

Microeconomics Test Prep 3

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

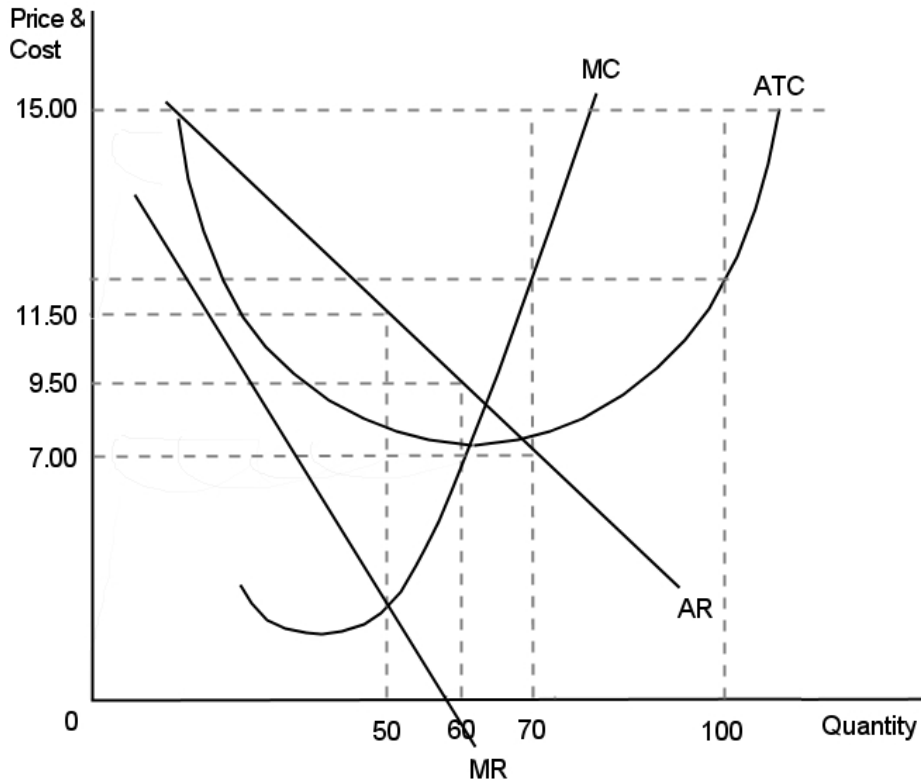


FIGURE 10.3 A MONOPOLISTIC FIRM

- 1) Refer to Figure 10.3. To maximize profits, this firm should produce an output of 73 units and charge a price of \$11.50. 1) _____

- 2) Refer to Figure 10.3. This firm will maximize its revenue when it produces an output of 60 units and charges a price of \$9.50. 2) _____

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

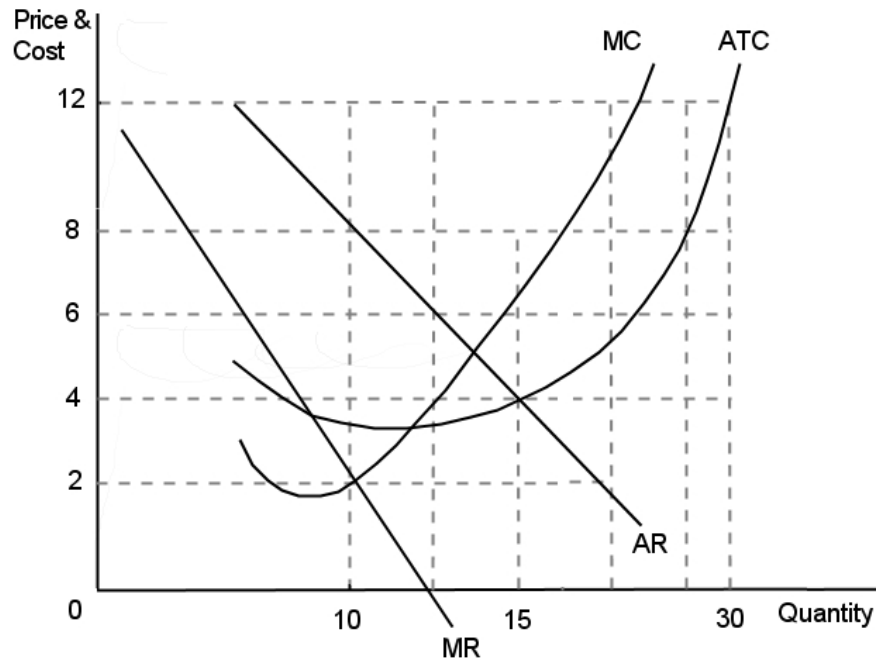


FIGURE 10.2 A MONOPOLISTIC FIRM

- 3) Refer to Figure 10.2. In order to maximize profits, this firm should produce an output of: 3) _____
 A) 30 units B) 15 units
 C) 10 units D) none of the above
- 4) The concept of a monopoly raises some issues because: 4) _____
 A) of the subjectivity of the notion of close substitutes
 B) it is almost impossible to separate the definition of monopoly from the product that is monopolized
 C) both A and B
 D) neither A nor B
- 5) A monopolist will be earning positive economic profits provided that: 5) _____
 A) $AR > ATC$ B) $P > ATC$ C) $TR > TC$ D) all of the above

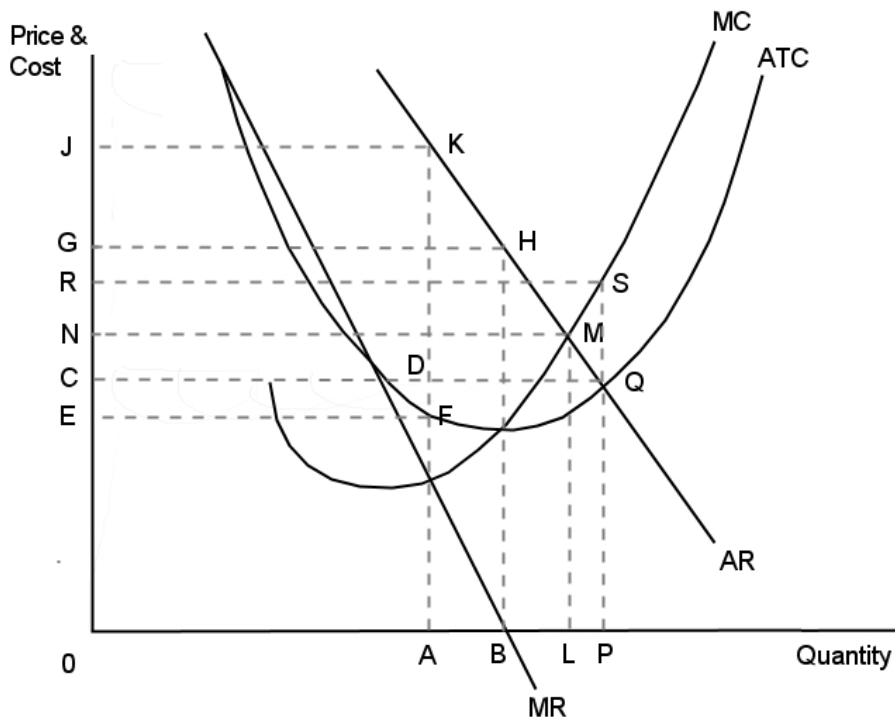


FIGURE 10.1 A MONOPOLISTIC FIRM

- 6) Refer to Figure 10.1. To maximize its profits, this firm should: 6) _____
 A) produce an output of 0P and charge a price of 0C
 B) produce an output of 0B and charge a price of 0G
 C) produce an output of 0A and charge a price of 0J
 D) produce an output of 0A and charge a price of 0N
- 7) The term imperfect competition refers to: 7) _____
 A) perfect competition and monopoly
 B) a market structure in which the price adjustment mechanism is ineffective
 C) a market structure that is neither perfectly competitive nor purely monopolistic
 D) any market structure other than perfect competition
- 8) The entry of new firms into a monopolistically competitive industry will cause: 8) _____
 A) the industry demand curve to shift to the left
 B) the industry demand curve to shift to the right
 C) the firm's demand curve to shift to the right
 D) the firm's demand curve to shift to the left
- 9) If $MR = MC$ for an oligopolist, what should it do to increase its profits? 9) _____
 A) Raise its price
 B) Reduce its output
 C) Lower its price
 D) None of the above
- 10) Other explanations for price rigidity include: 10) _____
 A) small menu costs
 B) long-term contracts
 C) both A and B
 D) neither A nor B

- 11) Limit pricing is: 11) _____
 A) a price control mechanism designed to protect consumers from firms that are likely to charge excessively high prices
 B) a pricing technique used by existing firms in an industry to discourage new firms from entering the industry
 C) a pricing technique used to encourage firms to enter an industry
 D) a production strategy which limits output to increase price
- 12) Limit pricing: 12) _____
 A) is a strategy designed to limit consumer demand to encourage higher prices
 B) encourages firms to maximize their short-run profits
 C) encourages firms to raise their prices in order to maximize their profits
 D) serves as an effective barrier to entry
- 13) Price leadership: 13) _____
 A) benefits all firms equally
 B) causes all firms to maximize their profits
 C) allows an orderly change from one price to another
 D) always results in a price war
- 14) Cost-plus pricing: 14) _____
 A) is practical only if the firm knows how much it can sell at various prices
 B) can only be effective for a monopolist
 C) is a sure way of maximizing profits
 D) is very complicated and difficult to understand
- 15) A pricing strategy in which firms determine price by adding a certain percentage markup on cost is called: 15) _____
 A) cost-plus pricing
 B) profit pricing
 C) marginal pricing
 D) markup pricing
- 16) A group of firms that have entered into a formal agreement to control price and output in an industry is: 16) _____
 A) an economic union
 B) a cartel
 C) an unnatural monopoly
 D) a duopoly
- 17) Most legal cartels are: 17) _____
 A) local
 B) domestic
 C) international
 D) national
- 18) A cartel is likely to behave like: 18) _____
 A) a pure competitor
 B) a monopolist
 C) an oligopoly
 D) none of the above
- 19) Cartels are most common in the market for: 19) _____
 A) consumer electronics
 B) labour
 C) natural resources
 D) steel

- 20) All of the following are examples of cartels except: 20) _____
 A) the International Bauxite Association
 B) the Organization for Economic Cooperation and Development (OECD)
 C) the International Air Transport Association (IATA)
 D) the Organization of the Petroleum Exporting Countries (OPEC)
- 21) The circumstances which describe two individuals, both of whom would be better off if they could cooperate with each other, but nevertheless find it difficult to do so are described in a well known problem called: 21) _____
 A) the Prisoner's Dilemma
 B) the Warden's Watch
 C) the Payoff Matrix
 D) the Preferred Winner
- 22) The condition that exists when each player in a game selects the best possible strategy, given the strategies of the other players is called: 22) _____
 A) payoff equilibrium
 B) market clearing equilibrium
 C) game equilibrium
 D) Nash equilibrium
- 23) A payoff matrix is a table that shows: 23) _____
 A) how much one player owes the other
 B) how much each player has to pay to enter the game
 C) how co-operation will benefit the players
 D) the outcomes of various strategies in a game
- 24) Which of the following is a disadvantage associated with oligopoly? 24) _____
 A) misallocation of resources
 B) excess profits
 C) wasteful advertising
 D) all of the above
- 25) The theory of contestable markets suggests that market power, and hence, the behaviour of firms: 25) _____
 A) can be predicted solely by looking at concentration ratios
 B) will be diminished by the presence of "contests" and other sweepstakes campaigns designed to gain market share
 C) can be predicted solely by looking at the number of firms in the industry
 D) will be influenced by the ease of entry into the market
- 26) If the firms in a monopolistically competitive industry are operating where average total cost exceeds price: 26) _____
 A) firms will leave the industry and cause the price to rise
 B) firms will leave the industry and cause the price to fall
 C) new firms will enter the industry and cause the price to fall
 D) new firms will enter the industry and cause the price to rise
- 27) If price exceeds average total cost in a monopolistically competitive industry: 27) _____
 A) new firms will enter the industry, and the industry supply curve will shift to the left
 B) firms will leave the industry, and the firm supply curve will shift to the left
 C) firms will leave the industry, and the firm supply curve will shift to the right
 D) new firms will enter the industry, and the industry supply curve will shift to the right

- 28) In the long run, a firm in monopolistic competition: 28) _____
 A) will incur losses as new firms enter the industry
 B) will earn exceptionally high profits
 C) will earn normal profits
 D) will earn positive economic profits
- 29) If a firm in monopolistic competition is in long-run equilibrium: 29) _____
 A) its marginal revenue curve will pass through the minimum point of its average cost curve
 B) its demand curve will pass through the minimum point of its average cost curve
 C) its demand curve is tangent to its average cost curve at a point to the left of the minimum point
 D) its marginal cost curve is tangent to its average cost curve at its minimum point
- 30) If a firm in monopolistic competition is in long-run equilibrium: 30) _____
 A) price exceeds average cost
 B) price equals minimum average cost
 C) price exceeds marginal cost
 D) price equals marginal cost
- 31) In long-run equilibrium, the firm in monopolistic competition operates: 31) _____
 A) with excess capacity
 B) where $P = AC$
 C) with zero economic profits
 D) all of the above
- 32) A firm in monopolistic competition differs from a purely competitive firm in that in long-run equilibrium, the firm in monopolistic competition: 32) _____
 A) produces at a lower cost than does the purely competitive firm
 B) produces at a higher cost than does the purely competitive firm
 C) earns positive economic profits, while the purely competitive firm earns zero economic profit
 D) earns only normal profits, while the purely competitive firm earns exceptionally high profits
- 33) The excess capacity theorem states that: 33) _____
 A) monopolies will never operate with excess capacity
 B) firms in pure competition will operate with excess capacity
 C) firms in monopolistic competition will never operate with excess capacity
 D) firms in monopolistic competition do not produce an output which minimizes average cost
- 34) The excess capacity theorem states that in the long run, a firm in monopolistic competition will: 34) _____
 A) use all its excess capacity
 B) operate at an output below that which minimizes average cost
 C) earn excess profits
 D) none of the above
- 35) Which of the following is unlikely to advertise its product? 35) _____
 A) A purely competitive firm
 B) A monopolistic firm
 C) A firm in monopolistic competition
 D) An oligopolistic firm
- 36) Advertising may: 36) _____
 A) reduce unit cost
 B) increase unit cost
 C) increase demand
 D) all of the above

- 37) If advertising is successful, it will: 37) _____
 A) reduce demand and raise profits B) reduce demand and raise cost
 C) increase demand and raise profits D) reduce demand and lower cost
- 38) When a profit-seeking firm advertises its product, its objective is to: 38) _____
 A) shift its own average revenue curve to the right
 B) shift its competitors' demand curves to the right
 C) shift its own demand curve to the left
 D) none of the above
- 39) Successful advertising will tend to: 39) _____
 A) lower the industry's demand curve
 B) make the firm's demand curve more elastic
 C) make the firm's demand curve less elastic
 D) none of the above
- 40) Oligopoly refers to: 40) _____
 A) a group of firms that have decided to act as a single firm to control the industry
 B) an industry with few firms, each producing a large proportion of the total industry output
 C) an industry with a large number of sellers, none of which has any influence on the price of its product
 D) a single firm who has complete control of price
- 41) Duopoly is a market structure characterized by: 41) _____
 A) many sellers B) a single seller
 C) only two major industries D) only two firms
- 42) In an oligopolistic industry: 42) _____
 A) all firms must produce differentiated products
 B) firms may produce identical or differentiated products
 C) all firms must charge the same price
 D) all firms must produce identical products
- 43) All of the following are main features of oligopoly except: 43) _____
 A) barriers to entry exist
 B) the industry consists of a large number of firms
 C) the firms recognize their interdependence
 D) the industry comprises few firms
- 44) One measure used to determine the extent to which a market is dominated by a few firms is: 44) _____
 A) Herfindahl-Hirschman Index B) Market Domination Index
 C) Herfindahl-Hans Index D) Hans-Hirschman Index
- 45) Which of the following is most likely to react to pricing and output decisions of one of its competitors? 45) _____
 A) A monopolistic firm B) An oligopolistic firm
 C) A monopolistically competitive firm D) A purely competitive firm

- 46) Which of the following is least likely to react to pricing and output decisions of one of its competitors? 46) _____
 A) A purely competitive firm B) A duopolistic firm
 C) An oligopolistic firm D) A monopolistically competitive firm
- 47) A differentiated oligopoly exists when: 47) _____
 A) oligopolistic firms sell differentiated products
 B) a monopoly produces differentiated products
 C) monopolistic firms no longer differentiate their products
 D) the firms in a perfectly competitive industry decide to engage in product differentiation
- 48) Concentration ratios: 48) _____
 A) measure the extent to which a country relies on food concentrates
 B) measure the extent to which an industry is dominated by a few firms
 C) measure the degree of concentration each worker puts into a job
 D) none of the above
- 49) Which of the following Canadian industries would you expect to have a high concentration ratio? 49) _____
 A) Iron and steel B) Breweries
 C) Automobile industry D) All of the above
- 50) Which of the following does not have a high concentration ratio in Canada? 50) _____
 A) Petroleum refining B) Restaurants
 C) Aircraft manufacturing D) Smelting and refining
- 51) An industry consists of four firms with market shares of 35%, 30%, 25%, and 10%. On the basis of this information, the Herfindahl-Hirschman Index (HHI) is: 51) _____
 A) 10 000 B) 28 500 C) 100 D) 2850
- 52) If the HHI is 2000, the industry would be classified as: 52) _____
 A) highly concentrated B) Unconcentrated
 C) moderately concentrated D) mildly concentrated
- 53) Which of the following HHI numbers suggests an unconcentrated industry? 53) _____
 A) 750 B) 3500 C) 3800 D) 1250
- 54) To maximize its profits, an oligopolistic firm will produce at an output at which: 54) _____
 A) marginal revenue equals marginal cost B) price equals marginal revenue
 C) price equals marginal cost D) marginal revenue exceeds marginal cost
- 55) In a monopolistically competitive industry: 55) _____
 A) there are many firms producing differentiated products
 B) there are many firms producing homogeneous products
 C) there are few firms producing differentiated products
 D) there is a single firm producing a product that has many close substitutes
- 56) The means by which firms distinguish their products from those of other firms is: 56) _____
 A) product assortment B) product enrichment
 C) product differentiation D) product evaluation

- 57) Which of the following is a means by which firms differentiate their products? 57) _____
 A) Distinctive designs, packaging, trademarks, etc.
 B) Emphasizing certain features
 C) Product image
 D) All of the above
- 58) Product differentiation can occur: 58) _____
 A) even when it is impossible to differentiate the physical characteristics of the product
 B) only when the products are physically different
 C) only if the products are genuinely different
 D) only when the prices of the products are identical
- 59) In which of the following enterprises is monopolistic competition prevalent? 59) _____
 A) Gasoline stations
 B) Automotive garages
 C) Bakeries
 D) All of the above
- 60) Which of the following is an example of a firm in a monopolistically competitive industry? 60) _____
 A) A beauty salon in Winnipeg
 B) A shoe store in Hamilton, Ontario
 C) A restaurant in St. John, New Brunswick
 D) All of the above
- 61) Product differentiation is an important feature of: 61) _____
 A) monopoly
 B) pure competition
 C) monopolistic competition
 D) all of the above
- 62) Which of the following does not apply to monopolistic competition? 62) _____
 A) There is freedom of entry and exit
 B) The product is homogeneous
 C) The products are differentiated
 D) The market consists of a large number of firms
- 63) Product differentiation can be effective: 63) _____
 A) even if there is no perceived difference between the products
 B) only if the differences between the products are real
 C) only if the firms vigorously advertise the differences between their products
 D) even if the differences between the products are imaginary
- 64) Monopolistic competition is prevalent in: 64) _____
 A) service industries
 B) consumer durable goods industries
 C) export industries
 D) all of the above
- 65) The demand curve of a firm in monopolistic competition is: 65) _____
 A) perfectly inelastic
 B) perfectly elastic
 C) highly inelastic
 D) relatively elastic
- 66) The demand curve of a firm in monopolistic competition is: 66) _____
 A) steeper than its average revenue curve
 B) flatter than its average revenue curve
 C) identical to its average revenue curve
 D) identical to its marginal revenue curve

- 67) The marginal revenue curve of a firm in monopolistic competition is: 67) _____
 A) above its average revenue curve B) below its average revenue curve
 C) identical to its demand curve D) none of the above
- 68) The monopolistically competitive firm faces: 68) _____
 A) a horizontal demand curve B) an upward sloping demand curve
 C) a downward sloping demand curve D) a vertical demand curve

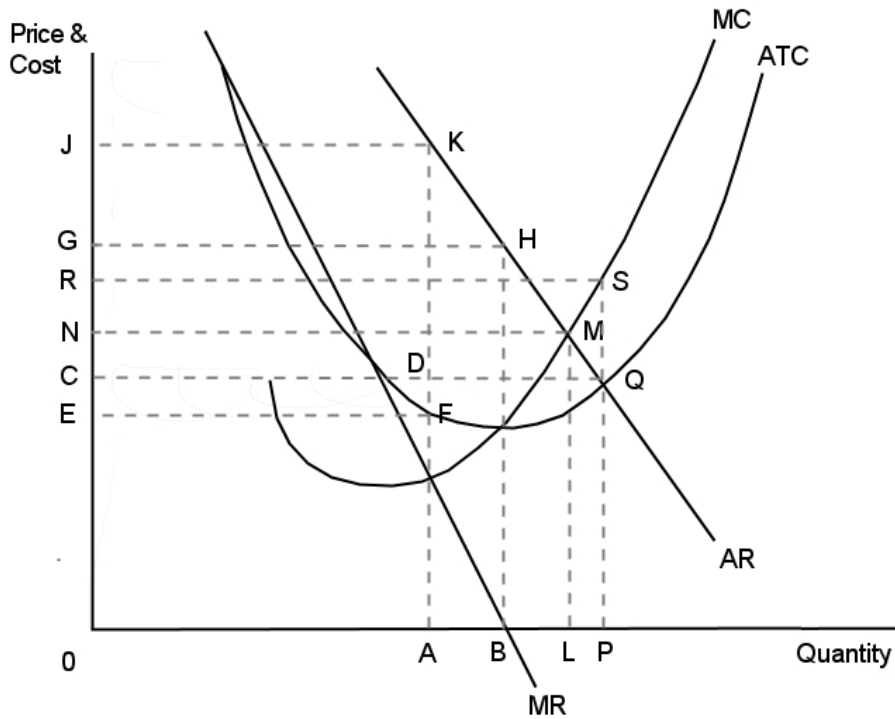


FIGURE 10.1 A MONOPOLISTIC FIRM

- 69) Refer to Figure 10.1. To maximize its revenue, this firm should: 69) _____
 A) produce an output of 0P and charge a price of 0N
 B) produce an output of 0A and charge a price of 0J
 C) produce an output of 0P and charge a price of 0C
 D) produce an output of 0B and charge a price of 0G
- 70) Refer to Figure 10.1. At the profit-maximizing output, the firm's total revenue is: 70) _____
 A) 0CQP B) 0CDA C) 0GHB D) 0JKA
- 71) Refer to Figure 10.1. The maximum total revenue this firm can earn is: 71) _____
 A) 0NML B) 0CQP C) 0GHB D) 0JKA
- 72) Refer to Figure 10.1. At the profit-maximizing output, the firm's total cost is: 72) _____
 A) 0RSP B) 0E × 0A C) 0CDA D) 0G × 0L
- 73) Refer to Figure 10.1. The maximum profit this firm can make is: 73) _____
 A) 0NML B) 0EFA C) 0JKA D) 0JKF

- 74) A monopolistic firm: 74) _____
 A) always makes positive economic profits
 B) will never maximize its profits
 C) may incur losses even though it has significant market power
 D) always maximizes its profits
- 75) An inefficient monopolist: 75) _____
 A) will charge a price equal to its marginal cost and thus minimize its profits
 B) will always incur losses
 C) can earn positive economic profits
 D) none of the above
- 76) X-inefficiency refers to: 76) _____
 A) inefficiency imposed on a firm from outside
 B) failure to produce a given output at minimum cost
 C) past inefficiency which has now been corrected
 D) none of the above
- 77) The monopolist will be breaking even if: 77) _____
 A) $AR = ATC$ B) $TR = TC$ C) $P = ATC$ D) all of the above
- 78) The profit-seeking monopolist operates at a level of output where: 78) _____
 A) $MC = ATC$ B) $P = MC$ C) $MR = MC$ D) all of the above
- 79) A monopoly is a market structure in which: 79) _____
 A) a single firm produces a product with a wide variety of very close substitutes
 B) each firm is run by a small single proprietor
 C) a single firm exercises its power over smaller firms
 D) there is only one firm producing a product which has no close substitutes
- 80) A monopolized industry is one in which: 80) _____
 A) the industry is marked for take-over by several monopolists
 B) the industry consists of only one firm producing a good or service which has no close substitutes
 C) the industry is filled with monopolies
 D) most producers are monopolists, but few are competitors
- 81) In Canada: 81) _____
 A) monopolies are legal
 B) all monopolies are owned by the government
 C) monopolies are illegal
 D) the formation of monopolies is strongly encouraged by the government as a general policy
- 82) Barriers to entry refer to devices which: 82) _____
 A) prevent firms from entering a monopolized industry
 B) prevent certain firms from becoming monopolies
 C) prevent monopolistic firms from entering an industry
 D) all of the above

- 83) Which of the following is not an effective barrier to entry? 83) _____
 A) Monopolistic competition B) Franchises
 C) Ownership of essential material D) Patents
- 84) Which of the following is an effective barrier to entry? 84) _____
 A) Ownership of essential raw materials B) Pure competition
 C) Constant cost D) All of the above
- 85) Barriers to entry include: 85) _____
 A) ownership of essential inputs B) patents
 C) franchises D) all of the above
- 86) All barriers to entry are: 86) _____
 A) supported by competitive firms B) government-created
 C) natural, not artificial D) none of the above
- 87) A natural monopoly is a market situation in which: 87) _____
 A) a single firm supplies natural resources to an entire industry
 B) all firms sell natural resources
 C) a single firm can supply the market output more efficiently than many firms
 D) a single firm is located in the only region where sufficient demand for a particular good exists
- 88) The monopolistic firm's demand curve is: 88) _____
 A) horizontal at the price
 B) more elastic than that of a purely competitive firm
 C) the same as the market demand curve
 D) perfectly inelastic because the monopolist controls both price and output
- 89) A monopolistic firm can: 89) _____
 A) lower the price by restricting output
 B) sell a larger quantity at any price
 C) sell as much as it can produce at the existing price
 D) sell a larger quantity by lowering its price
- 90) The monopolistic firm is: 90) _____
 A) a price-taker and a quantity-adjuster B) a price-taker and a quantity-taker
 C) a price-taker and a quantity-giver D) none of the above
- 91) The monopolistic firm can: 91) _____
 A) set the quantity but not the price B) set both price and quantity
 C) set neither the price nor the quantity D) set the price or the quantity, but not both
- 92) In making its pricing-output decision, a profit-maximizing monopolistic firm: 92) _____
 A) does not need to consider its demand curve
 B) should charge any price between its average variable cost and its average total cost curves
 C) does not need to consider production costs
 D) should consider its demand curve

- 93) The demand curve for the monopolistic firm is: 93) _____
A) identical to its average revenue curve B) the same as its total revenue curve
C) the same as its marginal revenue curve D) perfectly elastic
- 94) The marginal revenue curve of a monopolistic firm is: 94) _____
A) downward sloping but steeper than the average revenue curve
B) a horizontal straight line
C) identical to its average revenue curve
D) downward sloping but flatter than the average revenue curve
- 95) If the average revenue curve is downward sloping, then the marginal revenue curve is: 95) _____
A) negative
B) below the average revenue curve
C) above the average revenue curve and is also downward sloping
D) none of the above
- 96) The total revenue curve of a monopolist: 96) _____
A) is a horizontal line at the price
B) starts at the origin, rises, reaches a maximum, and then falls
C) starts at the origin, falls, reaches a minimum, and then rises
D) is an upward-sloping straight line through the origin
- 97) If a monopolistic firm is maximizing its profits, we know that: 97) _____
A) it is operating where the difference between its total revenue and its total cost is greatest
B) its price is greater than its marginal cost
C) its marginal revenue equals its marginal cost
D) all of the above
- 98) A monopolist can always increase its profits by: 98) _____
A) producing and selling a greater output B) raising its price
C) either A or B D) neither A nor B

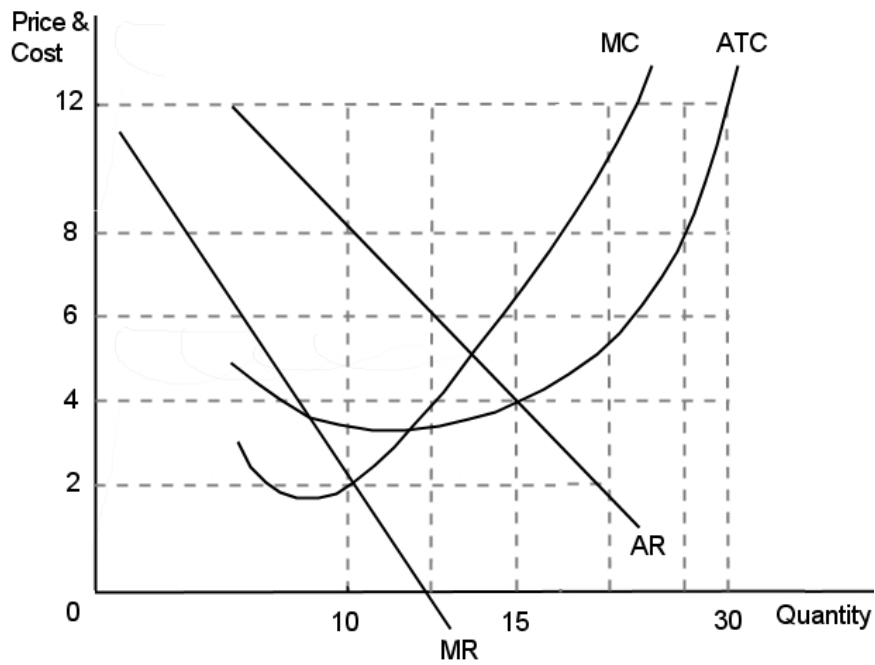


FIGURE 10.2 A MONOPOLISTIC FIRM

- 99) Refer to Figure 10.2. In order to maximize profits, this firm should charge a price of: 99) _____
 A) \$8 B) \$6 C) \$12 D) \$4
- 100) Refer to Figure 10.2. This firm's demand curve is unitary elastic at a price of: 100) _____
 A) \$6 B) \$8 C) \$4 D) \$12
- 101) Refer to Figure 10.2. This firm's demand curve is elastic at a price of: 101) _____
 A) \$4 B) \$8
 C) \$2 D) none of the above
- 102) Refer to Figure 10.2. This firm's demand curve is inelastic at a price of: 102) _____
 A) \$6 B) \$12 C) \$8 D) \$4
- 103) A profit-seeking monopolist will operate where: 103) _____
 A) its demand is inelastic B) its demand is perfectly inelastic
 C) its demand is elastic D) its demand is perfectly elastic

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

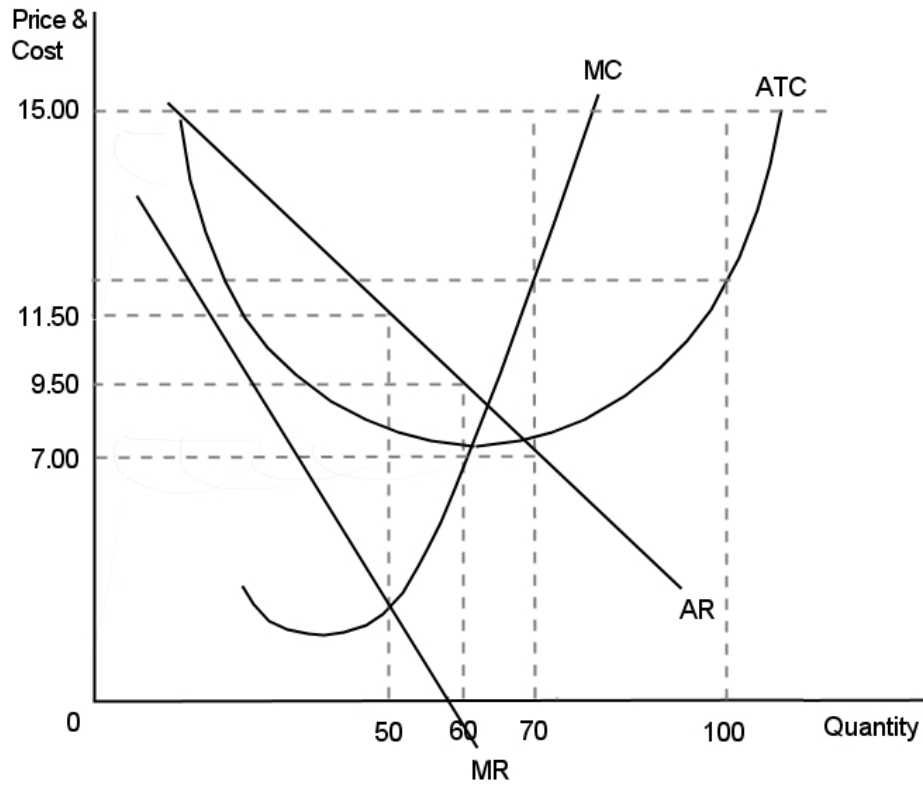


FIGURE 10.3 A MONOPOLISTIC FIRM

- 104) Refer to Figure 10.3. This firm can increase its profits by raising its price to \$15. 104) _____
- 105) Refer to Figure 10.3. If this firm produces an output of 70 units, the maximum revenue it can earn is \$490. 105) _____

Answer Key

Testname: MICROECONOMICS - 3

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

Answer Key

Testname: MICROECONOMICS - 3

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

Answer Key

Testname: MICROECONOMICS - 3

- 101) B
- 102) D
- 103) C
- 104) FALSE
- 105) TRUE