Exam Econ 1013 F 2013

Name 2nd MT

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

1) Which of the following is NOT a determinant of market structure? 1) _____
A) The number of sellers.
B) The capital–labour ratio of the firm.
C) The ease of entering the industry.
D) The market share of the sellers.
E) The nature of the product.

Consider the following short–run cost curves for a perfectly competitive firm.

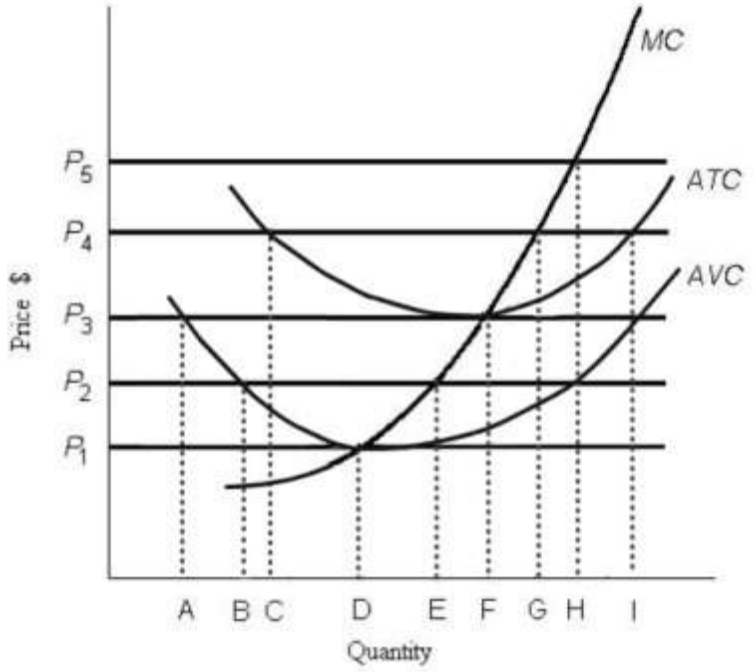

FIGURE 9–1

2) Refer to Figure 9–1. The diagram shows cost curves for a perfectly competitive firm. If the market price is P_3, the profit–maximizing firm in the short run should 2) _____
A) produce output A.
B) produce output F or shut down, as it doesn't matter which.
C) produce output D.
D) shut down because more profits could be earned in another industry.
E) produce output F.

Consider the following short–run cost curves for a perfectly competitive firm.

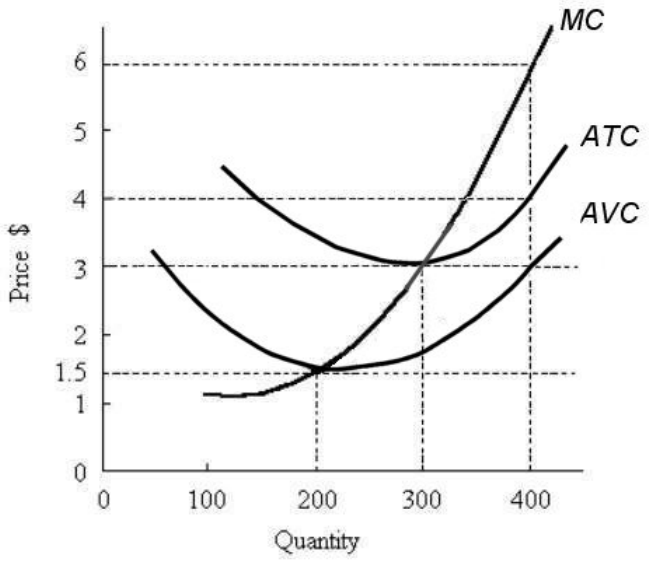

FIGURE 9–2

3) Refer to Figure 9–2. If the current market price is \$6, the profit–maximizing output for this firm is 3) _____
A) 100 units. B) 200 units. C) 300 units. D) 400 units. E) 500 units.

4) Refer to Figure 9–2. If the market price is \$2, the firm will 4) _____
A) shut down and suffer a loss equal to its fixed cost.
B) produce 200 units and make a loss equal to its total fixed cost.
C) produce 300 units and make a loss equal to total variable cost.
D) continue operating in the short run and suffer a loss that is less than its fixed cost.
E) shut down and make zero profit.

Consider the following cost curves for two perfectly competitive firms, A and B.

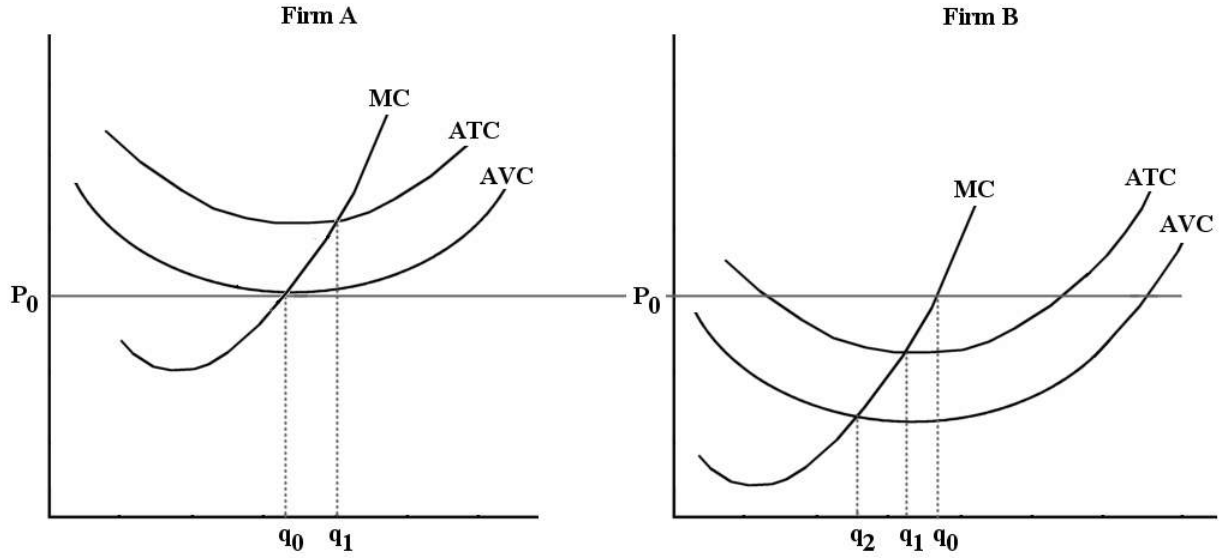

FIGURE 9–4

5) Refer to Figure 9–4. Firms A and B are in the same industry. Choose the statement that best describes the situation facing the two firms. 5) _____

A) Firm A is suffering losses and will be shut down immediately; Firm B will be shut down if the price falls any further.

B) Firm A is making losses but remains producing as long as price falls no further; Firm B is producing at lower cost and is earning economic profits.

C) Firm A and Firm B are both suffering economic losses and will soon exit the industry.

D) Firm A and Firm B are both earning positive economic profits; new firms will likely enter the industry.

Consider the following short−run cost curves for a perfectly competitive firm.

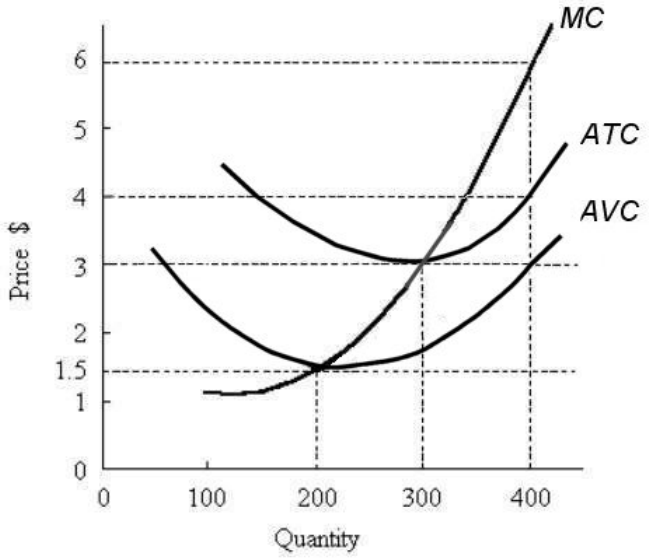

FIGURE 9–2

6) Refer to Figure 9−2. The short−run supply curve for this perfectly competitive firm is its 6) _____

A) *ATC* curve at and above $3.
B) marginal cost curve at and above $1.50.
C) *AVC* curve at and above $1.50.
D) marginal cost curve at and above $3.
E) entire marginal cost curve.

Suppose a monopolist faces the demand curve and cost curves shown below.

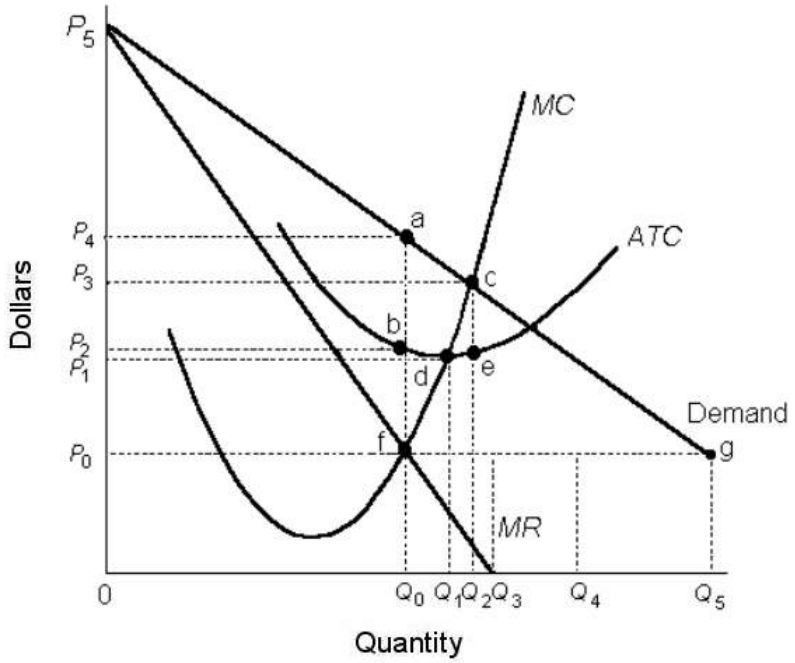

FIGURE 10–4

7) Refer to Figure 10–4. A profit–maximizing single–price monopolist would produce the quantity 7) _____
A) Q_1. B) Q_4. C) Q_3. D) Q_2. E) Q_0.

8) One similarity between a monopoly and a firm in perfect competition is that both 8) _____
A) are profit maximizers.
B) face the entire market demand curve.
C) have market power.
D) set their selling price.
E) choose their output independent of demand.

9) A monopolistic firm faces a downward–sloping demand curve because 9) _____
A) there are a large number of firms in the industry, all selling the same product.
B) the monopolistic firm can exploit economies of scale.
C) marginal revenue is negative throughout the feasible range of output.
D) the demand for its product is always inelastic.
E) the market price is affected by the amount sold by a monopolistic firm.

10) Which one of the following is a *natural* barrier to entry? 10) _____
A) threats of punitive price–cutting by existing producers
B) decreasing returns to scale
C) licensing and patent restrictions
D) a positively sloped *LRAC* curve over the whole range of output
E) a negatively sloped *LRAC* curve over the whole range of output

The diagram below shows a pharmaceutical firm's demand curve and marginal cost curve for a new heart medication for which the firm holds a 20–year patent on its production.

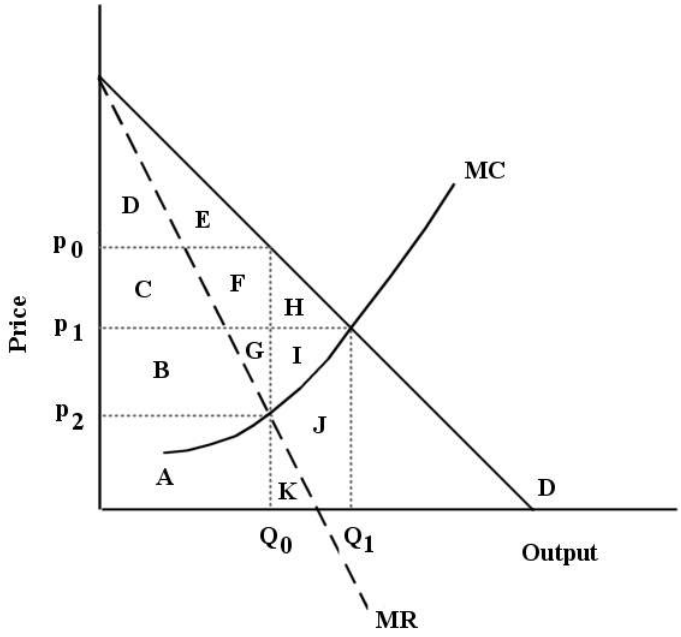

FIGURE 10–5

11) Refer to Figure 10–5. Assume this pharmaceutical firm charges a single price for its drug. At its profit–maximizing level of output it will produce 11) _____
A) Q_0 units and charge a price of p_0.
B) Q_0 units and charge the perfectly competitive price.
C) Q_1 units and charge a price of p_1.
D) Q_1 units and charge a price greater than its average total variable cost.
E) Q_0 units and charge a price of p_2.

12) Relative to a firm that must charge a single price for all of its output, the ability to charge multiple prices gives a firm with market power the ability to capture some or all of the 12) _____
A) marginal costs.
B) fixed costs.
C) consumer surplus.
D) variable costs.
E) producer surplus.

13) An imperfectly competitive industry is often allocatively inefficient when compared to the performance of a competitive industry, because imperfect competitors 13) _____
A) operate in the global economy.
B) set price above the marginal cost.
C) maximize profits.
D) obtain economies of scale.
E) make profits.

The diagram below shows selected cost and revenue curves for a firm in a monopolistically competitive industry.

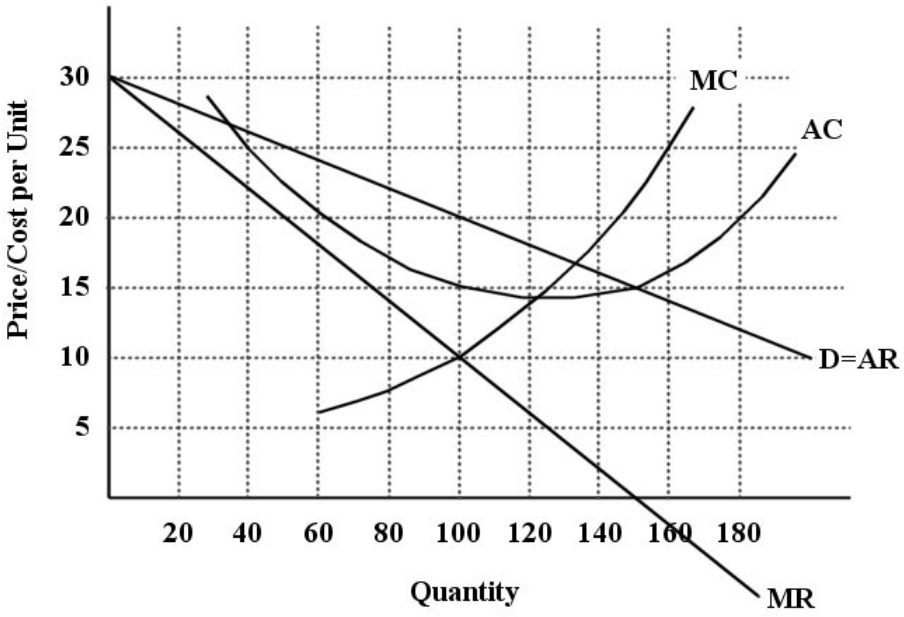

FIGURE 11–1

14) Refer to Figure 11–1. What price will this profit–maximizing firm set? 14) _____
A) $5 B) $25 C) $20 D) $10 E) $15

15) In a monopolistically competitive industry, the freedom of entry and exit leads to 15) _____
A) brand proliferation.
B) zero profits in long–run equilibrium.
C) deficient capacity in the industry.
D) strategic behaviour with regard to other firms in the industry.
E) a negatively sloped demand curve for the industry.

16) An example of a Canadian industry composed of a few large firms is 16) _____
A) gasoline retailing.
B) hair dressers.
C) clothing retailing.
D) the accounting profession.
E) restaurants.

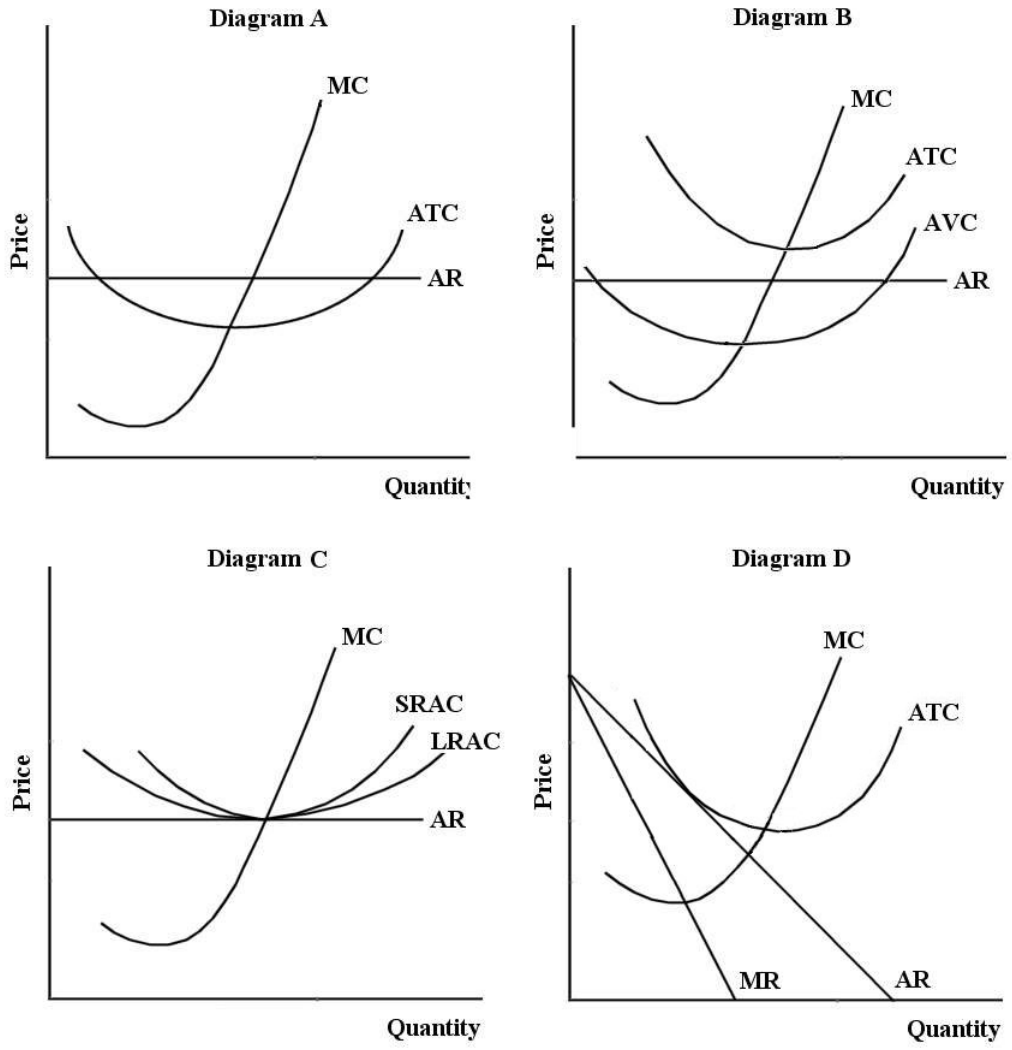

FIGURE 11–2

17) Refer to Figure 11–2. A perfectly competitive firm with zero economic profits is depicted in diagram 17) _____
A) A. B) B. C) C. D) D. E) B or D

18) When a monopolistically competitive industry is in long–run equilibrium, the excess capacity in an individual firm is indicated by the difference between 18) _____
A) the output at which *ATC* is at a minimum and the output at which price equals marginal cost.
B) zero and the output at which the demand curve is tangent to the *ATC* curve.
C) price and average cost.
D) the output at which *ATC* is at a minimum and the output at which marginal revenue is equal to marginal cost.
E) price and marginal cost.

The diagram below shows demand and cost curves for a monopolistically competitive firm.

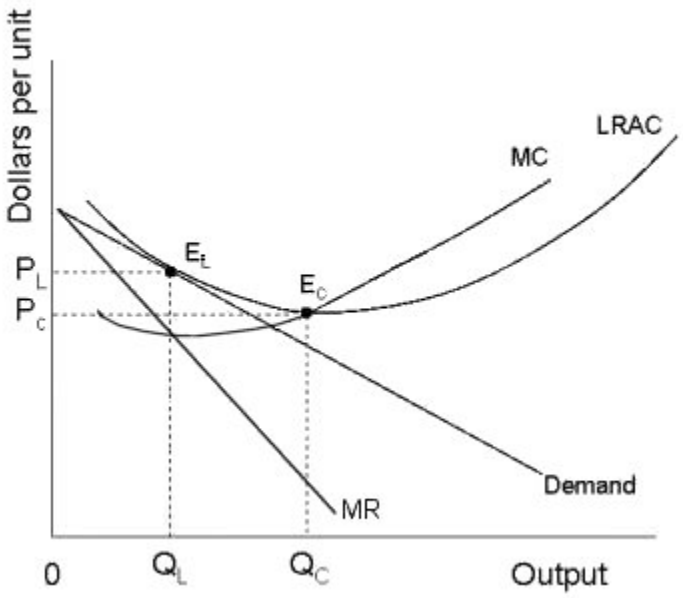

FIGURE 11–3

19) Refer to Figure 11–3. A monopolistically competitive firm is allocatively inefficient because in the long–run equilibrium 19) _____
A) *MC* is greater than price.
B) price is greater than *LRAC* at Q_L.
C) *LRAC* is not at its minimum.
D) price is greater than *MC* at Q_L.
E) none of the above –– the long–run equilibrium is allocatively efficient.

20) Refer to Figure 11–3. In the long run, a monopolistically competitive firm will 20) _____
A) produce Q_C at Price P_L.
B) produce the output where *AC* is at its minimum.
C) produce Q_C at Price P_C.
D) produce Q_L at Price P_C.
E) produce Q_L at Price P_L.

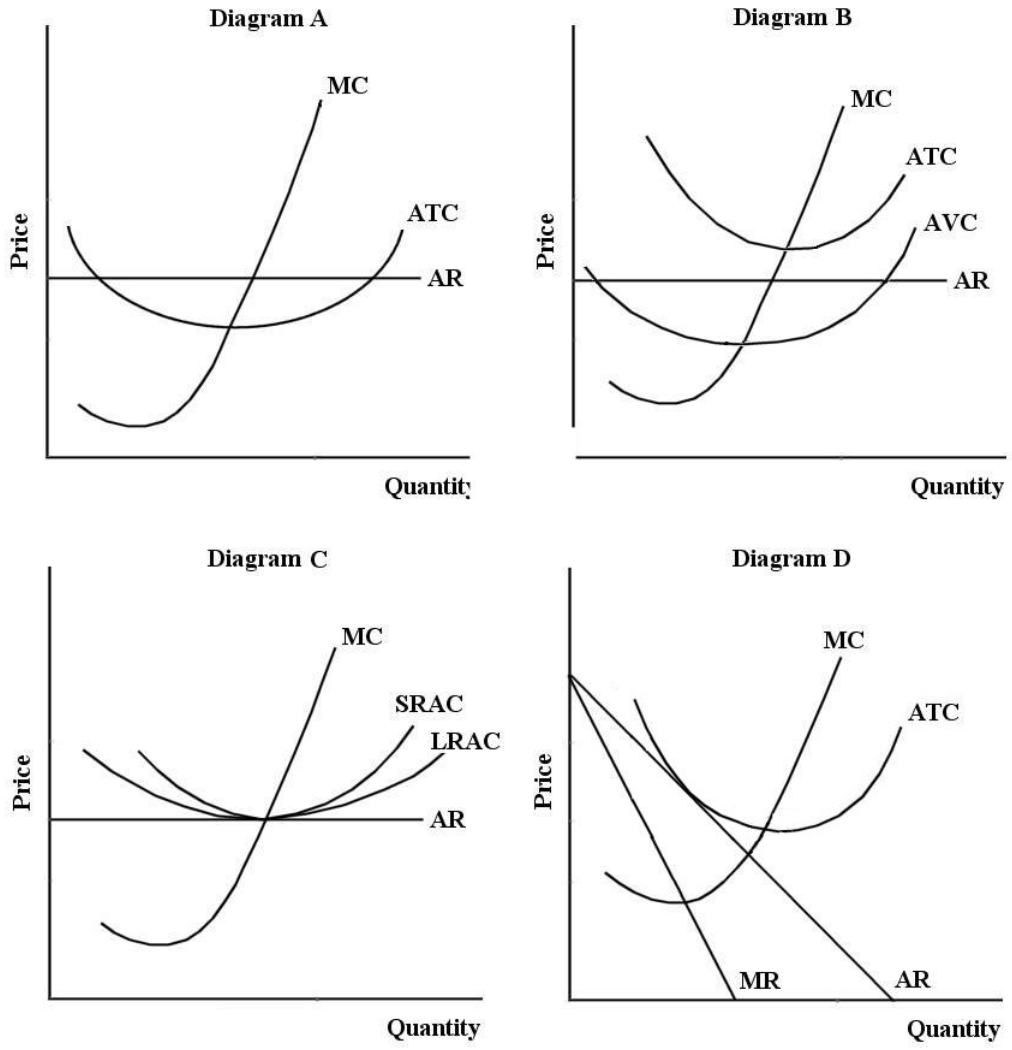

FIGURE 11–2

21) Refer to Figure 11–2. The firm's short–run supply curve in diagram B is 21) _____

A) *ATC* above *AVC*.
B) *MC* above *AVC*.
C) *AR*.
D) *MC*.
E) *MC* above *ATC*.

22) A number of firms agreeing together to restrict output and thereby raise prices is known as 22) _____

A) a natural monopoly.
B) a cartel.
C) a barrier to entry.
D) a monopoly.
E) an oligopoly.

23) If a competing firm is able to overcome an entry barrier of a monopolized industry, the demand curve of the single firm already in the industry will 23) _____

A) shift to the right.
B) shift to the left and become more elastic.
C) shift to the left.
D) become less elastic.
E) remain the same in spite of the entry of the other firm.

24) Natural barriers to entry include 24) _____

A) large economies of scale in the industry.
B) a patent which allows production by only the patent holder.
C) control or ownership of the entire supply of an essential raw material.
D) increasing–cost production.
E) a government–awarded franchise.

25) A firm in a perfectly competitive industry 25) _____

A) can improve its competitive position and sell more output by advertising its product.
B) will not produce at all if $P < ATC$.
C) will maximize its profit by producing where $P = AVC$.
D) will maximize its profit by producing where $P = ATC$.
E) will not produce at all if $P <$ the minimum of AVC.

Consider the following short–run cost curves for a perfectly competitive firm.

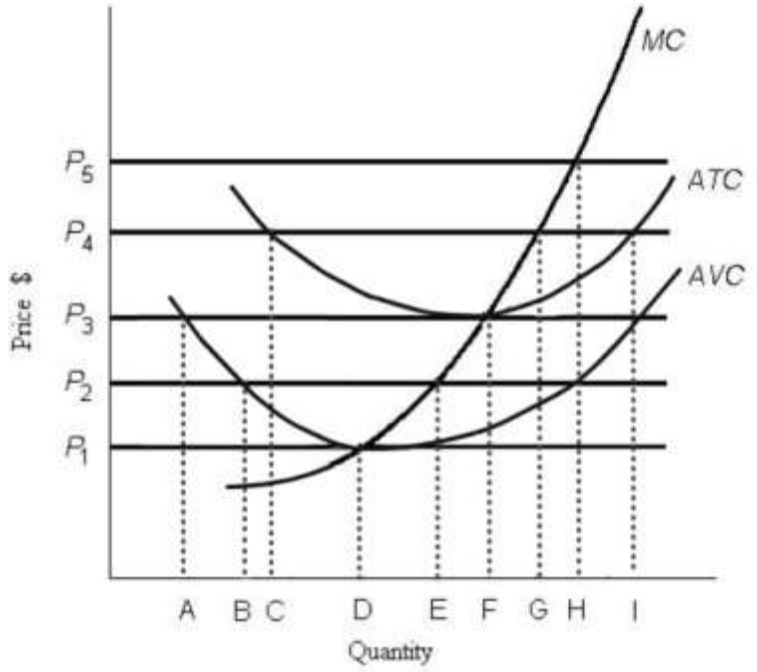

FIGURE 9–1

26) Refer to Figure 9–1. The diagram shows cost curves for a perfectly competitive firm. If the market price is P_1, the profit–maximizing firm in the short run should 26) _____
A) produce output A.
B) produce output B.
C) produce output C.
D) produce output D or shut down as it doesn't really matter which.
E) definitely shut down.

27) In economics, perfect competition refers to a market structure where 27) _____
A) all firms are earning profits.
B) firms co–operate with each other.
C) firms can set the price of their product.
D) each firm has zero market power.
E) firms behave strategically.

28) Given the usual assumptions about perfect competition, a perfectly competitive firm 28) _____
A) can affect the market conditions in a significant way.
B) is aware of its competitors' costs.
C) can sell as much of its product as it wishes at the market price.
D) can set the price it charges.
E) competes actively with other sellers in the industry.

29) Under perfect competition, the demand curve facing an individual firm is 29) _____

A) downward sloping.
B) upward sloping.
C) a rectangular hyperbola.
D) infinitely price elastic.
E) the same as the industry's demand curve.

30) Why will a perfectly competitive firm not sell its product below the prevailing market price? 30) _____

A) It can sell all it wishes at the market price.
B) This would lead to a price war among sellers.
C) It faces inelastic demand.
D) The sellers in the market have agreed to not sell below a specified price.
E) Its costs would increase dramatically.

Answer Key
Testname: ECON 1013 2ND MT F 2013

1) B
2) E
3) D
4) D
5) B
6) B
7) E
8) A
9) E
10) E
11) A
12) C
13) B
14) C
15) B
16) A
17) C
18) D
19) D
20) E
21) B
22) B
23) B
24) A
25) E
26) D
27) D
28) C
29) D
30) A