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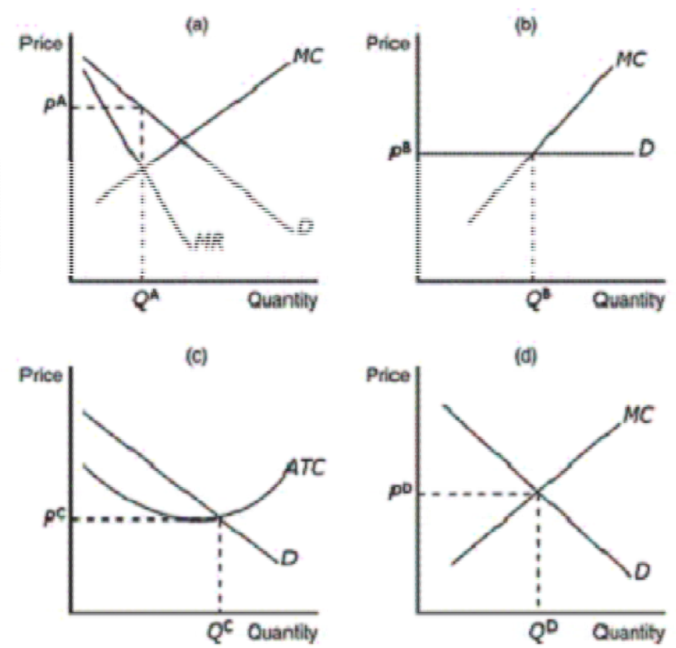
Multiple Choice
Identify the choice that best completes the statement or answers the question.

____ 1. Starting from a situation in which a firm in a competitive market produces and sells 500 doorknobs for a price of $10 per doorknob, which of the following events would decrease the firm's average revenue?
- a. The market price of doorknobs falls below $10.
- b. The market price of doorknobs rises above $10.
- c. The firm decreases its output below 500 doorknobs.
- d. The firm increases its output above 500 doorknobs.

____ 2. Binding agreements concerning production levels between oligopolists can lead the involved firms to what outcome?
- a. monopoly profit
- b. lower prices and more profit
- c. zero profit
- d. higher prices and less profit

Figure 16-2



____ 3. Refer to Figure 16-2. If a firm in a monopolistically competitive market was producing the level of output depicted as Q^D in panel (d), it would experience which of the following?
- a. It would not be maximizing its profit.
- b. It would be minimizing its losses.
- c. It would be losing market share to other firms in the market.
- d. It would be operating at excess capacity.

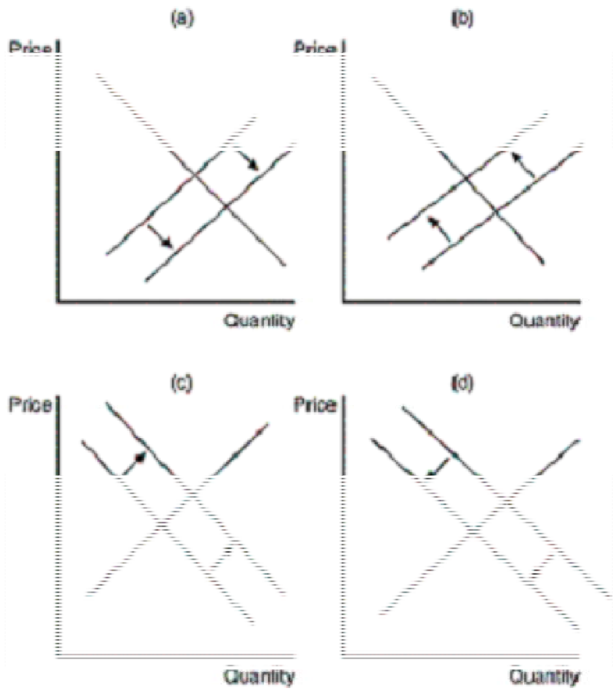
____ 4. Refer to Figure 16-2. Which of the graphs would most likely represent a profit-maximizing firm in a monopolistically competitive market?
   a. panel (a)
   b. panel (b)
   c. panel (c)
   d. panel (d)

____ 5. Like monopolists, what do oligopolists know about the result of an increase in the quantity of output?
   a. It reduces the price of their product.
   b. It reduces their profit.
   c. It reduces their revenue.
   d. It reduces productivity.

____ 6. What are the relationships between price and quantity if ABC Company sells its product in a competitive market?
   a. The price of that product depends on the quantity of the product that ABC Company produces and sells.
   b. ABC Company's total revenue is equal to the price of its product multiplied by its quantity of output.
   c. ABC Company's total cost is equal to the price of its product multiplied by its quantity of output.
   d. The quantity of the product that ABC Company produces and sells depends on the price of the product.

Figure 16-1

Lines in the figures below reflect the potential effect of entry and exit in a monopolistically competitive market on the demand and/or marginal-cost curves of incumbent firms.



____ 7. Refer to Figure 16-1. Panel (d) in the set of figures shown depicts the effect on incumbent firms of which of the following circumstances?
a. long-run economic losses
b. a decrease in the diversity of products offered in the market
c. new entrants in the market
d. existing firms exiting the market

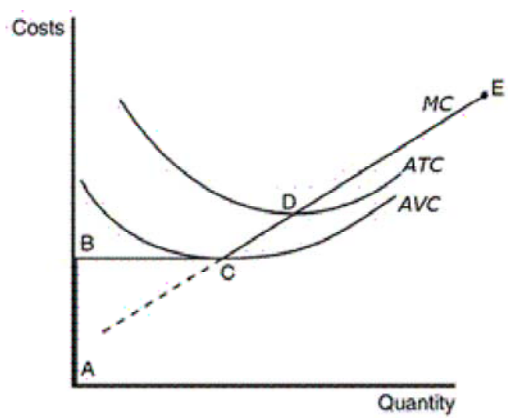
____ 8. Refer to Figure 16-1. Which of the diagrams depicts the effect on incumbent firms of some existing firms leaving the market?
a. panel (a)
b. panel (b)
c. panel (c)
d. panel (d)

____ 9. Which of the following explains the characteristics of a monopolistically competitive market?
a. There are only a few sellers.
b. Each firm takes the price of its product as given.
c. Firms can enter or exit the market without restriction.
d. Each firm produces a product that is essentially identical to the products of other firms in the market.

____ 10. By comparing marginal revenue and marginal cost, a firm in a competitive market is able to adjust production to the level that achieves its objective. What do we assume the objective to be?
a. maximization of total revenue
b. maximization of profit
c. minimization of variable cost
d. minimization of average total cost

____ 11. What shape of demand curves do competitive firms have, and how much output can they sell?
a. They have downward-sloping demand curves, and they can sell as much output as they desire at the market price.
b. They have downward-sloping demand curves, and they can sell only a limited quantity of output at each price.
c. They have horizontal demand curves, and they can sell as much output as they desire at the market price.
d. They have horizontal demand curves, and they can sell only a limited quantity of output at each price.

Figure 14-3

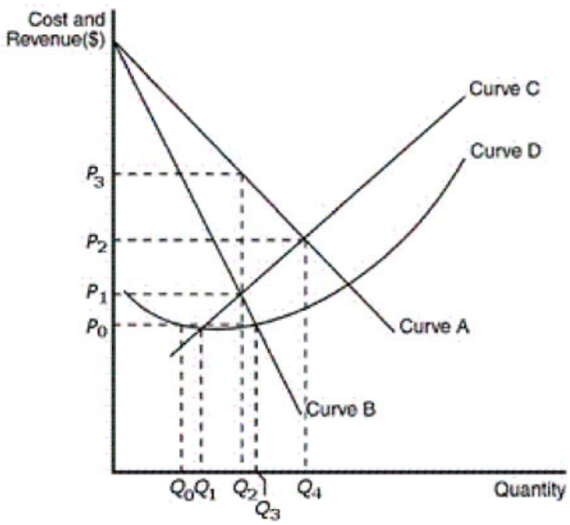


____ 12. Refer to Figure 14-3. If the firm is in a short-run position where $P < AVC$, what segment of the supply curve is it most likely to be on?
a. AC
b. BC
c. CD
d. DE

____ 13. As a group, how would oligopolists generally be better off?
a. if they would produce the perfectly competitive quantity of output
b. if they would produce more than the perfectly competitive quantity of output
c. if they would charge the same price that a monopolist would charge if the market were a monopoly
d. if they would operate according to their own individual self-interests

Figure 15-2

The figure below reflects the cost and revenue structure for a monopoly firm.



____ 14. Refer to Figure 15-2. If the monopoly firm is currently producing Q_3 units of output, what will a decrease in output necessarily cause profit to do?
a. decrease
b. remain unchanged
c. increase as long as the new level of output is at least Q_1
d. increase as long as the new level of output is at least Q_2

____ 15. Refer to Figure 15-2. What price will maximize profit?
a. P_0
b. P_1
c. P_2
d. P_3

____ 16. What type of monopoly are patent and copyright laws major sources of?
a. natural monopolies
b. government-created monopolies
c. resource monopolies
d. product monopolies

____ 17. If a firm in a competitive market reduces its output by 20 percent, what is the price of its output likely to do?
a. decrease by more than 20 percent
b. decrease by less than 20 percent
c. remain unchanged
d. increase

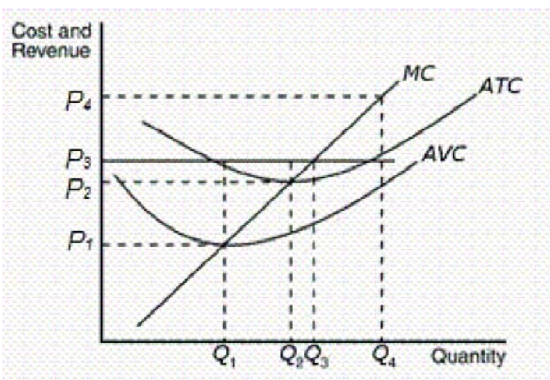
____ 18. Which of the following is a characteristic of a perfectly competitive market?
a. Firms are price makers.
b. Firms have difficulty entering the market.
c. There are not many sellers in the market.
d. Goods offered for sale are largely the same.

____ 19. Which of the following goods are NOT sold in a monopolistically competitive market?
a. CDs
b. books
c. cookies
d. wheat

____ 20. Long-run profit earned by a monopolistically competitive firm is driven to the competitive level due to which of the following factors?
a. a change in the technology that the firm utilizes
b. a shift of its demand curve
c. a shift of its supply curve
d. increased product differentiation

____ 21. When marginal revenue for a firm equals marginal cost, what can be said about the firm?
a. It should increase the level of production to maximize its profit.
b. It may be minimizing its losses, rather than maximizing its profit.
c. It must be generating economic profits.
d. It must be generating economic losses.

Figure 14-1



____ 22. Refer to Figure 14-1. When the price is P_2 and the firm maximizes its profit or minimizes its losses, which of the following will occur at the firm?
a. It will experience a positive profit.
b. It will experience a zero profit.
c. It will experience a loss, but continue to operate.
d. It will shut down.

____ 23. Refer to Figure 14-1. When price is equal to P_3, at what level of output will the profit-maximizing firm produce?
a. Q_1
b. Q_2
c. Q_3
d. Q_4

____ 24. Given that there are approximately 12 companies currently selling cars in Canada, what is the car market classified as?
a. perfectly competitive
b. monopolistically competitive
c. oligopolistic
d. monopoly

____ 25. Angelo is a wholesale meatball distributor. He sells his meatballs to all the finest Italian restaurants in town. Nobody can make meatballs like Angelo. As a result, his is the only business in town that sells meatballs to restaurants. Assuming that Angelo is maximizing his profit, how will meatball prices compare with marginal cost?
a. Meatball prices will be less than marginal cost.
b. Meatball prices will equal marginal cost.
c. Meatball prices will exceed marginal cost.
d. Meatball prices will be a function of supply and demand and will therefore oscillate around marginal costs.

____ 26. When price is greater than marginal cost for a firm in a competitive market, what should the firm do to maximize profit?
a. The firm should increase production since its marginal cost is falling.
b. The firm must be minimizing its losses since its marginal cost is rising.
c. There are opportunities to increase profit by increasing production.
d. The firm should decrease output to maximize profit.

____ 27. Which of the following feats is impossible for a monopolist to accomplish?
a. controlling the price of its good
b. charging a higher price and continuing to sell the same quantity
c. operating at a point on the upper half of the demand curve
d. increasing total surplus in a market compared to that in a competitive market

____ 28. Which of the following statements does NOT reflect a price-taking firm?
a. If the firm were to charge more than the going price, it would sell none of its goods.
b. The firm has no incentive to charge less than the going price.
c. The firm can sell as much as it wants to sell at the going price.
d. Consumers have a major impact on price, not firms.

____ 29. When a natural monopoly exists, how cost effective is it to produce the product?
a. It is generally cost effective for government-owned firms to produce the product.
b. It is generally not cost effective for one firm to produce the product.
c. It is generally cost effective for two or more private firms to produce the product.
d. It is generally not cost effective for two or more private firms to produce the product.

____ 30. Suppose that monopolistically competitive firms in a certain market are earning positive profits. What happens in the transition from this initial situation to a long-run equilibrium?
a. The number of firms in the market decreases.
b. Each incumbent firm experiences a decrease in demand for its product.
c. Marginal revenue will increase.
d. Average revenue will increase.

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Answer Section

MULTIPLE CHOICE

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