic: Cost complications Type: Graphic

## Chapter 8 Monopoly

187. Refer to the long-run cost diagram for a firm above. If the firm produces output  $Q_1$  at an average total cost of  $ATC_1$ , then the firm is:

- A) producing the potentially profit-maximizing output, but is failing to minimize production costs.
- B) incurring X-inefficiency, but is realizing all existing economies of scale.
- C) incurring X-inefficiency and is failing to realize all existing economies of scale.
- D) producing that output with the most efficient combination of inputs and is realizing all economies of scale.

Ans: C Level: Difficult Main Topic: 8.3 Economic effects of monopoly

Page: 205-206 Subtopic: Cost complications Type: Graphic

188. Refer to the long-run cost diagram for a firm above. If the firm produces output  $Q_2$  at an average cost of  $ATC_2$ , then the firm is:

- A) producing the potentially profit-maximizing output, but is failing to minimize production costs.
- B) incurring X-inefficiency, but is producing that output at which all existing economies of scale might be realized.
- C) incurring X-inefficiency and is failing to produce the output at which all economies of scale might be realized.
- D) producing that output with the most efficient combination of inputs and is realizing all existing economies of scale.

Ans: B Level: Difficult Main Topic: 8.3 Economic effects of monopoly

Page: 205-206 Subtopic: Cost complications Type: Graphic

189. Refer to the long-run cost diagram for a firm above. If the firm produces output  $Q_2$  at an average cost of  $ATC_3$ , then the firm is:

- A) producing the potentially profit-maximizing output, but is failing to minimize production costs.
- B) incurring X-inefficiency, but is realizing all existing economies of scale.
- C) incurring X-inefficiency and is failing to realize all existing economies of scale.
- D) producing that output with the most efficient combination of inputs and is realizing all existing economies of scale.

Ans: D Level: Difficult Main Topic: 8.3 Economic effects of monopoly

Page: 205-206 Subtopic: Cost complications Type: Graphic



## Chapter 8 Monopoly

190. In which one of the following market models is X-inefficiency least likely to be present?
- A) perfect competition
  - B) oligopoly
  - C) monopolistic competition
  - D) monopoly

Ans: A Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 205-206 Subtopic: Cost complications Type: Application

191. Any activity designed to transfer income or wealth to a particular individual or firm at society's expense is called:
- A) patent protection.
  - B) X-inefficiency.
  - C) price discrimination.
  - D) rent-seeking.

Ans: D Level: Easy Main Topic: 8.3 Economic effects of monopoly Page: 206  
Subtopic: Cost complications Type: Definition

192. Efforts by corporate lobbyists to obtain a license that would give a firm a monopoly over the production of a product would be an example of:
- A) rent-seeking.
  - B) price discrimination.
  - C) X-efficiency.
  - D) dynamic efficiency.

Ans: A Level: Easy Main Topic: 8.3 Economic effects of monopoly Page: 206  
Subtopic: Cost complications Type: Application

193. Assume the owners of the only gambling casino in Halifax spend large sums of money lobbying provincial government officials to protect their gambling monopoly. Economists refer to these expenditures as:
- A) rent seeking.
  - B) socially optimal pricing.
  - C) perfect price discrimination.
  - D) diseconomies of scale in production.

Ans: A Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 206 Subtopic: Cost complications Type: Definition

## Chapter 8 Monopoly

194. In response to a cost-reducing technological breakthrough in the production of its product, a profit-maximizing monopolist will normally:
- A) increase price and decrease production.
  - B) not change its level of output or price.
  - C) decrease the price it charges for its product.
  - D) increase its output and practice price discrimination.

Ans: C Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 207 Subtopic: Assessment and policy options Type: Application

195. The development of a new and distinct product:
- A) increases the advantage of an existing patent.
  - B) does not affect the advantage of an existing patent.
  - C) patent reduces the level of competition among firms.
  - D) undermines the advantage of an existing

Ans: D Level: Moderate Main Topic: 8.3 Economic effects of monopoly  
Page: 207 Subtopic: Assessment and policy options Type: Application

196. Price discrimination refers to:
- A) selling a given product for different prices at two different points in time.
  - B) any price above that which is equal to a minimum average total cost.
  - C) the selling of a given product at different prices which do not reflect cost differences.
  - D) the difference between the prices a perfect competitive seller and a monopolistic seller would charge.

Ans: C Level: Moderate Main Topic: 8.4 Price discrimination Page: 208  
Subtopic: Conditions Type: Definition

197. The practice of price discrimination is associated with monopoly because:
- A) it can be practiced whenever a firm's demand curve is downward sloping.
  - B) monopolists have considerable ability to control output and price.
  - C) monopolists usually realize economies of scale.
  - D) most monopolists sell differentiated products.

Ans: B Level: Moderate Main Topic: 8.4 Price discrimination Page: 208  
Subtopic: Conditions Type: Application

## Chapter 8 Monopoly

198. Which of the following is not a precondition for price discrimination?

- A) The commodity involved must be a durable good.
- B) The good or service cannot be resold by original buyers.
- C) The seller must be able to segment the market, that is, to distinguish buyers with different elasticities of demand.
- D) The seller must possess some degree of monopoly power.

Ans: A Level: Easy Main Topic: 8.4 Price discrimination Page: 208  
Subtopic: Conditions Type: Application

199. The economic incentive for price discrimination depends on:

- A) prejudices of business managers.
- B) differences among buyers' demand elasticities.
- C) a desire to evade antitrust legislation.
- D) differences among sellers' costs.

Ans: B Level: Easy Main Topic: 8.4 Price discrimination Page: 208  
Subtopic: Conditions Type: Application

200. To practice price discrimination, a firm must meet each of the conditions listed below, except:

- A) the firm must have some degree of monopoly power.
- B) the firm must be able to separate its customers into two or more groups with different demand elasticities for the product the firm produces.
- C) purchasers of the firm's product cannot resell it.
- D) the firm's production schedule must entail economies of scale.

Ans: D Level: Moderate Main Topic: 8.4 Price discrimination Page: 208  
Subtopic: Conditions Type: Application

201. To practice price discrimination, a monopolist must:

- A) be a natural monopoly.
- B) charge one price to all buyers.
- C) permit the resale of the product by the original buyers.
- D) be able to separate buyers into different markets with different price elasticities.

Ans: D Level: Easy Main Topic: 8.4 Price discrimination Page: 208  
Subtopic: Conditions Type: Application

## Chapter 8 Monopoly

202. Successful price discrimination requires that:

- A) buyers with inelastic demand be charged higher prices than buyers with elastic demand.
- B) buyers with inelastic demand be charged lower prices than buyers with elastic demand.
- C) all buyers be charged the same price regardless of their elasticity of demand.
- D) all buyers have the same price elasticity of demand.

Ans: A Level: Moderate Main Topic: 8.4 Price discrimination Page: 208  
Subtopic: Conditions Type: Application

203. Price discrimination is more common in service industries because:

- A) low price buyers will find it virtually impossible to resell the products of such industries to high price buyers.
- B) the costs of providing such industries' products to different groups of buyers varies dramatically.
- C) the price elasticity of demand is the same for all groups of buyers in these industries.
- D) all firms in these industries have significant monopoly power over price.

Ans: A Level: Moderate Main Topic: 8.4 Price discrimination Page: 208  
Subtopic: Conditions Type: Application

204. Which case below best represents a case of price discrimination?

- A) a major airline sells tickets to senior citizens at lower prices than to other passengers.
- B) an insurance company offers discounts to safe drivers.
- C) a utility company charges less for electricity used during "off-peak" hours, when it does not have to operate its less-efficient generating plants.
- D) a professional baseball team pays two players with identical batting averages different salaries.

Ans: A Level: Moderate Main Topic: 8.4 Price discrimination Page: 208-209  
Subtopic: Examples of price discrimination Type: Application

205. Which would definitely not be an example of price discrimination?

- A) A theatre charges children less than adults for a movie.
- B) Universities charge higher tuition for out-of-province students.
- C) A doctor charges for services according to the income of patients.
- D) An electric power company charges less for electricity used during off-peak hours when production costs are lower.

Ans: D Level: Easy Main Topic: 8.4 Price discrimination Page: 209  
Subtopic: Examples of price discrimination Type: Application

## Chapter 8 Monopoly

206. Which is the best example of price discrimination?

- A) an airline company charging lower fares per pound for air freight than for passengers
- B) a telephone company charging lower rates to weekend users than weekday users
- C) a supermarket charging lower prices in its inner city store than its out-of-town store
- D) a private doctor charging higher fees to patients receiving special services than patients receiving regular services

Ans: B Level: Moderate Main Topic: 8.4 Price discrimination Page: 209  
Subtopic: Examples of price discrimination Type: Application

207. Which of the following would be evidence of price discrimination at a local bar called the Stabilizer?

- A) charging higher prices than under perfect competition
- B) charging higher prices for imported than for domestic beer
- C) charging lower prices to customers wearing Stabilizer T-shirts
- D) charging lower prices to people who bring their own glasses and pitchers

Ans: C Level: Moderate Main Topic: 8.4 Price discrimination Page: 209  
Subtopic: Examples of price discrimination Type: Application

208. Which is not true of price discrimination?

- A) It exists when price differences depend critically on different buyers' evaluations of a product.
- B) Successful price discrimination will provide the firm with higher total revenue than if it does not discriminate.
- C) Successful price discrimination implies that the producer can separate customers into easily identifiable groups.
- D) Price discrimination will generally result in a lower level of output than would be the case under a single-price monopoly.

Ans: D Level: Moderate Main Topic: 8.4 Price discrimination Page: 209  
Subtopic: Examples of price discrimination Type: Application

## Chapter 8 Monopoly

209. Which is true of price discrimination?

- A) successful price discrimination will provide the firm with lower total profits than if it did not discriminate.
- B) successful price discrimination will provide the firm with higher total revenue than if it did not discriminate.
- C) price discrimination will generally result in a lower level of output than would be the case under a single-price monopoly.
- D) it exists when price differences depend critically on differences in the costs of production of serving different groups of buyers.

Ans: B Level: Moderate Main Topic: 8.4 Price discrimination Page: 209

Subtopic: Examples of price discrimination Type: Application

210. If a monopolist engages in price discrimination, we can expect:

- A) profits to increase and output to fall.
- B) both profits and output to increase.
- C) both profits and output to decrease.
- D) the demand curve to lie below the marginal revenue curve.

Ans: B Level: Moderate Main Topic: 8.4 Price discrimination Page: 209-210

Subtopic: Graphic analysis Type: Application

Use the following to answer questions 211-212:

Quantity demanded	Price	Total cost
0	\$600	\$ 200
1	550	300
2	500	350
3	450	410
4	400	490
5	350	600
6	300	740
7	250	920
8	200	1150
9	150	1440
10	100	1800

## Chapter 8 Monopoly

211. Refer to the table above. The profit-maximizing output and price for a non-price discriminating monopolist would be:

- A) 3 units and a \$450 price.
- B) 4 units and a \$400 price.
- C) 5 units and a \$350 price.
- D) 6 units and a \$300 price.

Ans: C Level: Moderate Main Topic: 8.4 Price discrimination Page: 209-210  
Subtopic: Graphic analysis Type: Calculation

212. Refer to the table above. Assume this monopolist is able to engage in price discrimination and sell the product to two different groups of consumers and charge each group according to their elasticities of demand. As a result, we expect that the profit level for this monopolist compare to non-price discriminating to be:

- A) lower.
- B) higher
- C) does not change.
- D) twice as much.

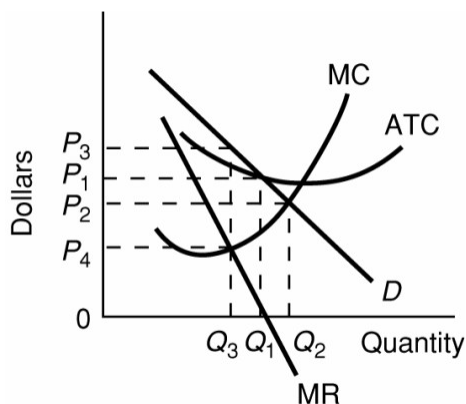
Ans: B Level: Difficult Main Topic: 8.4 Price discrimination Page: 209-210  
Subtopic: Graphic analysis Type: Application

213. If the long-run average total cost curve of an industry is declining at the point where it intersects the industry demand curve, we can expect:

- A) an overallocation of resources.
- B) the industry will be perfectly competitive.
- C) the industry will be monopolistically competitive.
- D) the industry will be a natural monopoly.

Ans: D Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211  
Subtopic: Socially optimal price:  $P=MC$  Type: Application

Use the following to answer questions 214-216:



## Chapter 8 Monopoly

214. Refer to the diagram for a monopolist above. If the monopolist is unregulated, it will maximize profits by charging:

- A) a price above  $P_3$  and selling a quantity less than  $Q_3$ .
- B) price  $P_3$  and producing output  $Q_3$ .
- C) price  $P_2$  and producing output  $Q_2$ .
- D) price  $P_1$  and producing output  $Q_1$ .

Ans: B Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211  
Subtopic: Socially optimal price:  $P=MC$  Type: Graphic

215. Refer to the diagram for a monopolist above. If the regulatory commission seeks to achieve the most efficient allocation of resources to this line of production, it will set a price of:

- A)  $P_1$ .
- B)  $P_3$ .
- C)  $P_4$ .
- D)  $P_2$ .

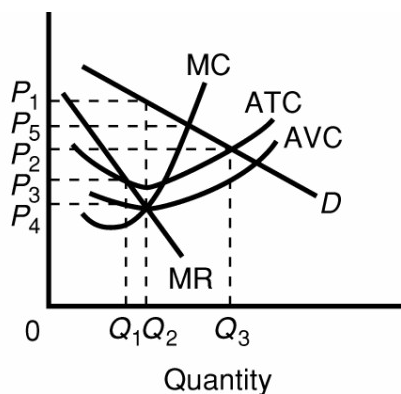
Ans: D Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211  
Subtopic: Socially optimal price:  $P=MC$  Type: Graphic

216. Refer to the diagram above. Suppose the government forces the monopolist shown above to charge the price at a point on its demand curve which results in an optimal allocation of scarce resources. As a result, the monopolist will:

- A) incur a loss.
- B) earn zero economic profits.
- C) earn more economic profits.
- D) earn less economic profits.

Ans: D Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211  
Subtopic: Socially optimal price:  $P=MC$  Type: Application

Use the following to answer questions 217-219:





## Chapter 8 Monopoly

217. Refer to the cost and demand data for an unregulated monopolist. In equilibrium the firm will produce:

- A)  $Q_1$  and charge price  $P_2$ .
- B)  $Q_2$  and charge price  $P_1$ .
- C)  $Q_2$  and charge price  $P_3$ .
- D)  $Q_3$  and charge price  $P_2$ .

Ans: B Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211  
Subtopic: Socially optimal price:  $P=MC$  Type: Graphic

218. Refer to the cost and demand data for an unregulated monopolist. In equilibrium the firm will realize a per unit:

- A) profit of  $P_1P_3$ .
- B) profit of  $P_1P_4$ .
- C) loss of  $P_3P_4$ .
- D) loss of  $P_1P_2$ .

Ans: A Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211  
Subtopic: Socially optimal price:  $P=MC$  Type: Graphic

219. Refer to the cost and demand data for a monopolist. Suppose this firm is deemed a natural monopoly and is subjected to a regulatory commission. If the commission seeks to achieve the most efficient allocation of resources for this firm, it should set its price at:

- A)  $P_1$ .
- B)  $P_2$ .
- C)  $P_4$ .
- D)  $P_5$ .

Ans: D Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211  
Subtopic: Socially optimal price:  $P=MC$  Type: Graphic

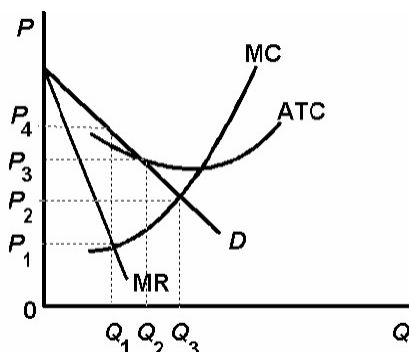
220. If a regulatory commission wants to establish an "optimal social" price for a natural monopoly, it should select that price:

- A) at which the marginal cost curve intersects the demand curve.
- B) at which marginal revenue is zero.
- C) at which the average total cost curve intersects the demand curve.
- D) which corresponds with the equality of marginal cost and marginal revenue.

Ans: A Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211  
Subtopic: Socially optimal price:  $P=MC$  Type: Application

## Chapter 8 Monopoly

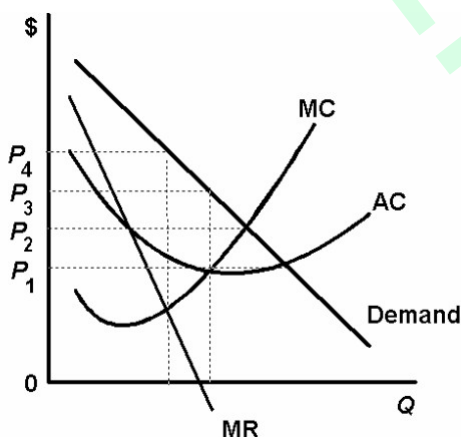
221. If the government regulated the monopoly shown in the graph below and forced it to produce the level of output where there is an optimal allocation of scarce resources, what price and quantity levels would we observe in the short run?



- A)  $P_1$  and  $Q_1$
- B)  $P_2$  and  $Q_3$
- C)  $P_3$  and  $Q_2$
- D)  $P_4$  and  $Q_1$

Ans: B Level: Difficult Main Topic: 8.5 Regulated monopoly Page: 211  
Subtopic: Socially optimal price:  $P=MC$  Type: Graphic

222. The following graph shows the short-run cost and revenue situation for a regulated monopoly. If this industry were to adopt a policy of marginal cost pricing it should set a price equal to:



- A)  $P_1$ .
- B)  $P_2$ .
- C)  $P_3$ .
- D)  $P_4$ .

Ans: B Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211  
Subtopic: Socially optimal price:  $P=MC$  Type: Graphic

## Chapter 8 Monopoly

223. Monopolists are said to be allocatively inefficient because:

- A) they produce where  $MR > MC$ .
- B) at the profit-maximizing output price is greater than  $AVC$ .
- C) they produce only the type of product they desire and do not consider the consumer.
- D) at the profit-maximizing output the marginal benefit to society of additional output is greater than the marginal cost to society.

Ans: D Level: Difficult Main Topic: 8.5 Regulated monopoly Page: 211

Subtopic: Socially optimal price:  $P=MC$  Type: Application

Use the following to answer question 224:

The following question is based on the demand and cost data for a monopolist given in the table.

Output	Price	Total cost
0	\$500	\$250
1	300	260
2	250	290
3	200	350
4	150	500
5	100	680

224. Refer to the information provided. If the monopolist were forced to produce the socially optimal output by the imposition of a ceiling price, the ceiling price would have to be:

- A) \$100.
- B) \$150.
- C) \$200.
- D) \$250.

Ans: B Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211

Subtopic: Socially optimal price:  $P=MC$  Type: Calculation

225. If a regulatory commission forces a natural monopoly to charge a price equal to its marginal cost:

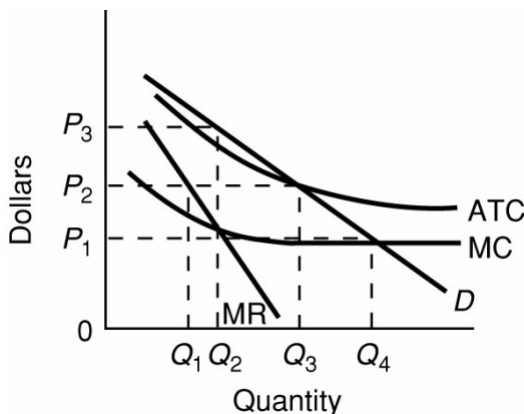
- A) the monopoly may incur a loss.
- B) resource allocation will be improved.
- C) output will increase.
- D) all of the above will occur.

Ans: D Level: Easy Main Topic: 8.5 Regulated monopoly Page: 211

Subtopic: Socially optimal price:  $P=MC$  Type: Application

## Chapter 8 Monopoly

Use the following to answer questions 226-228:



226. Refer to the diagram for a natural monopolist above. If a regulatory commission set a maximum price of  $P_1$ , the monopolist would:
- A) produce output  $Q_2$  and realize a normal profit.
  - B) produce output  $Q_4$  and realize a normal profit.
  - C) produce output  $Q_3$  and realize an economic profit.
  - D) produce output  $Q_4$  and realize a loss.

Ans: D Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211-212  
Subtopic: Fair-return price:  $P=ATC$  Type: Graphic

227. Refer to the above diagram for a natural monopolist. If a regulatory commission were to set a maximum price of  $P_3$ , the monopolist would:
- A) maximize profits.
  - B) increase output beyond the profit-maximizing level.
  - C) reduce output below the profit-maximizing level.
  - D) be unable to make a normal profit.

Ans: A Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211-212  
Subtopic: Fair-return price:  $P=ATC$  Type: Graphic

228. Refer to the above diagram for a natural monopolist. If a regulatory commission set a maximum price of  $P_2$ , the monopolist would:
- A) produce output  $Q_1$  and realize an economic profit.
  - B) produce output  $Q_3$  and realize an economic profit.
  - C) close down in the short run.
  - D) produce output  $Q_3$  and realize a normal profit.

Ans: D Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211-212  
Subtopic: Fair-return price:  $P=ATC$  Type: Graphic

## Chapter 8 Monopoly

229. Suppose for a regulated monopoly that price equals minimum ATC but price exceeds MC. This means that:

- A) both productive and allocative efficiency are being achieved.
- B) productive efficiency is being achieved, but not allocative efficiency.
- C) allocative efficiency is being achieved, but not productive efficiency.
- D) neither productive nor allocative efficiency is being achieved.

Ans: B Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211-212  
Subtopic: Fair-return price:  $P=ATC$  Type: Application

230. With a natural monopoly, the fair return price:

- A) is allocatively efficient; the socially optimal price is allocatively inefficient.
- B) is allocatively inefficient; the socially optimal price is allocatively efficient.
- C) and the socially optimal price are both allocatively inefficient.
- D) and the socially optimal price are both allocatively efficient

Ans: B Level: Difficult Main Topic: 8.5 Regulated monopoly Page: 211-212  
Subtopic: Fair-return price:  $P=ATC$  Type: Definition

231. If a regulatory commission forces a natural monopoly to charge a price which is equal to its average total cost:

- A) output will increase.
- B) the monopolist will realize a normal profit.
- C) resource allocation will be improved.
- D) all of the above will occur.

Ans: D Level: Easy Main Topic: 8.5 Regulated monopoly Page: 211-212  
Subtopic: Fair-return price:  $P=ATC$  Type: Application

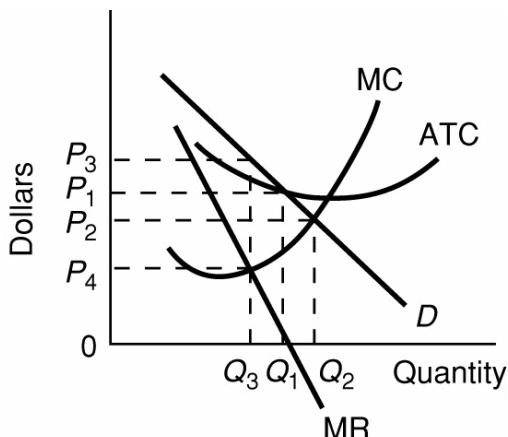
232. If a regulatory commission wants to provide a natural monopoly with a "fair return," it should establish that price which is equal to:

- A) minimum average fixed cost.
- B) average total cost.
- C) marginal cost.
- D) marginal revenue.

Ans: B Level: Easy Main Topic: 8.5 Regulated monopoly Page: 211-212  
Subtopic: Fair-return price:  $P=ATC$  Type: Application

## Chapter 8 Monopoly

Use the following to answer questions 233-234:



233. Refer to the above diagram for a monopolist. Suppose a regulatory commission is created to determine a legal price for the monopoly. If the commission seeks to provide the monopolist with a "fair return," it will set price at:

- A)  $P_1$ .
- B)  $P_3$ .
- C)  $P_2$ .
- D)  $P_4$ .

Ans: A Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211-212  
Subtopic: Fair-return price:  $P=ATC$  Type: Graphic

234. Refer to the above diagram for a monopolist. If the commission sets price to achieve the most efficient allocation of resources, it will have to:

- A) tax the monopolist  $P_3P_1$  per unit to prevent the monopolist from realizing an economic profit.
- B) subsidize the monopolist or the monopolist will go bankrupt in the long run.
- C) subsidize the monopolist  $P_1P_4$  per unit to allow the monopolist to break even.
- D) tax the monopolist  $P_1P_2$  per unit to prevent the monopolist from realizing an economic profit.

Ans: B Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 212  
Subtopic: Dilemma of regulation Type: Application

## Chapter 8 Monopoly

235. One argument for requiring the government to regulate natural monopolies is that:
- A) these monopolies usually produce things which are potentially harmful to our health.
  - B) without regulation these monopolies produce at a level where marginal benefit is greater than marginal cost.
  - C) without regulation these monopolies produce at a level where marginal benefit is less than marginal cost.
  - D) without regulation the industry would become competitive and there would be too many firms in the market to produce efficiently.

Ans: B Level: Difficult Main Topic: 8.5 Regulated monopoly Page: 212  
Subtopic: Dilemma of regulation Type: Application

236. An argument for making regulated monopolies adopt marginal cost pricing is that this would:
- A) increase productive efficiency by making price equal average cost.
  - B) benefit higher income groups by making monopoly products more affordable.
  - C) increase managerial incentives to reduce employment and production.
  - D) make the marginal cost equal to society's valuation of the marginal benefit.

Ans: D Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 212  
Subtopic: Dilemma of regulation Type: Application

237. If a regulatory commission imposes upon a non-discriminating natural monopoly a price which is equal to marginal cost and below average total cost at the resulting output, then:
- A) the firm will realize an economic profit.
  - B) the firm will earn only a normal profit.
  - C) allocative efficiency will be worsened.
  - D) the firm must be subsidized or it will go bankrupt.

Ans: D Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 212  
Subtopic: Dilemma of regulation Type: Application

238. A major criticism of industrial regulation is that:
- A) it has been applied to virtually all major Canadian corporations in the post-World War II period.
  - B) marginal cost pricing has created an underallocation of resources.
  - C) by allowing a "fair return" price, it gives natural monopolists little incentive to contain costs.
  - D) regulatory commissions have frequently caused natural monopolies to go bankrupt.

Ans: C Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 212  
Subtopic: Dilemma of regulation Type: Application

## Chapter 8 Monopoly

239. Critics of the regulation of natural monopolies contend that:

- A) regulation increases the incentive of firms to lower costs.
- B) regulated firms may use "creative accounting" to reduce costs, prices, and profits.
- C) when rates of return are based on the value of real capital, an uneconomic substitution of labour for capital may occur.
- D) the industry may "capture" or control the regulatory commission.

Ans: D Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 212  
Subtopic: Dilemma of regulation Type: Application

240. The "dilemma of regulation" refers to the notion that:

- A) the regulated price which achieves allocative efficiency is also likely to result in persistent economic profits.
- B) the regulated price which results in a "fair return" restricts output by more than would unregulated monopoly.
- C) regulated pricing always conflicts with the "due process" provision of the Canadian constitution.
- D) the regulated price which achieves allocative efficiency is also likely to result in losses.

Ans: D Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 212  
Subtopic: Dilemma of regulation Type: Definition

241. What is the meaning of the phrase "dilemma of regulation"?

- A) natural monopolies achieve economies of scale, but charge high prices when there is no government regulation; government regulation reduces prices, but results in diseconomies of scale
- B) natural monopolies are profitable, but only if the government permits price discrimination; government regulation to restrict price discrimination reduces monopoly prices, but the regulation also reduces monopoly output
- C) the fair return price achieves allocative efficiency, but may produce economic losses; the socially optimal price yields a normal profit but may not be allocatively efficient
- D) the socially optimal price achieves allocative efficiency, but may produce economic losses; the fair return price yields a normal profit but may not be allocatively efficient

Ans: D Level: Difficult Main Topic: 8.5 Regulated monopoly Page: 212  
Subtopic: Dilemma of regulation Type: Definition



## Chapter 8 Monopoly

242. The inefficiency brought about by monopoly is referred to as:

- A) price discrimination.
- B) reduction in output through government regulation.
- C) deadweight loss.
- D) monopoly's gain.

Ans: C Level: Easy Main Topic: 8.6 Monopoly and deadweight loss  
Page: 212-213 Type: Definition

243. If a monopolist set the quantity produced at  $MR=MC$  and charge a price according to the market demand curve, then:

- A) a deadweight loss is created as a result of a lower consumer surplus.
- B) a deadweight loss is created as a result of a higher consumer surplus.
- C) a deadweight loss is created as a result of a loss to the monopolist.
- D) a deadweight loss is created as a result of higher output produced and higher price charged by the monopolist.

Ans: A Level: Moderate Main Topic: 8.6 Monopoly and deadweight loss  
Page: 212-213 Type: Application

244. De Beers Consolidated Mines:

- A) produces about 70 percent of the world's diamonds in its own mines.
- B) produces about 45 percent of the world's diamond output
- C) produces about 30 percent of the world's diamond output
- D) does not produce diamonds, but exerts almost total control of their marketing.

Ans: B Level: Easy Main Topic: Last Word Page: 214 Type: Application

245. De Beers attempts to bring independent diamond mines into its monopoly by:

- A) convincing them that monopolized sales will maximize their profits.
- B) increasing the world supply and reducing the price of the particular kind of diamonds the independent mines produce.
- C) purchasing the output of independent mines to keep it off the world market.
- D) doing all of the above.

Ans: D Level: Moderate Main Topic: Last Word Page: 214  
Type: Application

246. What type of barrier to entry is used by De Beers to maintain its monopoly position?

- A) patent protection
- B) government regulation
- C) economies of scale
- D) ownership of an essential resource

Ans: D Level: Easy Main Topic: Last Word Page: 214 Type: Application

## Chapter 8 Monopoly

247. At the profit-maximizing level of output for the De Beers Consolidated Mines of South Africa:

- A) the demand for diamonds is price inelastic.
- B) average total cost equals marginal costs and equals product price.
- C) price is greater than average total cost and the firm makes substantial profits.
- D) price is less than average total cost and the firm experiences substantial losses.

Ans: C Level: Moderate Main Topic: Last Word Page: 214  
Type: Application

248. The monopoly position of De Beers has been maintained in recent years primarily by:

- A) cutting production and stockpiling.
- B) obtaining government licenses and patents.
- C) price discrimination and government regulation.
- D) expanding economies of scale in diamond production.

Ans: A Level: Easy Main Topic: Last Word Page: 214 Type: Application

249. The DeBeers' diamond monopoly has weakened somewhat in recent years primarily due to:

- A) emergence of high quality artificial diamonds that consumers find to be a perfect substitute for real diamonds.
- B) successful antitrust prosecution against DeBeers by various governments around the world.
- C) new discoveries of diamonds by firms currently not in partnership with DeBeers.
- D) the effectiveness of its "diamonds are forever" advertising campaign.

Ans: C Level: Easy Main Topic: Last Word Page: 214 Type: Application

250. Because of the ability to influence price, the monopolist can increase price and increase volume of sales simultaneously.

Ans: False Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 192-193 Type: Application

251. A perfect competitive firm is a price maker, but a monopolist is a price taker.

Ans: False Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 192-193 Type: Application

252. If the XYZ Company can sell 4 units per week at \$10 per unit and 5 units per week at \$9 per unit, the marginal revenue of the fifth unit is \$5.

Ans: True Level: Easy Main Topic: 8.1 Characteristics of monopoly  
Page: 196-197 Type: Calculation

## Chapter 8 Monopoly

253. In a monopoly, price is greater than marginal cost.

Ans: True Level: Easy Main Topic: 8.1 Characteristics of monopoly Page: 197  
Type: Application

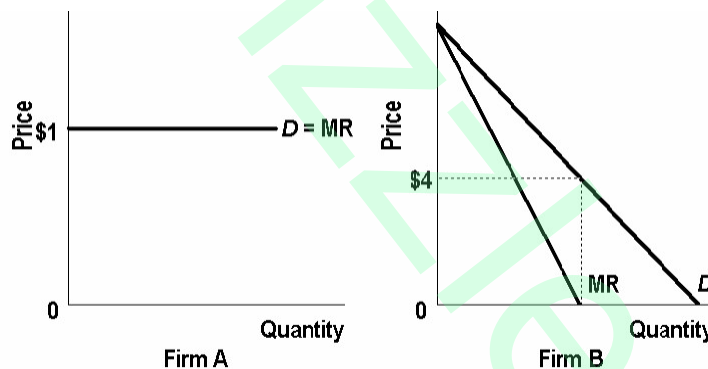
254. As a monopolist increases its output, it finds that its total revenue at first increases, and that after some output level is reached, its total revenue begins to decrease.

Ans: True Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Type: Application

255. A monopolist will avoid setting a price in the elastic segment of the demand curve and prefer to set the price in the inelastic segment.

Ans: False Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Type: Application

Use the following to answer questions 256-258:



256. Refer to the diagrams above. Firm B's average revenue curve coincides with its marginal revenue curve.

Ans: False Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Type: Graphic

257. Refer to the diagrams above. The demand for Firm B's product is elastic at all prices in excess of \$4.

Ans: True Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Type: Graphic

## Chapter 8 Monopoly

258. Refer to the diagrams above. The demand for Firm B's product is inelastic at all prices below \$4.

Ans: True Level: Moderate Main Topic: 8.1 Characteristics of monopoly  
Page: 197-198 Type: Graphic

259. Equilibrium for the monopolist occurs where  $P > MR > MC > \text{average total cost}$ .

Ans: False Level: Difficult Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Application

260. In the long run the monopolist must produce at that output where average total cost is at a minimum.

Ans: False Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Application

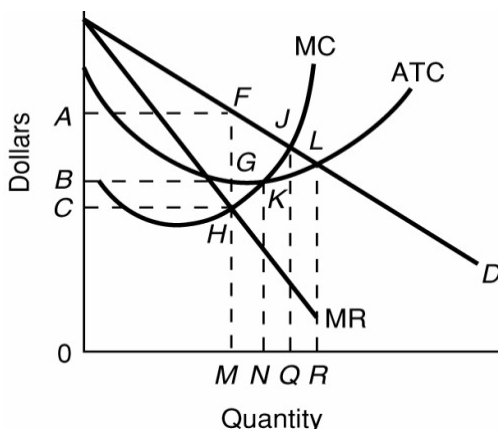
261. A monopolistic producer will maximize profits by producing at that output where price and marginal cost are equal.

Ans: False Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Application

262. In the short run the monopolist will maximize profits by producing at that level of output where the difference between price and average total cost is at a maximum.

Ans: False Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Application

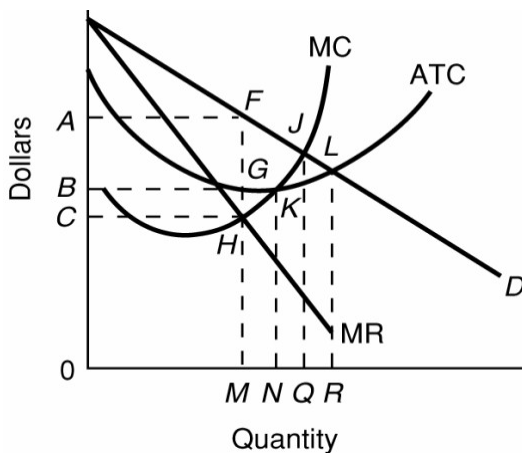
263. Refer to the diagram for a monopolist. The profit-maximizing output for this firm is M.



Ans: True Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Graphic

## Chapter 8 Monopoly

Use the following to answer questions 264-269:



264. Refer to the diagram for a monopolist. At the profit-maximizing output the firm's economic profit will be BAFG.

Ans: True Level: Difficult Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Graphic

265. Refer to the diagram for a monopolist. At output R economic profits will be zero.

Ans: True Level: Difficult Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Graphic

266. Refer to the diagram for a monopolist. At output Q production will be unprofitable.

Ans: False Level: Difficult Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Graphic

267. Refer to the diagram for a monopolist. The profit-maximizing price for this firm is J.

Ans: False Level: Moderate Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Graphic

268. Refer to the diagram for a monopolist. At output M total variable cost will be 0CHM.

Ans: False Level: Difficult Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Graphic

269. Refer to the diagram for a monopolist. At output Q average variable cost is QJ.

Ans: False Level: Difficult Main Topic: 8.2 Output and price determination  
Page: 199-201 Type: Graphic

## Chapter 8 Monopoly

270. The supply curve for the monopolist is upward sloping.

Ans: False   Level: Easy   Main Topic: 8.2 Output and price determination  
Page: 201   Type: Application

271. The supply curve for a monopolist is the upward sloping portion of the marginal cost curve that lies above the average variable cost curve.

Ans: False   Level: Moderate   Main Topic: 8.2 Output and price determination  
Page: 201   Type: Application

272. In a monopoly, price is less than minimum average total cost.

Ans: False   Level: Moderate   Main Topic: 8.2 Output and price determination  
Page: 202   Type: Application

273. Monopolistic producers always earn economic profits.

Ans: False   Level: Easy   Main Topic: 8.2 Output and price determination  
Page: 202   Type: Application

274. If a monopolist discovers that it is operating at a level of output where price < average variable costs, it will continue to operate in the short run.

Ans: False   Level: Moderate   Main Topic: 8.2 Output and price determination  
Page: 202   Type: Application

275. A monopolist will not charge the highest price it can get.

Ans: True   Level: Moderate   Main Topic: 8.2 Output and price determination  
Page: 202   Type: Application

276. A monopolist seeks maximum unit profits.

Ans: False   Level: Moderate   Main Topic: 8.2 Output and price determination  
Page: 202

277. In the short run the monopolist will charge the highest price the market will bear for its product.

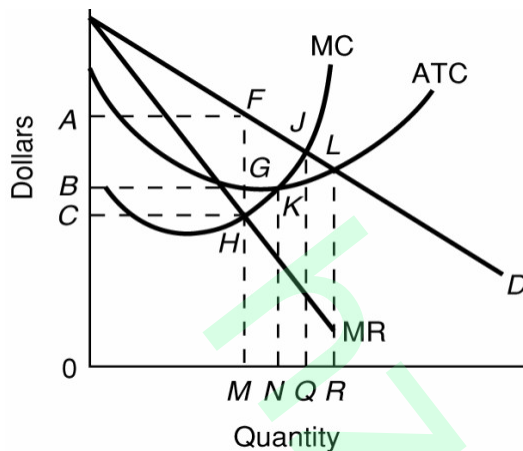
Ans: False   Level: Easy   Main Topic: 8.2 Output and price determination  
Page: 202   Type: Application

## Chapter 8 Monopoly

278. Because of their large-scale level of production, monopolists overallocate resources to their industry by producing beyond the  $P = MC$  output.

Ans: False    Level: Moderate    Main Topic: 8.3 Economic effects of monopoly  
Page: 203    Type: Application

279. Refer to the diagram for a monopolist. From society's point of view it would be desirable to have the monopolist produce a larger output than M.



Ans: True    Level: Easy    Main Topic: 8.3 Economic effects of monopoly  
Page: 203    Type: Graphic

280. One of the economic effects of monopoly is an income inequality.

Ans: True    Level: Easy    Main Topic: 8.3 Economic effects of monopoly  
Page: 204    Type: Application

281. Rent-seeking behaviour refers to activities designed to transfer income or wealth to a particular firm or resource supplier at someone else's or society's expense.

Ans: True    Level: Easy    Main Topic: 8.3 Economic effects of monopoly  
Page: 206    Type: Definition

282. Price discrimination is not viable if consumers can resell the products they purchase.

Ans: True    Level: Moderate    Main Topic: 8.4 Price discrimination    Page: 208  
Type: Application

## Chapter 8 Monopoly

283. Compared to a competitive firm, a price-discriminating monopolist will set a higher (average) price and produce at a lower (average) level of output.

Ans: False Level: Difficult Main Topic: 8.3 Economic effects of monopoly  
Page: 208-209 Type: Application

284. Without regulations, monopolists will produce at an output level where marginal benefit is greater than marginal cost.

Ans: True Level: Moderate Main Topic: 8.5 Regulated monopoly Page: 211  
Type: Application

285. The net loss of consumer surplus and producer surplus is referred to as deadweight loss.

Ans: True Level: Easy Main Topic: 8.6 Monopoly and deadweight loss  
Page: 212-213 Type: Definition

286. De Beer's past monopoly behaviour and the result of it are a classic example of a regulated monopoly model.

Ans: False Level: Easy Main Topic: The last word Page: 214  
Type: Application