1. A firm has market power if it can

|  |  |
| --- | --- |
| a. | maximize profits. |
| b. | minimize costs. |
| c. | influence the market price of the good it sells. |
| d. | hire as many workers as it needs at the prevailing wage rate. |

2. Which of the following is *not* a characteristic of a competitive market?

|  |  |
| --- | --- |
| a. | Buyers and sellers are price takers. |
| b. | Each firm sells a virtually identical product. |
| c. | Entry is limited. |
| d. | Each firm chooses an output level that maximizes profits. |

3. Why does a firm in a competitive industry charge the market price?

|  |  |
| --- | --- |
| a. | If a firm charges less than the market price, it loses potential revenue. |
| b. | If a firm charges more than the market price, it loses all its customers to other firms. |
| c. | The firm can sell as many units of output as it wants to at the market price. |
| d. | All of the above are correct. |

4. Which of the following firms is the closest to being a perfectly competitive firm?

|  |  |
| --- | --- |
| a. | the Denver Broncos |
| b. | Apple, Inc. |
| c. | DeBeers diamond wholesalers |
| d. | a wheat farmer in Kansas |

***Table 1***

|  |  |
| --- | --- |
| **Quantity** | **Total Revenue** |
| 0 | $0 |
| 1 | $7 |
| 2 | $14 |
| 3 | $21 |
| 4 | $28 |

5. **Refer to Table 1.** For a firm operating in a competitive market, the price is

|  |  |
| --- | --- |
| a. | $0. |
| b. | $7. |
| c. | $14. |
| d. | $21. |

6. **Refer to Table 1.** For a firm operating in a competitive market, the marginal revenue of the third unit is

|  |  |
| --- | --- |
| a. | $0. |
| b. | $7. |
| c. | $14. |
| d. | $21. |

7. Suppose that a firm operating in perfectly competitive market sells 200 units of output at a price of $3 each. Which of the following statements is correct?

|  |  |  |  |
| --- | --- | --- | --- |
| (i) | | | Marginal revenue equals $3. |
| (ii) | | | Average revenue equals $600. |
| (iii) | | | Average revenue exceeds marginal revenue, but we don’t know by how much. |
| a. | (i) only | | |
| b. | (iii) only | | |
| c. | (i) and (ii) only | | |
| d. | (i), (ii), and (iii) | | |

8. Sam sells soybeans to a broker in Chicago, Illinois. Because the market for soybeans is generally considered to be competitive, Sam maximizes his profit by choosing

|  |  |
| --- | --- |
| a. | to produce the quantity at which average variable cost is minimized. |
| b. | to produce the quantity at which average fixed cost is minimized. |
| c. | to sell at a price where marginal cost is equal to average total cost. |
| d. | the quantity at which market price is equal to Sam's marginal cost of production. |

9. Cartels are difficult to maintain because

|  |  |
| --- | --- |
| a. | antitrust laws are difficult to enforce. |
| b. | cartel agreements are conducive to monopoly outcomes. |
| c. | there is always tension between cooperation and self-interest in a cartel. |
| d. | firms pay little attention to the decisions made by other firms. |

10. The deadweight loss associated with a monopoly occurs because the monopolist

|  |  |
| --- | --- |
| a. | maximizes profits. |
| b. | produces an output level less than the socially optimal level. |
| c. | produces an output level greater than the socially optimal level. |
| d. | equates marginal revenue with marginal cost. |

***Table 2***

Suppose that a firm in a competitive market faces the following revenues and costs:

|  |  |  |
| --- | --- | --- |
| **Quantity** | **Total Revenue** | **Total Cost** |
| 0 | $0 | $10 |
| 1 | $9 | $14 |
| 2 | $18 | $19 |
| 3 | $27 | $25 |
| 4 | $36 | $32 |
| 5 | $45 | $40 |
| 6 | $54 | $49 |
| 7 | $63 | $59 |
| 8 | $72 | $70 |
| 9 | $81 | $82 |

11. **Refer to Table 2** At which quantity of output should the firm produce to maximize profit?

|  |  |
| --- | --- |
| a. | 3 units |
| b. | 6 units |
| c. | 8 units |
| d. | 9 units |

12. **Refer to Table 2**. The maximum profit available to the firm is

|  |  |
| --- | --- |
| a. | $2. |
| b. | $3. |
| c. | $4. |
| d. | $5. |

13. Mrs. Smith operates a business in a competitive market. The current market price is $8.10. At her profit-maximizing level of production, the average variable cost is $8.00, and the average total cost is $8.25. Mrs. Smith should

|  |  |
| --- | --- |
| a. | shut down her business in the short run but continue to operate in the long run. |
| b. | continue to operate in the short run but shut down in the long run. |
| c. | continue to operate in both the short run and long run. |
| d. | shut down in both the short run and long run. |

14. McMahan’s Watch Phones produces custom-made watch phones. When Chris produces 12 watches per week, the marginal cost of the 12th watch is $84, and the marginal revenue of the 12th watch is $70. What would you advise McMahan to do?

|  |  |
| --- | --- |
| a. | shut down the business |
| b. | produce more custom-made watches |
| c. | decrease the price |
| d. | produce fewer custom-made watches |



**15. Refer to Figure** If the market price falls below $4.50, the firm will earn

|  |  |
| --- | --- |
| a. | positive economic profits in the short run. |
| b. | negative economic profits in the short run but remain in business. |
| c. | negative economic profits in the short run and shut down. |
| d. | zero economic profits in the short run. |

**16. Refer to Figure** The firm will earn a negative economic profit but remain in business in the short run if the market price is

|  |  |
| --- | --- |
| a. | above $6.30 but less than $8. |
| b. | above $6.30. |
| c. | less than $6.30 but more than $4.50. |
| d. | less than $4.50. |

 

**17. Refer to Figure**. Assume that the market starts in equilibrium at point A in panel (b). An increase in demand from D0 to D1 will result in

|  |  |
| --- | --- |
| a. | a new market equilibrium at point D. |
| b. | an eventual increase in the number of firms in the market and a new long-run equilibrium at point C. |
| c. | rising prices and falling profits for existing firms in the market. |
| d. | falling prices and falling profits for existing firms in the market. |

18. Which of the following is *not* a characteristic of a monopoly?

|  |  |
| --- | --- |
| a. | barriers to entry |
| b. | one seller |
| c. | one buyer |
| d. | a product without close substitutes |

19. Which of the following is an example of a barrier to entry?

|  |  |
| --- | --- |
| a. | Matthew offers free samples of his latest flavored coffee drink to entice customers to buy a cup. |
| b. | Mark charges a lower price to students than to faculty for his tattoo services. |
| c. | Luke charges a higher hourly price to business students than to liberal arts students for his economics tutoring. |
| d. | John obtained a copyright for the song he wrote and recorded. |

20. The market demand curve for a monopolist is typically

|  |  |
| --- | --- |
| a. | unit price elastic. |
| b. | downward sloping. |
| c. | horizontal. |
| d. | vertical. |

21. With no price discrimination, the monopolist sells every unit at the same price. Therefore

|  |  |
| --- | --- |
| a. | marginal revenue is equal to price. |
| b. | marginal revenue is equal to average revenue. |
| c. | price is greater than marginal revenue. |
| d. | Both a and b are correct. |



22. **Refer to Figure** Which of the following statements is correct?

|  |  |
| --- | --- |
| a. | Panel C represents the typical demand curve for a perfectly competitive firm, and Panel B represents the typical demand curve for a monopoly. |
| b. | Panel B represents the typical demand curve for a perfectly competitive firm, and Panel C represents the typical demand curve for a monopoly. |
| c. | Panel A represents the typical demand curve for a perfectly competitive firm, and Panel B represents the typical demand curve for a monopoly. |
| d. | Panel C represents the typical demand curve for a perfectly competitive firm, and Panel D represents the typical demand curve for a monopoly. |



**23. Refer to Figure.** In order to maximize profits, the monopolist should charge a price of

|  |  |
| --- | --- |
| a. | $9. |
| b. | $12. |
| c. | $20. |
| d. | $23. |

***Table 3***

Tanya has the following demand curve for selling taffy. Assume that Tanya has a marginal cost of $2 per unit.

|  |  |
| --- | --- |
| **Price** | **Quantity** |
| $10 | 1 |
| $8 | 2 |
| $6 | 3 |
| $4 | 4 |
| $2 | 5 |

24. **Refer to Table 3**. What is Tanya's profit-maximizing level of output?

|  |  |
| --- | --- |
| a. | 1 |
| b. | 2 |
| c. | 3 |
| d. | 4 |

25. After the patent runs out on a brand name drug, generic drugs enter the market. What happens next in the market?

|  |  |
| --- | --- |
| a. | Price increases, and total surplus decreases. |
| b. | Price decreases, and total surplus decreases. |
| c. | Price decreases, and total surplus increases. |
| d. | Price increases, and total surplus increases. |



. 26. **Refer to Figure**. The deadweight loss caused by a profit-maximizing monopoly amounts to

|  |  |
| --- | --- |
| a. | $150. |
| b. | $200. |
| c. | $250. |
| d. | $500. |

|  |  |
| --- | --- |
|  |  |

Ans:

1. C

2. C

3. D

4. D

5. B

6. B

7. A

8. D

9. C

10. B

11. B

12. D

13. B

14. D

15. C

16. C

17. B

18. C

19. D

20. B

21. C

22. A

23. C

24. C

25. C

26. C