

Name _____

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

- 1) If a firm's operating profit is \$0, then it must be true that _____
 A) TFC is zero. B) TR equals TFC . C) TR equals TC . D) TR equals TVC .

Refer to the information provided in Figure 8.1 below to answer the questions that follow.

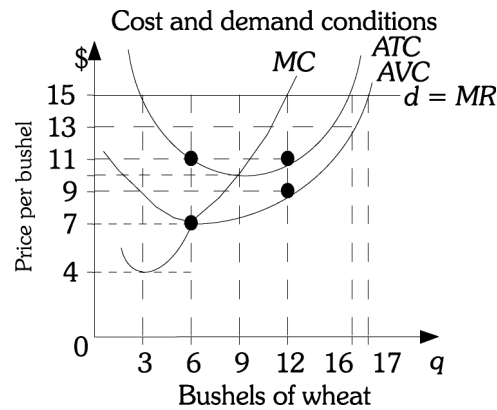


Figure 8.1

- 2) Refer to Figure 8.1. If this farmer is maximizing profits, his profit will be _____
 A) \$45. B) -\$24. C) \$48. D) \$72.
- 3) Refer to Figure 8.1. If this farmer is maximizing profits, his total revenue will be _____
 A) \$135. B) \$90. C) \$240. D) \$180.

Refer to the information in Scenario 2 below to answer the following questions.

SCENARIO 2: Tom borrows \$40,000 from his parents to open an espresso stand. He agrees to pay his parents a 5% yearly return on the money they lent him. His other yearly fixed costs equal \$10,000. His variable costs equal \$25,000. He sold 40,000 dozen donuts during the year at a price of \$2.00 per dozen.

- 4) Refer to Scenario 2. Tom's total fixed costs equal _____
 A) \$1,000. B) \$21,000. C) \$10,000. D) \$12,000.

Refer to the data provided in Table 8.1 below to answer the questions that follow.

Table 8.1						
q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$ 0	\$ 50	--	--	--
1	50	20	70	20	20	70
2	50	30	80	10	15	40
3	50	45	95	15	15	31.67
4	50	62	112	17	15.50	28
5	50	90	140	28	18	28
6	50	132	182	42	22	30.33
7	50	186	236	54	26.57	33.71

5) Refer to Table 8.1. If the market price is \$10, then for this firm to maximize profits it should produce _____ units of output. 5) _____
 A) zero B) one C) two D) three

6) As long as price is sufficient to cover _____, the firm is better off by operating rather than by shutting down. 6) _____
 A) average fixed cost B) marginal cost
 C) average variable cost D) marginal revenue

Refer to the information provided below in Scenario 1 to answer the following questions.

SCENARIO 1: Amy borrowed \$20,000 from her parents to open a bagel shop. She pays her parents a 5% yearly return on the money they lent her. Her other yearly fixed costs equal \$9,000. Her variable costs equal \$30,000. In her first year, Amy sold 40,000 dozen at a price of \$1.50 per dozen.

7) Refer to Scenario 1. Amy's profit is _____ 7) _____
 A) \$30,000. B) \$50,000. C) \$20,000. D) \$0.

Refer to the information provided in Figure 8.1 below to answer the questions that follow.

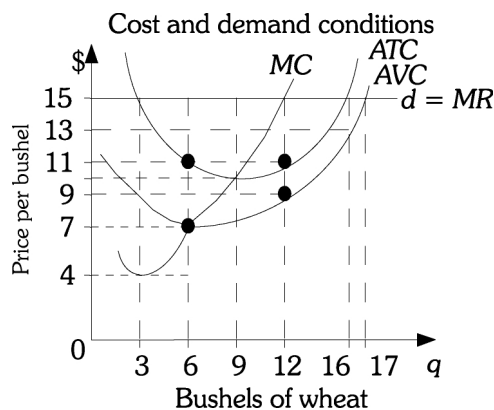


Figure 8.1

8) Refer to Figure 8.1. For this farmer to maximize profits he should produce _____ bushels of wheat. 8) _____
 A) 9 B) 12 C) 16 D) 6

Refer to the data provided in Table 8.1 below to answer the questions that follow.

q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$ 0	\$ 50	--	--	--
1	50	20	70	20	20	70
2	50	30	80	10	15	40
3	50	45	95	15	15	31.67
4	50	62	112	17	15.50	28
5	50	90	140	28	18	28
6	50	132	182	42	22	30.33
7	50	186	236	54	26.57	33.71

- 9) Refer to Table 8.1. If the market price is \$15, this firm should produce _____ units of output to maximize profits. 9) _____
- A) zero B) two C) three D) four

Refer to the information provided in Figure 8.1 below to answer the questions that follow.

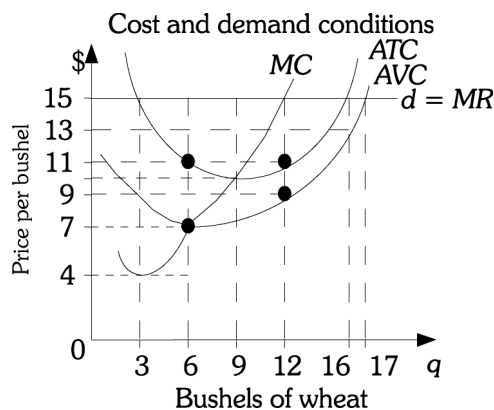


Figure 8.1

- 10) Refer to Figure 8.1. This farmer would earn a zero economic profit if price was _____ 10) _____
- A) \$7. B) \$11. C) \$10. D) \$9.
- 11) A firm will choose to operate rather than shut down as long as _____ 11) _____
- A) price is greater than or equal to AVC . B) price is greater than or equal to AFC .
C) AFC is greater than AVC . D) AVC is greater than MC .
- 12) The shutdown point for a perfectly competitive firm is _____ 12) _____
- A) the lowest point on the ATC curve.
B) the lowest point on the AVC curve.
C) the point at which a firm's long-run supply curve ends.
D) the lowest point on the marginal cost curve.

- 13) The Taste Freeze Ice Cream Company is a perfectly competitive firm producing where $MR = MC$. The current market price of an ice cream sandwich is \$5.00. Taste Freeze sells 200 ice cream sandwiches. Its AVC is \$8.00 and its AFC is \$3.00. What should Taste Freeze do? 13) _____
- A) Continue to produce because price exceeds AFC
 B) Decrease production so that AVC will decrease
 C) Increase production so that AFC will decrease
 D) Shut down and produce zero sandwiches because price is less than AVC

Refer to the data provided in Table 8.1 below to answer the questions that follow.

Table 8.1						
q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$ 0	\$ 50	--	--	--
1	50	20	70	20	20	70
2	50	30	80	10	15	40
3	50	45	95	15	15	31.67
4	50	62	112	17	15.50	28
5	50	90	140	28	18	28
6	50	132	182	42	22	30.33
7	50	186	236	54	26.57	33.71

- 14) Refer to Table 8.1. In the long run, if cost conditions do not change, this firm will earn a zero economic profit if price is 14) _____
- A) \$10. B) \$15. C) \$20. D) \$28.

Refer to the information in Scenario 2 below to answer the following questions.

SCENARIO 2: Tom borrows \$40,000 from his parents to open an espresso stand. He agrees to pay his parents a 5% yearly return on the money they lent him. His other yearly fixed costs equal \$10,000. His variable costs equal \$25,000. He sold 40,000 dozen donuts during the year at a price of \$2.00 per dozen.

- 15) Refer to Scenario 2. Tom's profit is 15) _____
- A) \$26,000. B) \$0. C) \$43,000. D) \$30,000.
- 16) A profit-maximizing strategy becomes a loss minimization strategy when a firm in a perfectly competitive industry is producing where 16) _____
- A) $AVC < P < ATC$. B) $MR = MC < P$. C) $P = ATC$. D) $P > ATC$.
- 17) A firm will shut down in the short run if 17) _____
- A) total costs exceed revenues. B) fixed costs exceed revenues.
 C) variable costs exceed revenues. D) it is suffering a loss.

Refer to the information provided in Figure 8.1 below to answer the questions that follow.

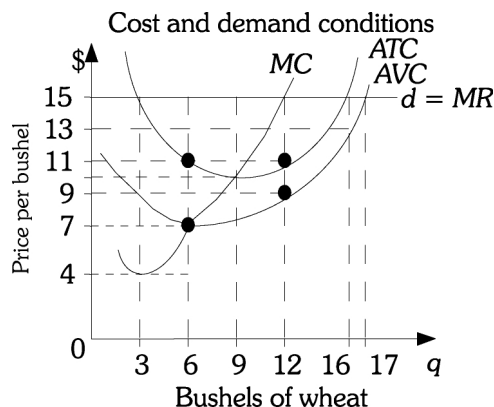


Figure 8.1

- 18) Refer to Figure 8.1. This farmer's shutdown point is at a price of _____
 A) \$0. B) \$4. C) \$7. D) \$10.

Refer to the information in Scenario 2 below to answer the following questions.

SCENARIO 2: Tom borrows \$40,000 from his parents to open an espresso stand. He agrees to pay his parents a 5% yearly return on the money they lent him. His other yearly fixed costs equal \$10,000. His variable costs equal \$25,000. He sold 40,000 dozen donuts during the year at a price of \$2.00 per dozen.

- 19) Refer to Scenario 2. Tom's total revenue was _____
 A) \$80,000. B) \$30,000. C) \$45,000. D) \$40,000.

Refer to the information provided in Figure 8.1 below to answer the questions that follow.

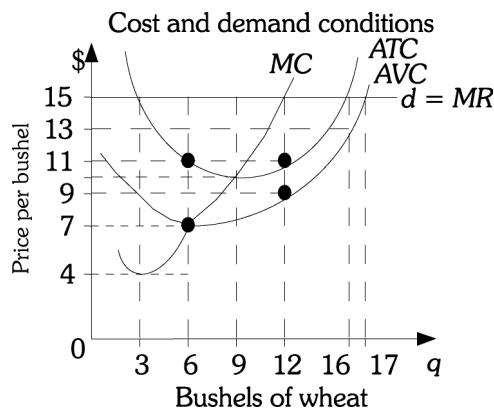


Figure 8.1

- 20) Refer to Figure 8.1. If this farmer is maximizing profit, his operating profit (or loss) is _____
 A) \$156. B) \$48. C) \$72. D) -\$24.

- 21) The short-run industry supply curve for a perfectly competitive industry is the _____
 A) horizontal sum of the individual firms' marginal cost curves above ATC .
 B) vertical sum of the individual firms' marginal cost curves above ATC .
 C) horizontal sum of the individual firms' marginal cost curves above AVC .
 D) vertical sum of the individual firms' marginal cost curves above AVC .
- 22) Assume the market for beef is perfectly competitive. Beef producers are currently earning a zero economic profit. If consumers switch from beef to chicken, which of the following is most likely to occur? _____
 A) Beef producers will now earn economic profits in the short run and there will be no additional adjustments in the long run.
 B) Beef producers will incur economic losses in the short run. Some producers will exit the industry until those remaining are earning an economic profit.
 C) Beef producers will now incur economic losses in both the short run and the long run.
 D) Beef producers will incur economic losses in the short run. Some producers will exit the industry until those remaining are earning a zero economic profit.
- 23) A perfectly competitive firm will be operating at its shutdown point if it operates _____
 A) at the minimum point on its average variable cost curve.
 B) at the minimum point on its average total cost curve.
 C) where $P = MC$.
 D) at the minimum point on its marginal cost curve.
- 24) Assume the tennis ball industry, a perfectly competitive industry, is in long-run equilibrium with a market price of \$5. If demand for tennis balls DECREASES and this industry experiences increasing returns to scale, long-run equilibrium will be reestablished at a price _____
 A) less than \$5.
 B) greater than \$5.
 C) equal to \$5.
 D) either greater than or less than \$5, depending on the number of firms that enter the industry.

Refer to the data provided in Table 8.1 below to answer the questions that follow.

q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$ 0	\$ 50	--	--	--
1	50	20	70	20	20	70
2	50	30	80	10	15	40
3	50	45	95	15	15	31.67
4	50	62	112	17	15.50	28
5	50	90	140	28	18	28
6	50	132	182	42	22	30.33
7	50	186	236	54	26.57	33.71

- 25) Refer to Table 8.1. If the market price is \$20, then to maximize profits this firm should produce _____
 A) one unit of output.
 B) zero units of output.
 C) two units of output.
 D) an output level that is indeterminate from this information.

Refer to the information provided in Figure 8.4 below to answer the questions that follow.

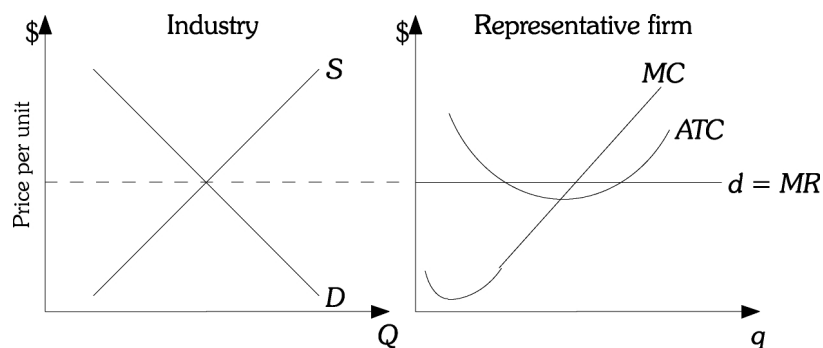


Figure 8.4

26) Refer to Figure 8.4. In the long run

- A) the industry supply curve will shift to the left.
- B) firms will leave this industry.
- C) existing firms in this industry will contract.
- D) existing firms will expand and new firms will enter this industry.

26) _____

Refer to the information provided in Figure 8.3 below to answer the questions that follow.

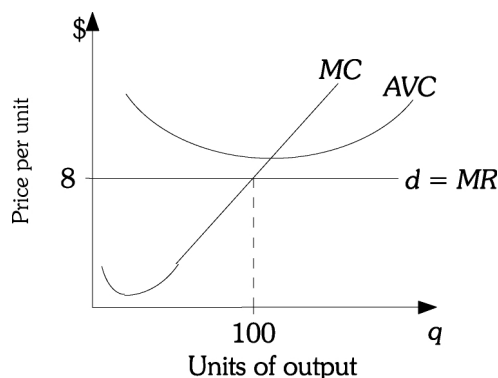


Figure 8.3

27) Refer to Figure 8.3. In the short run this firm or these firms should _____ and in the long run this firm should _____, if economic conditions do not change.

- A) shut down; exit the industry
- B) continue to produce where $MC = MR$; shut down
- C) continue to produce where $MC = MR$; expand
- D) exit the industry; shut down

27) _____

Refer to the information provided in Figure 8.5 below to answer the questions that follow.

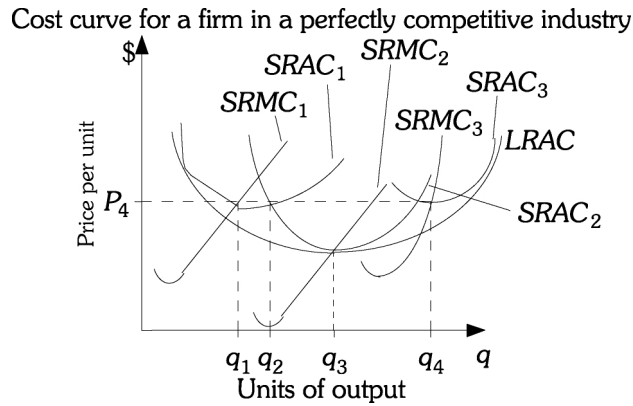


Figure 8.5

- 28) Refer to Figure 8.5. Assume this firm is in a constant-cost industry. For this firm to be in long-run equilibrium, the firm must be producing
- A) q_2 units of output.
 - B) q_1 units of output.
 - C) q_3 units of output.
 - D) an amount that is indeterminate from this information.

28) _____

Refer to the data provided in Table 8.1 below to answer the questions that follow.

Table 8.1

q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$ 0	\$ 50	--	--	--
1	50	20	70	20	20	70
2	50	30	80	10	15	40
3	50	45	95	15	15	31.67
4	50	62	112	17	15.50	28
5	50	90	140	28	18	28
6	50	132	182	42	22	30.33
7	50	186	236	54	26.57	33.71

- 29) Refer to Table 8.1. If the market price is \$17, then this firm should produce _____ units of output to maximize profits.
- A) four
 - B) three
 - C) five
 - D) zero
- 30) Which of the following is an example of economies of scale?
- A) To attract firms to locate in its state, the state government reduced the tax rate that businesses must pay on its profits, thus lowering the costs to firms who locate in the state.
 - B) As the computer industry has expanded, the number of professionally trained computer programmers has also increased, which has caused the salaries of computer programmers to increase.
 - C) As the demand for calculators increased, the price of calculators actually fell.
 - D) A firm increases in size and is therefore able to lower its health insurance costs because as the size of the group insured increases, the premium per person decreases substantially.

29) _____

30) _____

- 31) Firms are making profits in an increasing-cost industry. Which of the following statements describes what will happen in the long run? 31) _____
- A) Firms will exit this industry, causing the industry supply schedule to shift to the right and the *LRAC* curve to shift down.
 - B) More firms will enter this industry, causing the industry supply schedule to shift to the right and the *LRAC* curve facing firms to shift down.
 - C) More firms will enter this industry, causing the industry supply schedule to shift to the right and the *LRAC* curve facing firms to shift up.
 - D) Firms will exit this industry, causing the industry supply schedule to shift to the left and the *LRAC* curve to shift down.
- 32) If a firm's long-run average cost curve declines as output increases, then 32) _____
- A) there should be only one firm in the industry.
 - B) small firms would have lower average costs of production than large firms.
 - C) there should be a large number of firms in the industry.
 - D) small firms and large firms will have identical average costs.

Refer to the data provided in Table 8.1 below to answer the questions that follow.

q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$ 0	\$ 50	--	--	--
1	50	20	70	20	20	70
2	50	30	80	10	15	40
3	50	45	95	15	15	31.67
4	50	62	112	17	15.50	28
5	50	90	140	28	18	28
6	50	132	182	42	22	30.33
7	50	186	236	54	26.57	33.71

- 33) Refer to Table 8.1. The market price is \$42 and this firm is producing four units of output. Which of the following would you recommend to this firm? 33) _____
- A) Continue producing four units of output, because the firm is able to make an economic profit.
 - B) Increase output to seven units so that price is less than marginal cost.
 - C) Increase output to six units, so that marginal cost equals marginal revenue.
 - D) Reduce price to \$17, so that marginal cost will equal marginal revenue at 4 units of output.
- 34) Billy Bob's Fertilizer Engineers, a perfectly competitive firm, is incurring a loss but still earning an operating profit. Then in the short run this firm should _____ and in the long run, if there is no change in economic conditions, this firm should _____. 34) _____
- A) produce where $MR = MC$; exit the industry
 - B) produce where $MR = MC$; expand
 - C) shut down; expand
 - D) shut down; exit the industry

Refer to the information provided in Figure 8.2 below to answer the questions that follow.

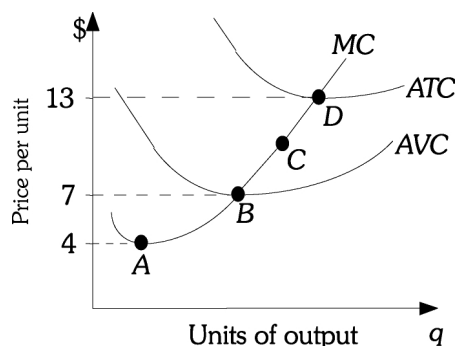


Figure 8.2

- 35) Refer to Figure 8.2. This firm's shutdown point corresponds to Point _____

Refer to the data provided in Table 8.1 below to answer the questions that follow.

Table 8.1

q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$ 0	\$ 50	--	--	--
1	50	20	70	20	20	70
2	50	30	80	10	15	40
3	50	45	95	15	15	31.67
4	50	62	112	17	15.50	28
5	50	90	140	28	18	28
6	50	132	182	42	22	30.33
7	50	186	236	54	26.57	33.71

- 36) Refer to Table 8.1. At a market price of \$28, the best this firm can do is to produce _____ units of output and earn an economic profit of _____.
A) 0; -\$50 B) 5; \$0 C) 4; \$0 D) either 4 or 5; \$0 36) _____
- 37) A firm is earning an economic profit. In the short run the firm should _____. In the long run the firm should probably _____.
A) produce where $MC = MR$; expand
B) shut down; exit the industry
C) shut down; expand
D) produce where $MC = MR$; leave the industry 37) _____
- 38) Engineers for The All-Terrain Bike Company have determined that a 15% increase in all inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause _____ as output increases.
A) average costs to decrease B) marginal costs to increase
C) average costs to increase D) average costs to remain constant 38) _____

- 39) If a firm is incurring an operating loss, in the short run the firm should _____ and in the long run the firm should _____. 39) _____
- A) produce where $MC = MR$; expand
 - B) produce where $MC = MR$; exit the industry
 - C) shut down; expand
 - D) shut down; exit the industry

Refer to the data provided in Table 8.1 below to answer the questions that follow.

Table 8.1						
q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$ 0	\$ 50	--	--	--
1	50	20	70	20	20	70
2	50	30	80	10	15	40
3	50	45	95	15	15	31.67
4	50	62	112	17	15.50	28
5	50	90	140	28	18	28
6	50	132	182	42	22	30.33
7	50	186	236	54	26.57	33.71

- 40) Refer to Table 8.1. If the market price was \$17, then this firm's profit would be 40) _____
- A) -\$50.
 - B) -\$44.
 - C) \$68.
 - D) \$6.
- 41) Assume the peanut industry, a perfectly competitive industry, is in long-run equilibrium with a market price of \$5. If demand for peanuts increases and this industry is a decreasing-cost industry, long-run equilibrium will be reestablished at a price 41) _____
- A) less than \$5.
 - B) equal to \$5.
 - C) greater than \$5.
 - D) either greater than or less than \$5, depending on the number of firms that enter the industry.
- 42) Assume a perfectly competitive industry is in long-run equilibrium at a price of \$20. If this industry is a constant-cost industry and the demand for the product decreases, long-run equilibrium will be reestablished at a price 42) _____
- A) less than \$20.
 - B) of \$20.
 - C) greater than \$20.
 - D) either greater than or less than \$20 depending on the magnitude of the decrease in demand.

Refer to the information provided in Figure 8.6 below to answer the questions that follow.

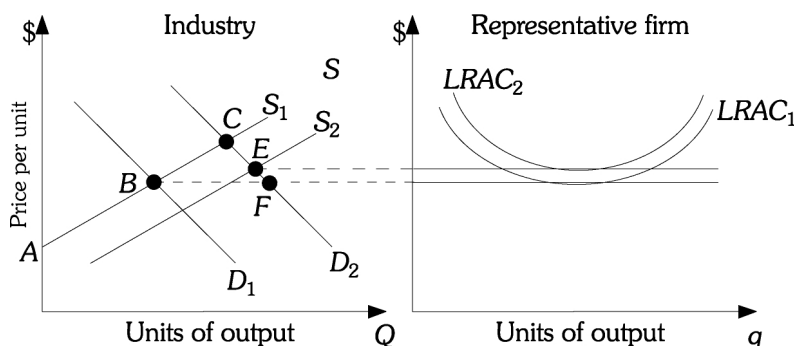


Figure 8.6

- 43) Refer to Figure 8.6. The type of industry depicted in this situation is _____
- A) a constant-cost industry.
 B) an increasing-cost industry.
 C) a decreasing-cost industry.
 D) impossible to determine from this information.
- 44) Which of the following is the set of conditions necessary for long-run equilibrium for a perfectly competitive firm? _____
- A) $P > SRMC = SRAC = LRAC$
 B) $P = SRMC = SRAC = LRAC$
 C) $P = SRMC = SRAC > LRAC$
 D) $P = SRMC < SRAC = LRAC$

Refer to the information provided in Figure 8.6 below to answer the questions that follow.

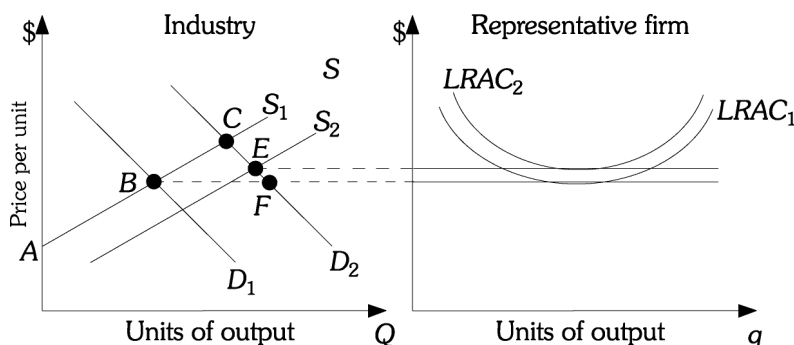


Figure 8.6

- 45) Refer to Figure 8.6. This increasing cost industry's long-run supply curve would be found by drawing a line from _____
- A) Points A to E.
 B) Points B to E.
 C) Points B to F.
 D) Points B to C.
- 46) Ameritech® has a monopoly over local telephone service. If Ameritech® is producing where marginal revenue is less than marginal cost, the firm _____
- A) is maximizing profits.
 B) must be earning a zero profit.
 C) could increase profits by increasing output.
 D) could increase profits by reducing output.

Refer to the information provided in Figure 12.4 below to answer the questions that follow.

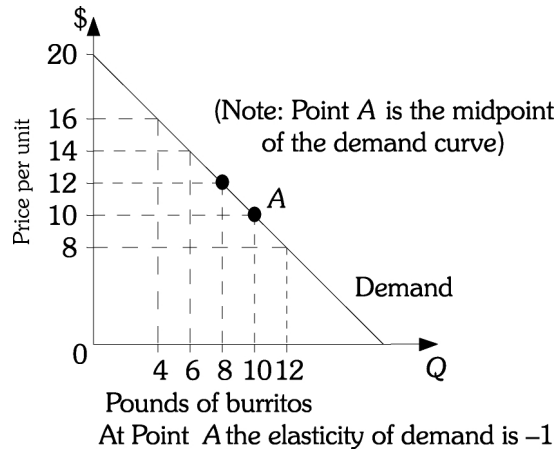


Figure 12.4

- 47) Refer to Figure 12.4. This firm's marginal revenue will be negative at
 A) prices above \$12.
 B) all prices.
 C) prices between \$4 and \$18.
 D) prices below \$10.
- 48) For a monopolist, price
 A) is less than marginal revenue.
 B) equals marginal revenue.
 C) is greater than marginal revenue.
 D) can be greater than or less than marginal revenue.

47) _____

48) _____

Refer to the information provided in Figure 12.3 below to answer the questions that follow.

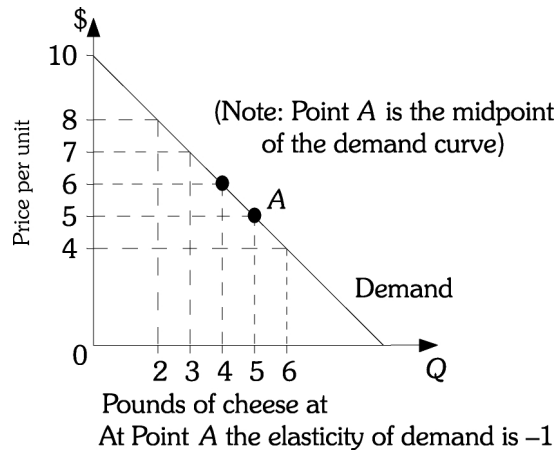


Figure 12.3

- 49) Refer to Figure 12.3. This firm's marginal revenue will be negative at
 A) prices below \$5.
 B) all prices.
 C) prices above \$5.
 D) prices between \$4 and \$8.

49) _____

50) The XYZ Computer Company has a monopoly over the production of a specialized color printer. The XYZ Computer Company will find it profitable to increase the production of specialized color printers as long as marginal cost

50) _____

- A) is positive.
- B) is less than marginal revenue.
- C) is greater than marginal revenue.
- D) equals marginal revenue.

Refer to the information provided in Figure 12.7 below to answer the question that follows.

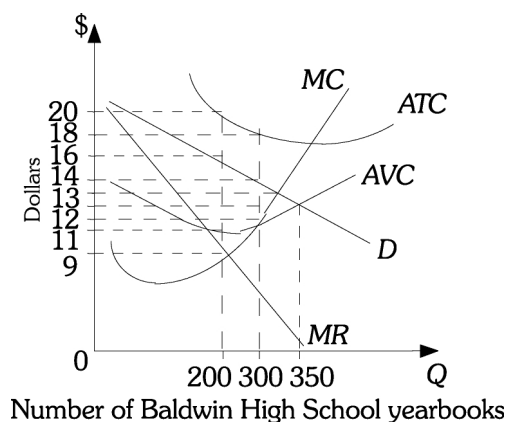


Figure 12.7

51) Refer to Figure 12.7. The Memory Company's operating profit is

51) _____

- A) \$800.
- B) -\$1,000.
- C) -\$800.
- D) \$1,000.

52) Relative to a competitively organized industry, a monopoly produces

52) _____

- A) more output, charges higher prices and, earns economic profits.
- B) less output, charges lower prices and, earns only a normal profit.
- C) less output, charges higher prices and, earns economic profit.
- D) less output, charges lower prices and, earns economic profits.

Refer to the information provided in Figure 12.3 below to answer the questions that follow.

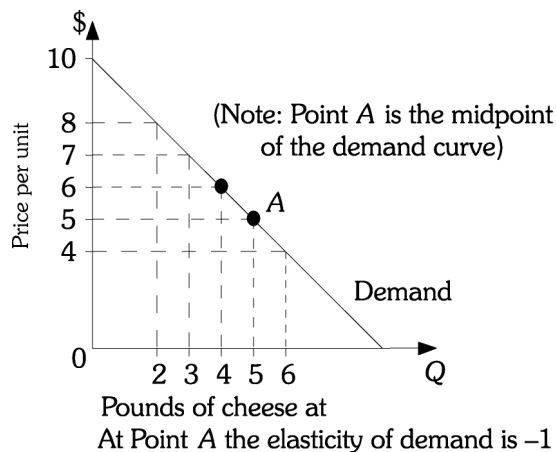


Figure 12.3

- 53) Refer to Figure 12.3. The marginal revenue of the sixth pound of cheese is _____
 A) -\$1. B) \$4. C) -\$4. D) \$1.
- 54) Refer to Figure 12.3. This firm's marginal revenue will be positive at _____
 A) prices above \$5. B) all prices.
 C) prices between \$4 and \$8. D) prices below \$5.
- 55) The XYZ Computer Company has a monopoly over the production of a specialized color printer. The XYZ Computer Company will find it profitable to reduce output as long as marginal revenue _____
 A) is greater than marginal cost. B) is less than marginal cost.
 C) equals marginal cost. D) is positive.

Refer to the information provided in Figure 12.7 below to answer the question that follows.

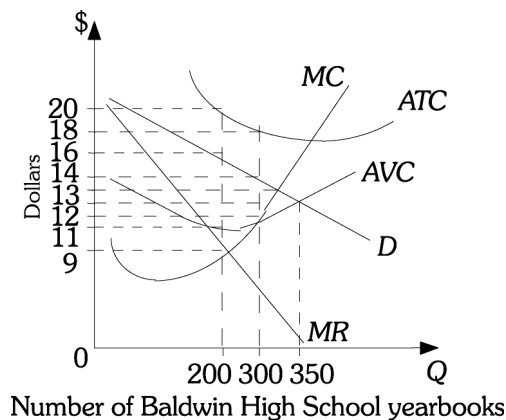


Figure 12.7

- 56) Refer to Figure 12.7. The profit-maximizing level of profit for the Memory Company is _____
 A) -\$1,800. B) -\$800. C) -\$1,200. D) \$0.

Refer to the information provided in Figure 12.5 below to answer the questions that follow.

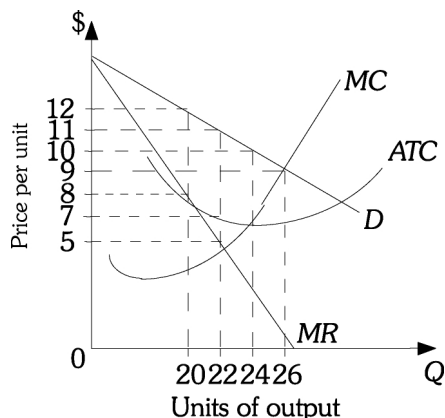


Figure 12.5

57) Refer to Figure 12.5. If this firm is producing the profit-maximizing quantity and selling it at the profit-maximizing price, the firm's profit will be

- A) \$80. B) \$84. C) \$132. D) \$88.

57) _____

58) Stereo Sound Unlimited has a monopoly over the installation of quadraphonic sound systems. If Stereo Sound Unlimited's total revenue from installing 10 sound systems is \$20,000 and its total revenue from installing 11 sound systems is \$18,000, what is the marginal revenue of the eleventh sound system?

- A) \$3,800 B) \$2,000 C) -\$1,000 D) -\$2,000

58) _____

Refer to the information provided in Figure 12.5 below to answer the questions that follow.

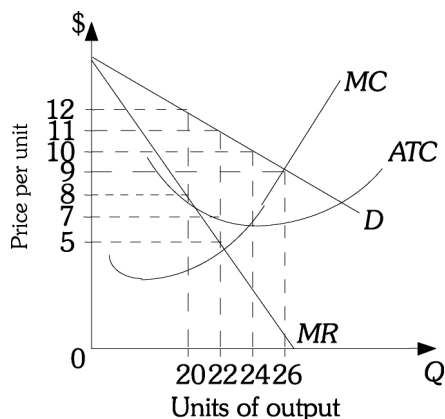


Figure 12.5

59) Refer to Figure 12.5. The profit-maximizing level of output for this monopolist is _____ units of output.

- A) 20 B) 22 C) 26 D) 24

59) _____

Refer to the information provided in Figure 12.4 below to answer the questions that follow.

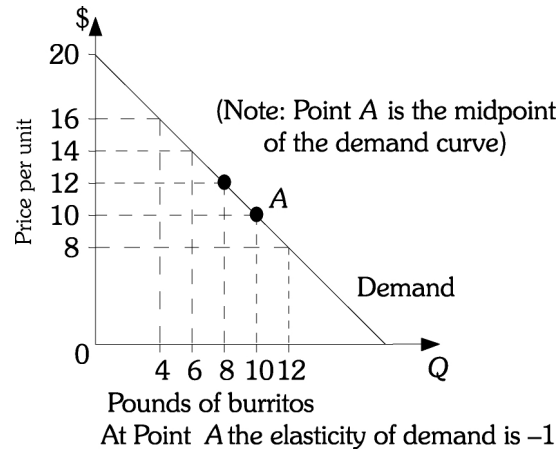


Figure 12.4

- 60) Refer to Figure 12.4. The marginal revenue of the eighth pound of burritos is _____
 A) \$1. B) \$6. C) \$3. D) \$24.
- 61) Refer to Figure 12.4. This firm's marginal revenue will be positive at _____
 A) prices between \$4 and \$8. B) prices above \$20.
 C) prices above \$10. D) all prices.
- 62) The administrators of the only two hospitals in a city agree that their hospitals will provide different surgical specialties. This is an example of _____
 A) collusion. B) rent-seeking behavior.
 C) market power. D) regulatory control.
- 63) When the demand curve is a downward sloping straight line, the slope of the marginal revenue curve is _____
 A) half as steep as the demand curve.
 B) the same as the slope of the demand curve.
 C) twice as steep as the demand curve.
 D) always equal to one.
- 64) Because of a patent, Alcoa is the only manufacturer of soda cans with a stay-put tab. Alcoa can earn a profit on the sale of soda cans with stay-put tabs _____
 A) in the long run but not the short run because the monopolist will face competition in the short run.
 B) in the long run because entry into the industry by new firms is blocked until the patent expires.
 C) only in the long run because government regulations prevent monopolists from earning profits in the short run.
 D) in the short run but not in the long run because new firms will enter the industry in the long run.
- 65) A profit-maximizing monopolist will produce output where _____
 A) marginal revenue is zero. B) marginal revenue equals marginal cost.
 C) price equals marginal cost. D) marginal cost is minimized.

66) Which of the following made tying contracts illegal and banned price discrimination?

- A) the Sherman Act
B) the Clayton Act
C) the Federal Trade Commission Act
D) the Celler-Kefauver Act

66) _____

Refer to the information provided in Figure 12.9 below to answer the questions that follow.

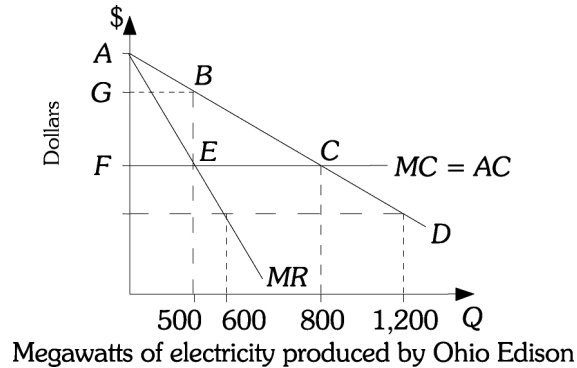


Figure 12.9

67) Refer to Figure 12.9. From society's point of view the efficient level of electricity production are _____ megawatts.

- A) 600
B) 800
C) 500
D) 1200

67) _____

68) The notion that the government becomes the tool of the rent seeker and makes the allocation of resources even less efficient than before is known as

- A) public choice theory.
B) conspiracy theory.
C) collusion.
D) government failure.

68) _____

Refer to the information provided in Figure 12.8 below to answer the questions that follow.

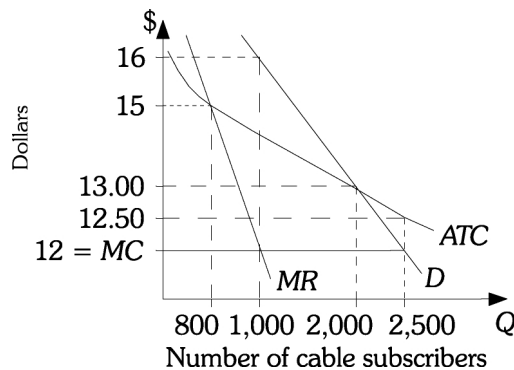


Figure 12.8

69) Refer to Figure 12.8. For Armstrong Cable the profit-maximizing number of subscribers is

- A) 2,500.
B) 2,200.
C) 800.
D) 1,000.

69) _____

Refer to the information provided in Figure 12.9 below to answer the questions that follow.

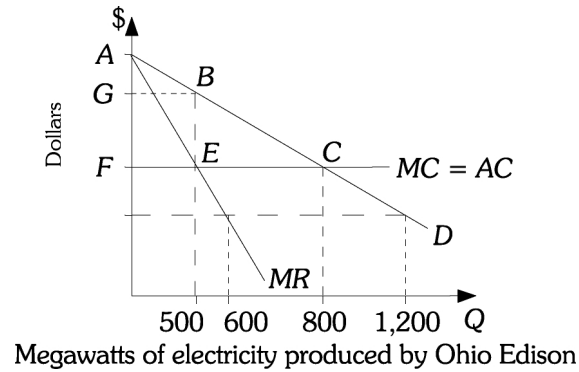


Figure 12.9

- 70) Refer to Figure 12.9. If Ohio Edison is regulated to act as a perfectly competitive firm
- A) output would increase from 500 to 600 units.
 - B) the net social gain to society equals ACF .
 - C) consumer surplus would increase by the area $FGBC$.
 - D) the firm will earn profits of BEC .

70) _____

Refer to the information provided in Figure 12.8 below to answer the questions that follow.

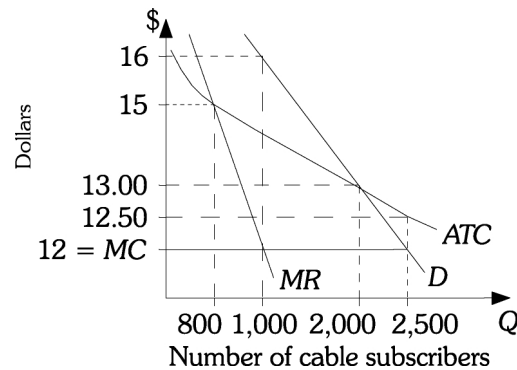


Figure 12.8

- 71) Refer to Figure 12.8. If Armstrong Cable is forced to sell the efficient level output it will
- A) earn a profit of \$4,000.
 - B) incur a loss of \$1,250.
 - C) earn a zero profit.
 - D) incur a loss of \$7,250.

71) _____

Refer to the information provided in Figure 12.9 below to answer the questions that follow.

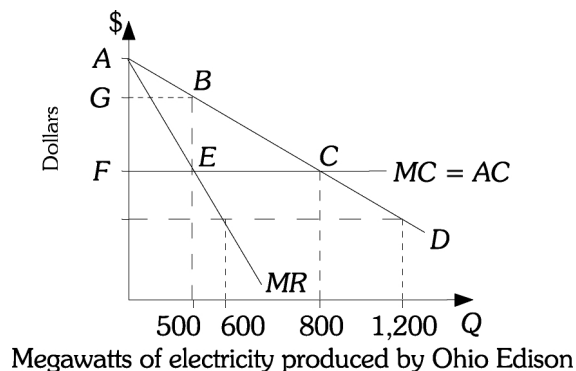


Figure 12.9

- 72) Refer to Figure 12.9. If this industry was originally perfectly competitive and becomes monopolized, the amount of consumer surplus transferred to Ohio Edison in the form of profits is
- A) *BEC*. B) *FABE*. C) *FGBC*. D) *FGBE*.

72) _____

- 73) Which of the following declared monopoly and trade restraints illegal?
- A) the Clayton Act B) the Sherman Act
C) the Cellar - Kefauver Act D) the Federal Trade Commission Act

73) _____

Refer to the information provided in Figure 12.9 below to answer the questions that follow.

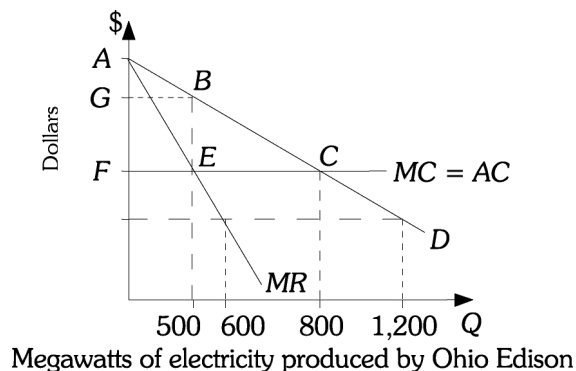


Figure 12.9

- 74) Refer to Figure 12.9. The amount of consumer surplus under monopoly is equal to area
- A) *AFC*. B) *GAB*. C) *BEC*. D) *AFE*.
- 75) Refer to Figure 12.9. If Ohio Edison engages in rent-seeking behavior to maintain their monopoly, the true net social cost of monopoly is
- A) *AGB* and the portion of area *FGBE* that pays for the rent-seeking behavior.
B) *FAC*.
C) *FGBC*.
D) *BEC* and the portion of area *FGBE* that pays for the rent-seeking behavior.

74) _____

75) _____

76) Perfect price discrimination

76) _____

- A) is an attempt by monopolists to capture consumer surplus as profit.
- B) is charging different prices to different buyers.
- C) can eliminate the deadweight loss to society of a monopoly.
- D) do all of the above.

77) Which of the following is NOT an example of price discrimination?

77) _____

- A) Airlines charging lower prices to travelers who stay over a Saturday night
- B) Student discounts at movie theaters
- C) Discounted coffee for senior citizens at restaurants
- D) back-to-school sales

78) For a monopoly to be a natural monopoly,

78) _____

- A) economies of scale must be realized at a scale that is close to total demand in the market.
- B) economies of scale must be realized at a scale that is small relative to the market.
- C) the long-run average cost curve must continue to increase until it hits the market demand curve.
- D) there must be constant returns to scale.

Refer to the information provided in Figure 12.8 below to answer the questions that follow.

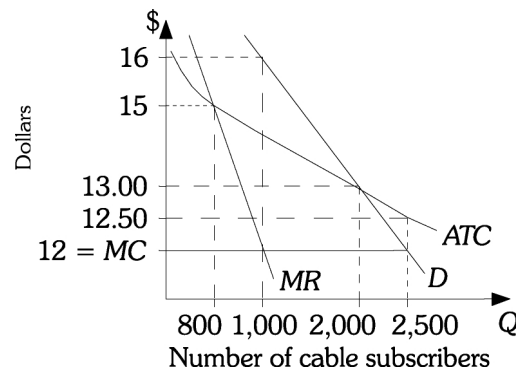


Figure 12.8

79) Refer to Figure 12.8. The type of industry pictured is a

79) _____

- A) patent monopoly.
- B) strategic resource monopoly.
- C) profit maximizing monopoly.
- D) natural monopoly.

80) An industry that realizes such large economies of scale in producing its product that single-firm production of that good or service is most efficient is called a(n)

80) _____

- A) patent monopoly.
- B) fixed cost monopoly.
- C) natural monopoly.
- D) economies of scale monopoly.

81) It would be inefficient to break up a

81) _____

- A) patent monopoly.
- B) natural monopoly.
- C) profit-maximizing monopoly.
- D) strategic resource monopoly.

- 82) The Do It Yourself Hardware Store is a monopolistically competitive firm. Its marginal revenue curve _____ 82) _____
- A) is identical to its demand curve.
 - B) lies below its demand curve intersecting the quantity axis midway between the origin and the point at which the demand curve intersects it.
 - C) lies below its demand curve intersecting the quantity axis at the same point at which the demand curve intersects it.
 - D) is below its demand curve if demand is elastic and above the demand curve if demand is inelastic.
- 83) Mama Lena's, a frozen food producer, is a monopolistically competitive firm. Mama Lena's is currently selling frozen lasagna at a price of \$10. Mama Lena's marginal cost is \$5 and marginal revenue is \$5. This firm should _____ to maximize profits. 83) _____
- A) continue to produce the same output level
 - B) decrease output to where price just equals marginal cost
 - C) increase output to where price just equals marginal cost
 - D) decrease output so that marginal revenue exceeds marginal cost
- 84) For monopolistically competitive firms in long-run equilibrium, 84) _____
- A) at the profit-maximizing quantity, the demand curve must be tangent to the average total cost curve.
 - B) the demand curve must be tangent to the average total cost curve at its minimum.
 - C) the demand curve must intersect average total cost at its minimum.
 - D) at the profit-maximizing quantity, the demand curve must intersect the average total cost curve quantity.

Refer to the information provided in Figure 13.4 below to answer the questions that follow.

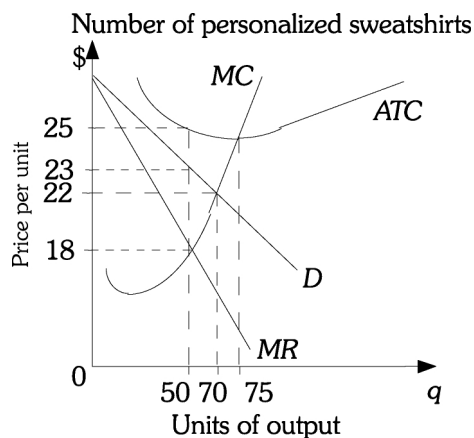


Figure 13.4

- 85) Refer to Figure 13.4. Assume The Custom Shirt Shop has fixed costs of \$150 and is a monopolistically competitive firm. If this firm is producing the profit-maximizing level of output and selling it at the profit-maximizing price, the firm's profit is 85) _____
- A) -\$100.
 - B) -\$250.
 - C) -\$50.
 - D) -\$150.

Refer to the information provided in Figure 13.5 below to answer the questions that follow.

Demand and cost conditions facing the Custom Sweater Shop

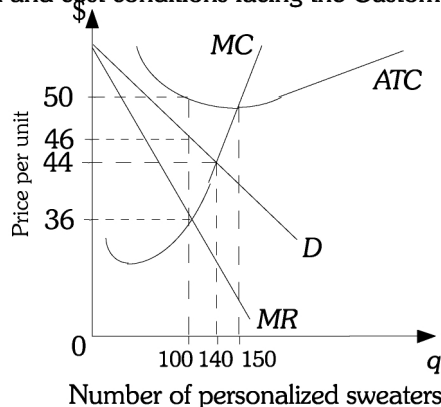


Figure 13.5

- 86) Refer to Figure 13.5. Assume The Custom Sweater Shop has fixed costs of \$500 and is a monopolistically competitive firm. To maximize profits in the short run, this firm should set a price of _____
- A) \$36. B) \$46. C) \$50. D) \$44.
- 87) Refer to Figure 13.5. Assume The Custom Sweater Shop has fixed costs of \$500 and is a monopolistically competitive firm. If this firm is producing the profit-maximizing level of output and selling it at the profit-maximizing price, the firm's profit is _____
- A) -\$400. B) -\$200. C) -\$350. D) -\$50.
- 88) As new firms enter a monopolistically competitive industry, the demand _____
- A) and marginal revenue curves facing each firm begin to shift to the right.
 B) curve facing each firm shifts to the left, but the marginal revenue curve remains constant.
 C) and marginal revenue curves facing each firm begin to shift to the left.
 D) curve facing each firm begins to shift to the right but the marginal revenue curve remains constant.
- 89) The Specialty Cake Store, a monopolistically competitive firm, is producing 200 decorated cakes per day and selling each cake for \$12. At that production level ATC is \$20, AVC is \$15, AFC is \$10, and both MR and MC are \$8. This firm should _____
- A) produce zero cakes and just pay fixed costs.
 B) increase output to the point where price equals marginal cost.
 C) continue to produce 200 cakes, as price is greater than AFC .
 D) decrease output to the point where marginal cost equals average cost.

Refer to the information provided in Figure 13.2 below to answer the questions that follow.

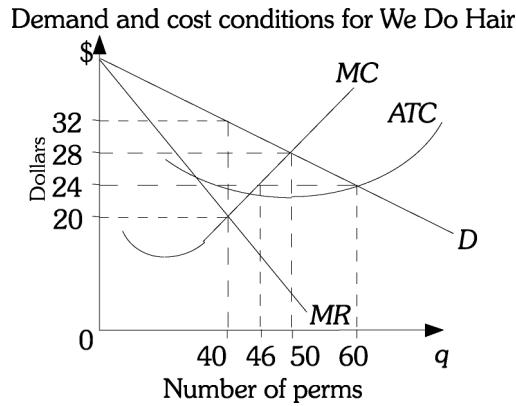


Figure 13.2

- 90) Refer to Figure 13.2. If We Do Hair is maximizing profit as a monopolistically competitive firm, its total revenue equals 90) _____
- A) \$1,320. B) \$1,280. C) \$600. D) \$1,200.

Refer to the information provided in Figure 13.4 below to answer the questions that follow.

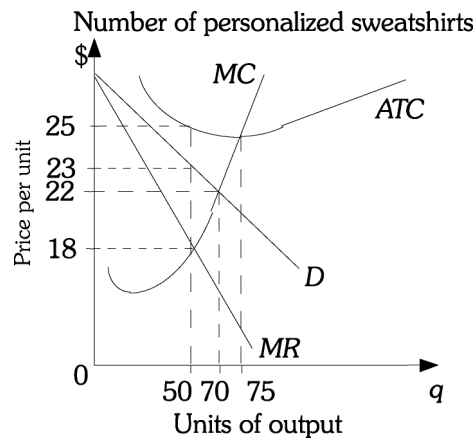


Figure 13.4

- 91) Refer to Figure 13.4. Assume The Custom Shirt Shop has fixed costs of \$150 and is a monopolistically competitive firm. To maximize profits in the short run, this firm should set a price of 91) _____
- A) \$23. B) \$22. C) \$25. D) \$18.

Refer to the information provided in Figure 13.2 below to answer the questions that follow.

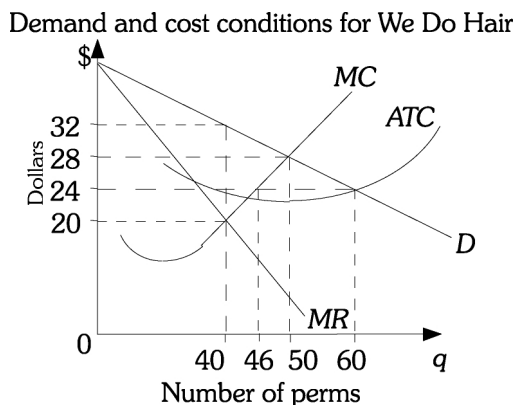


Figure 13.2

- 92) Refer to Figure 13.2. If We Do Hair is maximizing profit as a monopolistically competitive firm, it is earning a profit of _____
- A) \$220. B) \$0. C) \$320. D) \$180.
- 93) Monopolistic competition differs from perfect competition primarily because in _____
- A) monopolistic competition, firms can differentiate their products.
 B) perfect competition, firms can differentiate their products.
 C) monopolistic competition, there are relatively few barriers to entry.
 D) monopolistic competition, entry into the industry is blocked.

Refer to the information provided in Figure 13.4 below to answer the questions that follow.

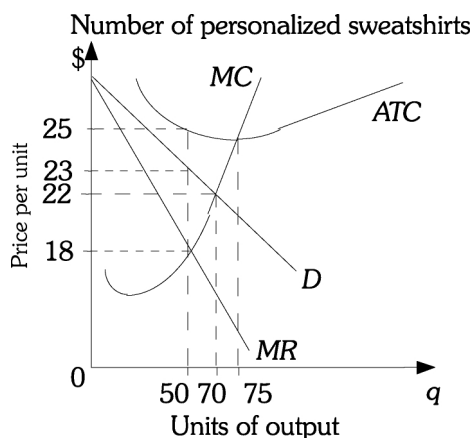


Figure 13.4

- 94) Refer to Figure 13.4. Assume The Custom Shirt Shop has fixed costs of \$75 and is a monopolistically competitive firm. To maximize profits in the short run, this firm should produce _____
- A) 75 B) 70 C) 0 D) 50

95) Critics of advertising contend that

- A) advertising may reduce competition by creating a barrier to entry of new firms into an industry.
- B) advertising is intended to change peoples' preferences and to create wants that otherwise would not have existed.
- C) the information content of advertising is minimal at best and deliberately deceptive at worst.
- D) All of the above

95) _____

Refer to the information provided in Figure 13.1 below to answer the questions that follow. Below are cost curves for Dom's Barber Shop, a monopolistically competitive firm

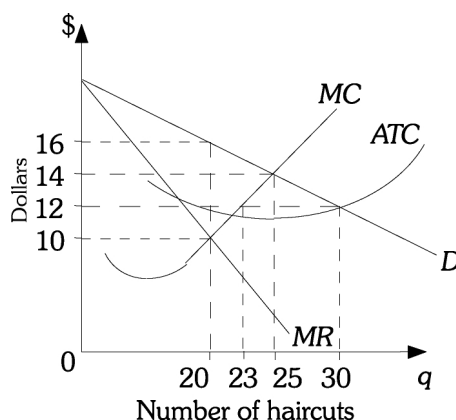


Figure 13.1

96) Refer to Figure 13.1. The profit-maximizing number of haircuts for Dom's Barber Shop is

- A) 20
- B) 25
- C) 23
- D) 30

96) _____

97) The condition for long-run equilibrium in a monopolistically competitive industry is

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

97) _____

98) If firms in a monopolistically competitive industry are incurring losses, in the long run

- A) investment in this industry will increase to reduce production costs.
- B) firms will leave this industry until the firms that remain are earning an economic profit.
- C) the government will subsidize the losses incurred by these firms so as to maintain competition in the industry.
- D) firms will leave this industry until the remaining firms are earning a normal profit.

98) _____

99) Monopolistically competitive firms prevent the efficient use of resources because in long-run equilibrium

- A) price is greater than marginal cost.
- B) price equals marginal cost.
- C) price is less than marginal cost.
- D) marginal cost is less than average total cost.

99) _____

Refer to the information provided in Figure 13.5 below to answer the questions that follow.

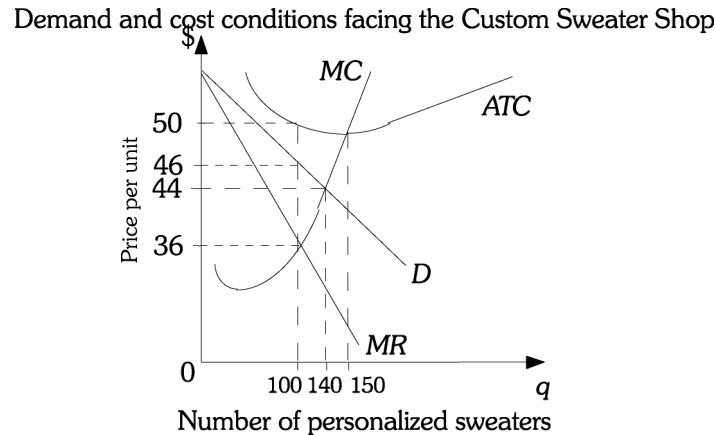


Figure 13.5

- 100) Refer to Figure 13.5. In the long run in this monopolistically competitive industry
- A) some firms will leave the industry until the remaining firms earn a normal profit.
 - B) firms will enter the industry, which will increase the demand for the product.
 - C) the government will subsidize the firms to eliminate any losses the firms incur.
 - D) firms will leave the industry until each firm earns an economic profit.

100) _____

Refer to the information provided in Figure 13.2 below to answer the questions that follow.

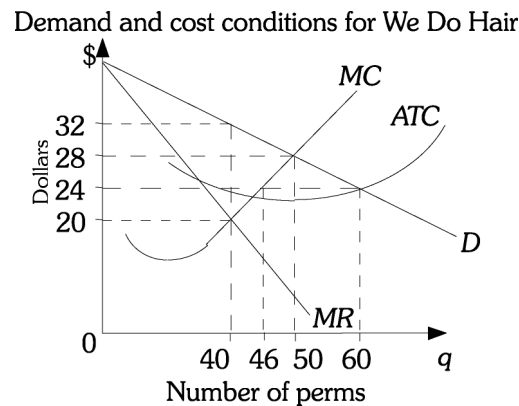


Figure 13.2

- 101) Refer to Figure 13.2. At We Do Hair, a monopolistically competitive firm, the profit-maximizing price for a perm is
- A) \$20.
 - B) \$24.
 - C) \$32.
 - D) \$28.
- 102) The colluding oligopoly will face market demand and produce up until the point at which
- A) marginal revenue and marginal cost are equal and price will be set above marginal cost.
 - B) price and marginal revenue are equal and price will be set below marginal cost.
 - C) marginal revenue and marginal cost are equal and price will be set below marginal cost.
 - D) price and marginal cost are equal and price will be set equal to marginal cost.

101) _____

102) _____

- 103) The major distinguishing characteristic of oligopoly is that _____
 A) firms can influence the price of their product.
 B) entry into the industry is easy.
 C) firms are interdependent.
 D) firms produce differentiated products.
- 104) The market structure in which the behavior of any given firm depends on the behavior of the other firms in the industry is _____
 A) monopoly.
 B) perfect competition.
 C) monopolistic competition.
 D) oligopoly.
- 105) The demand curve facing the dominant firm in the price leadership model is derived by subtracting the _____
 A) amount demanded by customers of the smaller firms from market supply.
 B) amount supplied by the smaller firms from market supply.
 C) dominant firm's marginal cost curve from the industry's supply curve.
 D) amount supplied by the smaller firms from market demand.
- 106) A group of firms colluding to make price and output decisions is called _____
 A) a cartel.
 B) an oligopoly.
 C) price leadership.
 D) a concentrated industry.

Refer to the information provided in Figure 13.7 below to answer the questions that follow.

Demand and cost conditions for the Chewing Gum Industry

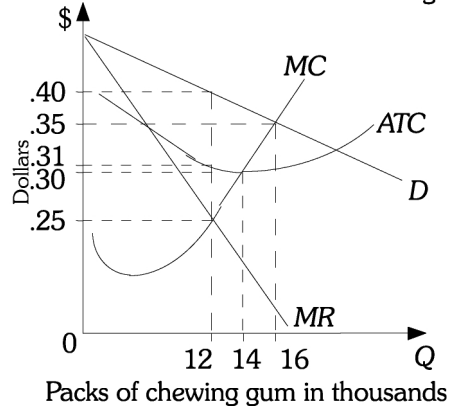


Figure 13.7

- 107) Refer to Figure 13.7. Six firms that produce chewing gum have formed a cartel. The cartel faces the market demand curve given by D . To maximize profits, the cartel should produce _____ packs of chewing gum and the price should be _____.
 A) 12,000; \$.40
 B) 14,000; \$.30
 C) 12,000; \$.25
 D) 16,000; \$.35

- 108) In oligopoly, firms _____
 A) have no influence over price regardless of whether or not the product is differentiated or standardized.
 B) by virtue of their size are able to influence price regardless of whether or not the product is differentiated or standardized.
 C) are able to influence price only if the products produced by the oligopolist are standardized.
 D) are able to influence price only if the products produced by the oligopolists are differentiated.
- 109) In contestable markets, large oligopolistic firms end up behaving like _____
 A) perfectly competitive firms.
 B) a cartel.
 C) a monopoly.
 D) monopolistically competitive firms.
- 110) Which of the following is the best example of an oligopolistic industry? _____
 A) Designer clothes
 B) Grocery stores
 C) Automobiles
 D) Electric power
- 111) A form of industry structure characterized by a few firms each large enough to influence market price is _____
 A) perfect competition.
 B) oligopoly.
 C) monopolistic competition.
 D) monopoly.
- 112) If the industry is an oligopoly, the price charged and the quantity produced would be the same as if the industry was a monopoly if _____
 A) the oligopolists collude.
 B) the oligopolists behave as Cournot assumed.
 C) one of the oligopolists acts as a dominant price leader.
 D) the oligopolist faces a kinked demand curve.

Refer to the information provided in Figure 13.7 below to answer the questions that follow.

Demand and cost conditions for the Chewing Gum Industry

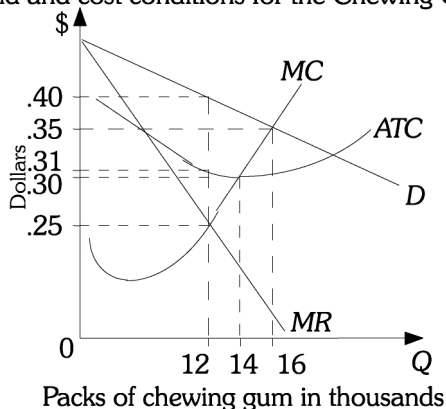


Figure 13.7

- 113) Refer to Figure 13.7. Firms have formed a cartel. If the cartel is maximizing profits, the cartel's profits are _____
 A) \$1,080.
 B) \$0.
 C) \$1,800.
 D) indeterminate from this information.

- 114) An oligopoly with a dominant price leader will produce an output level that is _____ than the output level that would prevail if the industry were a monopoly and sells it at a price that is _____ than the price that would prevail if the industry were a monopoly. 114) _____
 A) lower; higher B) lower; lower C) higher; higher D) higher; lower
- 115) Assume that firms in an oligopoly are currently colluding to set price and output to maximize total industry profit. If the oligopolies are forced to stop colluding, the price charged by the oligopolies would _____ and the total output produced will _____. 115) _____
 A) decrease; increase B) increase; decrease
 C) increase; increase D) decrease; decrease
- 116) A price-and-quantity-fixing agreement is known as 116) _____
 A) price leadership. B) collusion.
 C) game theory. D) price concentration.
- 117) You have just read that 25 firms that grow and export peanuts to the United States have decided to form a cartel. The objectives of the cartel are to raise the price of peanuts and reduce output to increase profits for the peanut growers. You predict that this cartel will probably 117) _____
 A) not be successful because there are too few firms that are trying to organize the cartel.
 B) not be successful because the number of firms is unmanageable and there are a number of good substitutes for peanuts.
 C) be successful because the demand for peanuts is very elastic.
 D) be successful because it will be very easy to enforce the rules among only 25 firms.

Refer to the information provided in Table 13.1 below to answer the questions that follow

Table 13.1			
		Raise Price	Don't Raise Price
A's Strategy	Raise Price	A's profit \$3,000	A's profit \$10,000
		B's profit \$3,000	B's profit \$15,000
	Don't Raise	A's profit \$15,000	A's profit \$5,000
		B's profit \$10,000	B's profit \$5,000

- 118) Refer to Table 13.1. Firm A's optimal strategy is 118) _____
 A) to raise the price of its product.
 B) dependent on what Firm B does.
 C) to not raise the price of its product.
 D) indeterminate from this information, as no information is provided on Firm A's risk preference.

Refer to the information provided in Table 13.2 below to answer the questions that follow

		Table 13.2 B's strategy	
		Advertise	Don't Advertise
A's Strategy	Advertise	A's profit \$100 million B's profit \$100 million	A's profit \$200 million B's profit \$50 million
	Don't	A's profit \$50 million	A's profit \$75 million
	Advertise	B's profit \$200 million	B's profit \$75 million

119) Refer to Table 13.2. Firm A's dominant strategy is

- A) dependent on what Firm B does.
- B) to not advertise.
- C) to advertise.
- D) indeterminate from this information, as no information is provided on Firm A's risk preference.

119) _____