

Chapter 24

Monopoly

24.1 Definition of a Monopolist

- 1) Monopoly producers face
- A) many competitors producing the same product.
 - B) only a few competitors producing the same product.
 - C) at least one competitive producer of the same product.
 - D) no competitive producers of the same product.

Answer: D

Diff: 1

Topic: 24.1 Definition of a Monopolist

AACSB: Analytic skills

Question Status: Previous Edition

- 2) Which of the following is a characteristic of a monopoly market?
- A) many firms
 - B) one firm
 - C) easy entry
 - D) firm is a price taker

Answer: B

Diff: 1

Topic: 24.1 Definition of a Monopolist

Question Status: Previous Edition

- 3) Which of the following statements is FALSE?
- A) An unregulated, profit-maximizing monopolist will not operate in the inelastic portion of the demand curve.
 - B) The marginal revenue earned by a monopolist will always be less than the product's price.
 - C) Typically there are numerous very close substitutes for the product of a monopolist.
 - D) For a profit-maximizing monopolist, marginal revenue equals marginal cost.

Answer: C

Diff: 1

Topic: 24.1 Definition of a Monopolist

AACSB: Analytic skills

Question Status: Previous Edition

- 4) A monopolist is defined as
- A) a firm with annual sales over \$10 million.
 - B) a large firm, making substantial profits, that is able to make other firms do what it wants.
 - C) a single supplier of a good or service for which there is no close substitute.
 - D) a producer of a good or service that is expensive to produce, requiring large amounts of capital equipment.

Answer: C

Diff: 1

Topic: 24.1 Definition of a Monopolist

Question Status: Previous Edition

- 5) A firm can be the sole supplier of a good and is still not a monopolist if
- A) the firm is not large.
 - B) the good produced is not important to the economy.
 - C) the firm is not making excessive profits.
 - D) there are very close substitutes for the good.

Answer: D

Diff: 2

Topic: 24.1 Definition of a Monopolist

Question Status: Previous Edition

- 6) The market structure where there is a single supplier of a good or service for which there is no close substitute is
- A) a price searcher.
 - B) a monopoly.
 - C) a tariff.
 - D) the most economically efficient market structure.

Answer: B

Diff: 1

Topic: 24.1 Definition of a Monopolist

Question Status: Previous Edition

- 7) The market structure in which there is a single supplier of a good or service for which there is no close substitute is
- A) oligopoly.
 - B) perfect competition.
 - C) monopoly.
 - D) monopolistic competition.

Answer: C

Diff: 1

Topic: 24.1 Definition of a Monopolist

Question Status: Previous Edition

- 8) A monopolist is
- A) a firm with annual sales over \$50 million.
 - B) a single supplier of a good for which there is no close substitute.
 - C) a large firm that makes all the other firms in the industry do what it wants.
 - D) a supplier of a good that everyone needs with the result that it makes large profits.

Answer: B

Diff: 1

Topic: 24.1 Definition of a Monopolist

Question Status: Previous Edition

- 9) In a monopoly,
- A) the firm is large in an absolute sense.
 - B) the market is small in an absolute sense.
 - C) the firm and the industry are the same thing.
 - D) the monopolist determines how much each firm will produce.

Answer: C

Diff: 2

Topic: 24.1 Definition of a Monopolist

AACSB: Analytic skills

Question Status: Previous Edition

- 10) A firm can be the only firm in an industry and still not be a monopoly if
- A) the firm is not large.
 - B) the firm is not making economic profits.
 - C) the firm produces a good similar to a good in another industry.
 - D) the firm produces a good that is not considered a necessity.

Answer: C

Diff: 2

Topic: 24.1 Definition of a Monopolist

AACSB: Analytic skills

Question Status: Previous Edition

- 11) In a monopoly market structure, the firm (the monopolist) always
- A) is the whole industry.
 - B) produces too much.
 - C) sells faulty products.
 - D) earns economic profit.

Answer: A

Diff: 1

Topic: 24.1 Definition of a Monopolist

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Which of the following regarding a monopolist is INCORRECT?
- A) The monopolist is a single supplier of a good or service.
 - B) The monopolist constitutes the entire industry.
 - C) Only expensive products are produced by monopolies.
 - D) There are barriers to entry that allow monopoly.

Answer: C

Diff: 1

Topic: 24.1 Definition of a Monopolist

AACSB: Analytic skills

Question Status: Previous Edition

- 13) A single supplier of a good or service for which there is no close substitute is referred to as a(n)
- A) strategic competitor.
 - B) monopoly.
 - C) oligopoly.
 - D) monopolistic competitor.

Answer: B

Diff: 1

Topic: 24.1 Definition of a Monopolist

Question Status: Previous Edition

- 14) A firm that is the only seller of a good with no close substitutes is a(n)
- A) perfect competitor.
 - B) monopolistic competitor.
 - C) oligopolist.
 - D) monopolist.

Answer: D

Diff: 2

Topic: 24.1 Definition of a Monopolist

Question Status: Previous Edition

- 15) All of the following are true about a monopolist EXCEPT
- A) the demand curve for its product is perfectly elastic.
 - B) it produces a product with no close substitutes.
 - C) its demand curve is the same as the market demand for the industry.
 - D) it is a single seller of a good or service.

Answer: A

Diff: 2

Topic: 24.1 Definition of a Monopolist

Question Status: Previous Edition

- 16) What is a monopolist, and what is required for a monopolist to earn profits in the long run?

Answer: A monopolist is a single supplier of a good or service for which there is no close substitute. For the firm to receive economic profits in the long run, there must be some type of barrier to entry that keeps entrants in search of profits out of the industry.

Diff: 1

Topic: 24.1 Definition of a Monopolist

AACSB: Analytic skills

Question Status: Previous Edition

- 17) "A monopolist refers to any firm that is large in size." Do you agree or disagree? Why?

Answer: Disagree. A monopolist does not have to be large in size. Regardless of its size, a monopolist in a market is the single supplier of a good or service for which there is no close substitute.

Diff: 2

Topic: 24.1 Definition of a Monopolist

AACSB: Analytic skills

Question Status: Previous Edition

24.2 Barriers to Entry

- 1) In order for a firm to receive monopoly profits, there must be
- A) homogeneous products.
 - B) barriers to market entry.
 - C) mutual interdependence among firms.
 - D) free entry and exit to the market.

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 2) Which of the following are barriers to entry?

- A) Economies of scale
- B) Patents and copyrights
- C) Control of resources
- D) All of the above

Answer: D

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

3) Which of the following is NOT a barrier to entry?

- A) Patents
- B) Licenses
- C) Economies of scale
- D) U.S. antitrust legislation

Answer: D

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

4) To be able to engage in profit-maximizing price searching, a monopoly firm must be able to

- A) prevent the entry of other firms into the market for its product.
- B) induce the entry of other firms into the market for its product.
- C) avoid earning negative economic profits in the short run.
- D) always earn zero economic profits.

Answer: A

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

5) Which of the following is NOT a barrier to entry that would allow a monopolist to keep potential competitors out of its market?

- A) Significant economies of scale exist.
- B) The market price of the product is too high.
- C) The firm has a patent on the good or control over some resource required for the production of the good.
- D) The firm has government authorization to be a monopoly.

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

6) Which of the following would NOT be a barrier to entry for a particular market?

- A) Ownership of a patent
- B) Low cost of obtaining initial capital
- C) The presence of economies of scale
- D) Government regulation

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

7) If government regulations significantly increase the cost of operating within a particular market, one result is that

- A) new firms are discouraged from entering the market.
- B) barriers to entry are nullified.
- C) a perfectly competitive market environment is encouraged.
- D) new firms are encouraged to enter the market.

Answer: A

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 8) If there are no barriers to entry into an industry,
- A) short-run economic profits must be zero.
 - B) long-run economic profits must be zero.
 - C) both short-run and long-run economic profits must be zero.
 - D) short-run and long-run profits must still be positive.

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 9) A firm typically achieves its position as a monopolist as a result of
- A) a small market and a constant average cost.
 - B) a downward sloping demand for the product.
 - C) barriers to entry.
 - D) the absence of long-run profits in an industry.

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 10) A monopolist can earn economic profits in the long run because
- A) a monopoly is by definition large, and this gives it the ability to make large profits.
 - B) a monopoly makes the good or service better than anyone else.
 - C) barriers to entry prevent new firms from entering the industry.
 - D) monopolies can legally force people to buy their products and to pay more for them than they are worth.

Answer: C

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Which of the following can be a barrier to entry, closing a market to new firms?
- A) An elastic industry demand curve
 - B) Control of a vital resource by one producer
 - C) Diseconomies of scale
 - D) Ease of obtaining capital financing

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 12) Economies of scale can
- A) result in an increasing cost industry.
 - B) cause input prices to drop.
 - C) prevent the entry of new firms into a market.
 - D) reduce the rate of return which the firm may earn.

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 13) A natural monopoly usually arises when
- A) there are diseconomies of scale in an industry.
 - B) the government allows unrestricted access to a market.
 - C) there are large economies of scale relative to the industry's demand.
 - D) companies band together to form a larger company.

Answer: C

Diff: 2

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 14) According to the text, government licensing frequently enables monopoly in
- A) agriculture.
 - B) electricity production.
 - C) mining.
 - D) retail sales.

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 15) Drug companies protect their monopolies over various drugs they develop by utilizing
- A) patent protection.
 - B) low cost production.
 - C) diseconomies of scale.
 - D) zero economic profits in the long run.

Answer: A

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 16) A patent on a product gives a firm
- A) protection from having the invention copied or stolen for a period of 20 years.
 - B) economies of scale in producing the product.
 - C) excessive profits in the long run.
 - D) the power to impose a tariff on a competing product.

Answer: A

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 17) If a "certificate of convenience and public necessity" protects a monopolist's position, the barrier to entry this firm relies on is called

A) a tariff. B) a government license.
C) a patent. D) economies of scale.

Answer: B

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 18) A patent provides legal protection for an invention for

A) 7 years. B) 11 years.
C) 20 years. D) as long as the invention is valuable.

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 19) From the date a U.S. patent is granted to a firm, it ceases to be a potential source of monopoly profits after

A) 20 years. B) 14 years. C) 10 years. D) 7 years.

Answer: A

Diff: 2

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 20) The use of a tariff provides monopoly protection since

A) it allows more imports into the country.
B) it reduces competition from imports by raising the import price.
C) it reduces exporters' profits.
D) it expands tax credits.

Answer: B

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 21) If a government imposes high enough tariffs, one result will be that

A) foreign producers will be able to sell more goods.
B) domestic producers will face no foreign competition.
C) consumers will benefit from lower prices.
D) markets will become more globalized.

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 22) A barrier to entry is
- A) a term used to explain why monopolies always make economic profits.
 - B) a restriction on the profits that a monopoly can make.
 - C) the situation when the government produces a good instead of relying on private firms to produce the good.
 - D) a restriction on starting a business.

Answer: D

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 23) For a firm to become a monopoly in an industry,
- A) barriers to entry must exist.
 - B) the firm must charge higher prices than its competitors.
 - C) the firm must produce a faulty product.
 - D) the firm will engage in unfair practices to drive all competitors out of the market.

Answer: A

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 24) All of the following are considered a barrier to entry into a market EXCEPT
- A) ownership of resources without close substitutes.
 - B) when firms can only earn a normal rate of return in a market.
 - C) economies of scale.
 - D) governmental restrictions on a firm's ability enter a market.

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 25) All of the following are considered a barrier to entry into a market EXCEPT
- A) government licenses.
 - B) persistent declining long-run average costs as output increases.
 - C) lowering tariffs.
 - D) governmental regulations of business conduct relating to workplace conditions.

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: New

- 26) Shortly after the turn of the century, U.S. Steel owned most of the iron ore reserves in the country. This is an example of
- A) monopoly due to government restrictions.
 - B) a barrier to entry from owning an important resource.
 - C) a barrier to entry from scale economies.
 - D) monopoly due to governmental entry restrictions.

Answer: B

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 27) Entry barriers are most significant in
- A) pure competition.
 - B) monopolistic competition.
 - C) oligopoly.
 - D) pure monopoly.

Answer: D

Diff: 2

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 28) Considering the spectrum of market structures and moving from pure competition to pure monopoly we can say that
- A) entry barriers get lower but exit gets more difficult.
 - B) entry becomes harder but exit becomes easier.
 - C) entry gets harder and the number of firms dwindles.
 - D) none of the above

Answer: C

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 29) When it takes one firm in an industry to produce the quantity necessary to realize low unit costs, the industry
- A) experiences economies of scale.
 - B) has barriers to entry due to ownership of resources.
 - C) has no barrier to entry.
 - D) has a license granted by the government.

Answer: A

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

30) Which of the following is not true when there are large economies of scale such that one firm can produce at a lower average cost than can be achieved by multiple firms?

- A) This situation produces a natural monopoly.
- B) Proportional increases in output yield proportionally small increases in total cost.
- C) The long-run average cost curve of the firm will increase at a low level of output.
- D) There will only be one firm in this industry.

Answer: C

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

31) If it is not profitable for more than one firm to be in an industry, we have an example of

- A) monopoly due to ownership of key resources.
- B) monopoly due to governmental entry restrictions.
- C) monopoly due to economies of scale.
- D) pure competition.

Answer: C

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

32) If it is not possible for a pharmaceutical drug maker to sell its generic cholesterol reducing drug along with some name brand cholesterol reducing drugs, we have an example of

- A) monopoly due to ownership of key resources.
- B) monopoly due to governmental entry restrictions.
- C) monopoly due to economies of scale.
- D) pure competition.

Answer: B

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: New

33) A natural monopoly exists when

- A) the firm holds a patent.
- B) there are governmental entry restrictions.
- C) the firm owns all of the raw materials needed to produce the product.
- D) economies of scale occur.

Answer: D

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 34) Economies of scale will lead to only one firm in the industry because
- A) by increasing output a firm is able to lower the cost per unit and charge lower prices driving smaller firms out of business.
 - B) one firm has an average cost curve, which has shifted below the average cost curves of its competitors.
 - C) there are governmental entry restrictions.
 - D) of government licensing.

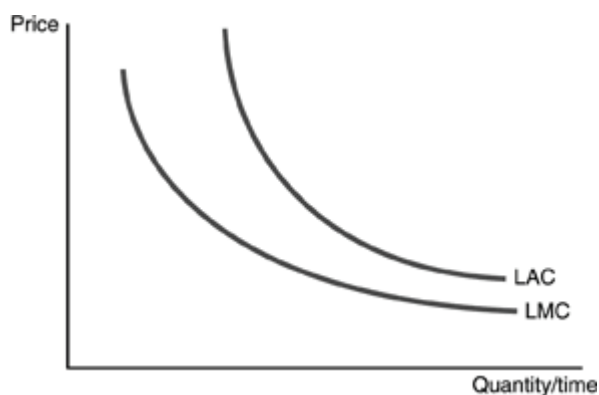
Answer: A

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition



- 35) Refer to the above figure. The long-run average cost curve and the long-run marginal cost curves represent
- A) the cost curves for a competitive firm.
 - B) the cost curves for a natural monopoly.
 - C) a situation where a firm has control over the raw materials.
 - D) a situation where a firm has a patent.

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 36) Which of the following is NOT a restriction the government imposes to keep potential entrants out of a market?
- A) Patents
 - B) Tariffs
 - C) Assistance with opening new firms
 - D) Copyrights

Answer: C

Diff: 2

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

37) Which of the following is NOT a restriction the government imposes to keep potential entrants out of a market?

- A) Subsidizing imported goods
- B) Licensing of exclusive ownership of such a vital resources
- C) Certificate of convenience
- D) Compliance with government safety regulations

Answer: A

Diff: 2

Topic: 24.2 Barriers to Entry

Question Status: New

38) Some electrical utilities are monopolies because of

- A) government restrictions that prevent new firms from entering the market.
- B) ownership of resources without close substitutes.
- C) diseconomies of scale.
- D) their inability to earn profits.

Answer: A

Diff: 3

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

39) Which of the following is not true about a certificate of convenience and public necessity?

- A) It is a barrier to entry.
- B) It is a patent.
- C) It is issued by a government agency.
- D) It limits competition.

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

40) A patent provides legal protection for an invention for

- A) 20 years.
- B) 9 years.
- C) 5 years.
- D) 3 years.

Answer: A

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

41) Which of the following is issued to an investor to provide protection from having the invention copied or stolen for 20 years?

- A) A license
- B) A natural monopoly
- C) A patent
- D) A certificate of convenience

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 42) Barriers to entry enable many monopolists to
- A) charge as high a price as they want.
 - B) make people buy more of a good than they really want.
 - C) earn economic profits in the long run.
 - D) manipulate the government into providing special favors for themselves.

Answer: C

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 43) A tax that is imposed on an imported good is called a
- A) tariff.
 - B) quota.
 - C) government license.
 - D) patent.

Answer: A

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 44) Which of the following is not true about a tariff?
- A) It is a barrier to entry in a market.
 - B) It leads to a natural monopoly.
 - C) It is a tax.
 - D) It affects imported goods.

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 45) The effect of a tariff
- A) is negligible since it applies to firms outside the U.S.
 - B) can lead to economies of scale for firms inside the U.S.
 - C) can lead to a monopoly advantage for firms inside the U.S. since they become the sole suppliers inside the U.S.
 - D) will be more beneficial to large firms than to small firms.

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 46) A monopolist would probably earn fewer profits if
- A) the importance of specialized capital equipment in its production techniques increased.
 - B) the time length of patents increased.
 - C) environmental regulations increased that required the purchase of special capital equipment.
 - D) tariffs on competing products were lowered.

Answer: D

Diff: 3

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

47) Which of the following is a characteristic of a monopoly firm?

- A) horizontal individual demand curve
- B) barriers to entry
- C) easy entry and exit
- D) many buyers and sellers

Answer: B

Diff: 2

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

48) A monopoly which arises from significant economies of scale is referred to as a

- A) monopolistic competitor.
- B) strategic resource monopoly.
- C) natural monopoly.
- D) patent monopoly.

Answer: C

Diff: 2

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

49) A patent protects an inventor's creation from being copied or stolen for a period of

- A) 10 years.
- B) 20 years.
- C) 30 years.
- D) 50 years.

Answer: B

Diff: 2

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

50) When a firm experiences declining long-run average total costs as it produces more output, there are

- A) increasing marginal returns to variable inputs.
- B) economies of scale.
- C) diseconomies of scale.
- D) constant returns to scale.

Answer: B

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

51) When a firm experiences steadily declining long-run average total costs as it produces more output, it is known as a(n)

- A) oligopoly.
- B) rent seeker.
- C) natural monopoly.
- D) monopolistic competitor.

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

52) A natural monopoly

- A) requires government licensing initially.
- B) is derived from deposits of natural resources.
- C) usually arises when there are large economies of scale.
- D) involves multiple firms selling differentiated products.

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

53) Governments and legislatures can erect barriers to entry. Which of the following would NOT be one of them?

- A) Licenses
- B) Tariffs
- C) Patents
- D) Laws that ensure property rights

Answer: D

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

54) Which of the following would most likely be classified as a natural monopoly?

- A) A city water district
- B) Microsoft
- C) Disneyland
- D) Exxon-Mobil

Answer: A

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Reflective thinking skills

Question Status: Previous Edition

55) All of the following are barriers to entry in an industry EXCEPT

- A) a patent.
- B) governmental restrictions.
- C) low marginal tax rates.
- D) economies of scale.

Answer: C

Diff: 2

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

56) Suppose that a drug for treating cancer is cleared by the Food and Drug Administration and that the company is successful in obtaining a patent for its product. Which of the following is then true?

- A) The patent holder now faces barriers to entry.
- B) The method of producing the product would not be considered intellectual property.
- C) The patent holder has a monopoly.
- D) The drug would have many close substitutes.

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 57) A barrier to entry
- A) makes it illegal for firms to enter the industry.
 - B) can be thought of as unrelated to monopoly.
 - C) slows or even prevents entry into a market.
 - D) usually takes the form of a cartel.

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 58) Barriers to entry might include all of the following EXCEPT
- A) patents and copyrights.
 - B) ownership of essential resources.
 - C) government franchise.
 - D) positive economic profits.

Answer: D

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 59) Economies of scale may be a barrier to entry in a situation in which
- A) only small-scale production can lower the per-unit cost of production.
 - B) only small-scale production can meet the constantly changing market demand.
 - C) only large-scale production can lower the per-unit cost of production.
 - D) large-scale production is inefficient.

Answer: C

Diff: 1

Topic: 24.2 Barriers to Entry

Question Status: Previous Edition

- 60) Which of the following is most likely to be a monopoly?
- A) AOL (America On Line), an internet service provider
 - B) WABC, a television station
 - C) *The Washington Post*
 - D) a public water utility

Answer: D

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 61) Legal or governmental restrictions that give monopolistic advantages to a firm include all of the following EXCEPT
- A) economies of scale.
 - B) tariffs.
 - C) licenses.
 - D) franchises.

Answer: A

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 62) Legal or governmental restrictions that give monopolistic advantages to a firm include all of the following EXCEPT

- A) franchises.
- B) environmental protection.
- C) exclusive ownership of an unimportant resource.
- D) patents.

Answer: C

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: New

- 63) In what ways is government involved with the creation of barriers to entry?

Answer: The government often erects barriers to entry by requiring licenses and franchises before firms can legally operate in a market, by granting patents, by assessing tariffs, or by implementing specific regulations that limit entry. It is illegal to enter many industries without a government license, and often the number of such licenses is limited. Patents create a legal monopoly for a period of 20 years, and tariffs help to keep out competition from foreign firms.

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 64) Which of the barriers to entry can last indefinitely and which are more likely to eventually erode such that a new entry can take place?

Answer: Barriers such as economies of scale and government restrictions can last indefinitely since the first depends on technology and the latter on government action. It is unlikely that a firm can maintain control of a key input indefinitely, and patents expire after 20 years. Government regulations and tariffs can last indefinitely, although a change of government could knock these down as well.

Diff: 3

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

- 65) In principle, can a monopolist hold its monopoly power in the long run? Explain.

Answer: Yes. Monopoly power exists in the long run when the market is closed to entry in some way. Barriers to entry include ownership to resources without close substitutes, economies of scale, government restrictions, licenses and patents, and regulations.

Diff: 1

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

66) Why would economies of scale be a barrier to entry?

Answer: If significant economies of scale exist in an industry, then the long-run average costs can decline over a wide range of output rates so that it may not be profitable for more than one firm to exist in that industry. This is the case of a natural monopoly, which is able to underprice potential competitors and keep them out of the market.

Diff: 2

Topic: 24.2 Barriers to Entry

AACSB: Analytic skills

Question Status: Previous Edition

24.3 The Demand Curve a Monopolist Faces

- 1) If a monopolist wishes to increase its output and quantity sold,
- A) it must reduce its price, so its marginal revenue is greater than its price.
 - B) it must reduce its price, so its marginal revenue is less than its price.
 - C) it must raise its price, so its marginal revenue is greater than its price.
 - D) it must raise its price, so its marginal revenue is less than its price.

Answer: B

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Revised

- 2) The demand curve faced by the monopolist
- A) is perfectly elastic.
 - B) is perfectly inelastic.
 - C) slopes downward.
 - D) slopes upward.

Answer: C

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Revised

- 3) Compared to perfectly competitive firms, the demand curve for a monopolist will be
- A) as elastic.
 - B) more elastic.
 - C) less elastic.
 - D) perfectly elastic.

Answer: C

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Compared to a monopolist, the demand curve for a perfectly competitive firm will be
- A) as elastic.
 - B) more elastic.
 - C) less elastic.
 - D) perfectly elastic.

Answer: B

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: New

5) The demand curve a monopoly faces is

- A) horizontal.
- B) vertical.
- C) upward sloping.
- D) downward sloping.

Answer: D

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

6) Which of the following conditions is true for a monopolist?

- A) $MR < P$
- B) $MR = P$
- C) $MR = AFC$
- D) $MR < AVC$

Answer: A

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

7) A monopolist's demand curve is

- A) perfectly elastic.
- B) perfectly inelastic.
- C) of unit elasticity throughout.
- D) the industry demand curve.

Answer: D

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

8) To sell one more unit of a good, a monopolist must

- A) lower the price on the last unit only.
- B) lower the price on all units.
- C) raise the price only on the last unit sold.
- D) raise the prices on all goods.

Answer: B

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

9) The demand curve faced by a pure monopolist

- A) is the same as its marginal revenue curve.
- B) is perfectly inelastic.
- C) lies below the marginal revenue curve.
- D) is the market demand curve.

Answer: D

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 10) A major difference between a monopolist and a perfectly competitive firm is that
- A) the monopolist is certain to earn economic profits.
 - B) the monopolist's marginal revenue curve lies below its demand curve.
 - C) the monopolist engages in marginal cost pricing.
 - D) the monopolist charges the highest possible price that he can.

Answer: B

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 11) A monopolist faces a demand curve that
- A) is perfectly horizontal at the market price.
 - B) is below the marginal revenue curve.
 - C) is downward sloping.
 - D) coincides with the industry supply.

Answer: C

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 12) The demand curve a monopolist faces is
- A) horizontal.
 - B) the industry demand curve.
 - C) vertical.
 - D) inelastic at all points.

Answer: B

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 13) An important difference between a perfectly competitive firm and a monopolist is
- A) the size of the firms.
 - B) the shape of the demand curve each faces.
 - C) the goals of the owners of the firms.
 - D) a monopolist normally produces a service, while a perfect competitor normally produces a good.

Answer: B

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 14) An important difference between a perfectly competitive firm and a monopolist is
- A) the size of the industry.
 - B) the primary objective of the firms.
 - C) a monopolist only produces in the long run, while a perfect competitor only produces in the short run.
 - D) the price it charges to sell additional units of a good.

Answer: D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: New

- 15) To sell more units, a monopolist must
- A) merely produce more units.
 - B) advertise more.
 - C) produce the profit maximizing rate of production.
 - D) lower price.

Answer: D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 16) To sell more units, a monopolist
- A) simply moves across its horizontal demand curve to a larger quantity.
 - B) moves down its demand curve to a lower price that will increase quantity demand.
 - C) can continue to receive the same price it always has as long as it has its customers' goodwill.
 - D) must be willing to lower the barriers to entry that have protected it.

Answer: B

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 17) A monopolist's marginal revenue curve is
- A) the same as a perfectly competitive firm's marginal revenue curve.
 - B) higher than the monopolist's demand curve.
 - C) below the firm's demand curve.
 - D) a horizontal line at the market price.

Answer: C

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 18) For a monopolist, the marginal revenue gained when one more unit of output is sold is
- A) the price at which the extra unit is sold minus the loss in revenue that results from cutting the price on units sold previously.
 - B) equal to the price of the product.
 - C) negative if price is above the midpoint of the demand curve.
 - D) the average revenue created by the increased sales.

Answer: A

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 19) If a firm sells 10 units of output at \$100 per unit and 11 units of output when price is reduced to \$99, its marginal revenue for the last unit sold is
- A) \$11.
 - B) \$99.
 - C) \$109.
 - D) \$89.

Answer: D

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 20) If a firm sells 5 units of output at \$10 per unit and 6 units of output when price is reduced to \$9, its marginal revenue from selling the sixth unit is
- A) \$9.
 - B) \$40.
 - C) \$540.
 - D) \$4.

Answer: D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 21) If a firm sells 20 units of output at \$15 per unit and 21 units of output when price is reduced to \$14, its marginal revenue from selling the last unit is
- A) \$6.
 - B) \$21.
 - C) \$294.
 - D) \$14.

Answer: A, D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: New

- 22) For a firm facing a downward sloping demand curve, marginal revenue
- A) is at a minimum at the midpoint of the demand curve.
 - B) is greater at higher prices than at lower prices.
 - C) increases each time prices are lowered.
 - D) falls each time prices are raised.

Answer: B

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 23) For the monopolist, marginal revenue is
- A) equal to price.
 - B) less than average revenue since price must be lowered to sell additional units.
 - C) greater than price.
 - D) not a consideration in the firm's pricing.

Answer: B

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 24) The monopolist's marginal revenue is less than price since
- A) additional units can only be sold if the price is lowered on all units sold.
 - B) the demand function is horizontal.
 - C) average revenue is also less than price.
 - D) average total cost is declining.

Answer: A

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 25) A monopolist faces
- A) a perfectly elastic demand curve.
 - B) a perfectly inelastic demand curve.
 - C) the market demand curve.
 - D) a two-tiered demand curve.

Answer: C

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 26) The demand curve facing a monopolist is
- A) downward sloping.
 - B) upward sloping.
 - C) horizontal.
 - D) vertical.

Answer: A

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 27) Which of the following is not true about the demand curve faced by a monopolist?
- A) The demand curve is downward sloping.
 - B) The firm's demand curve is the same as the market demand curve.
 - C) The marginal revenue curve is below the market demand curve.
 - D) The demand curve is perfectly elastic.

Answer: D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 28) An important difference between perfect competition and monopoly is
- A) a monopoly is profitable and a perfect competitor is not.
 - B) the monopoly faces a downward sloping demand curve and the perfect competitor faces a horizontal demand curve.
 - C) the monopoly faces an inelastic demand curve and the perfect competitor faces an elastic demand curve.
 - D) a monopoly is not regulated by the market, while a perfect competitor is regulated by the market.

Answer: B

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition



- 29) Refer to the above figure. Which of the following statements is true about the demand curves for an individual firm in a perfectly competitive industry and a monopoly?
- A) Panel A is the demand curve for a perfectly competitive firm and panel B is the demand curve for a monopoly.
 - B) Panel C is the demand curve for a perfectly competitive firm and panel A is the demand curve for a monopoly.
 - C) Panel C is the demand curve for a perfectly competitive firm and panel B is the demand curve for a monopoly.
 - D) Panel B is the demand curve for a perfectly competitive firm and panel A is the demand curve for a monopoly.

Answer: C

Diff: 3

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Which of the following statements is TRUE about the relationship between a firm's demand curve under perfect competition and monopoly?
- A) Under perfect competition, the demand curve is perfectly elastic; under monopoly, the demand curve has elastic, unit-elastic and inelastic portions.
 - B) Under monopoly, the demand curve is perfectly elastic; under perfect competition, the demand curve has elastic, unit-elastic and inelastic portions.
 - C) The demand curves for a monopoly and perfect competition are always inelastic.
 - D) We can define a demand curve under perfect competition but not under monopoly.

Answer: A

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 31) If a monopolist raises its price,
- A) it raises the barriers to entry.
 - B) the quantity demanded increases.
 - C) the quantity demanded remains the same.
 - D) the quantity demanded decreases.

Answer: D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Revised

- 32) If a monopolist lowers its price,
- A) it lowers the barriers to entry.
 - B) the quantity demanded increases.
 - C) the quantity demanded remains the same.
 - D) the quantity demanded decreases.

Answer: B

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: New

- 33) If a monopolist wants to increase the amount it sells, it
- A) will keep the price the same.
 - B) must lower the price on all units.
 - C) must accept lower profits.
 - D) must lower the cost of production.

Answer: B

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 34) To induce an increase in the quantity demanded of its product, a monopolist must reduce the
- A) quality of its product and thereby generate a downward shift its ATC curve.
 - B) price of its product and thereby generate a rightward shift in its demand curve.
 - C) price of its product and thereby generate a rightward movement along its demand curve.
 - D) quality of its product and thereby generate a downward movement along its ATC curve.

Answer: C

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Successive downward movements along the demand curve for the product of a monopolist always generate successive
- A) increases in the monopolist's marginal revenue.
 - B) increases in the monopolist's average total costs.
 - C) decreases in the additional per-unit costs incurred by the monopolist.
 - D) decreases in the additional per-unit revenues earned by the monopolist.

Answer: D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 36) A monopolist wishing to increase its profit has just discovered that lowering its price and selling more output yielded the desired result. Profit increased. Based on this, we can conclude that the cost of the additional production is
- A) greater than the revenue from the additional production.
 - B) precisely equal to the revenue from the additional production.
 - C) less than the revenue from the additional production.
 - D) there is no way to answer this because you have not given us the marginal revenue and marginal cost data.

Answer: C

Diff: 3

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 37) For a monopolist,
- A) marginal revenue is less than price.
 - B) marginal revenue equals price.
 - C) marginal revenue is greater than price.
 - D) marginal revenue equals average revenue.

Answer: A

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 38) For a monopolist, the reason that marginal revenue is less than price is
- A) because of the perfectly elastic demand curve that the monopolist faces.
 - B) because the monopolist must lower the price of the good in order to sell an additional unit.
 - C) because of the U-shaped average revenue curve.
 - D) because of the lack of competition in the market.

Answer: B

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Which of the following would best describe the demand curve faced by a monopoly firm?
- A) horizontal line at the market price
 - B) vertical line at the output level
 - C) same as the market demand curve
 - D) same as the perfect competitor's demand curve

Answer: C

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 40) The demand curve faced by the monopolist
- A) has a constant price elasticity.
 - B) is the industry demand curve.
 - C) is identical to the firm's MR curve.
 - D) is identical to the firm's TR curve.

Answer: B

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 41) The demand curve for a monopolist is
- A) the industry demand curve.
 - B) the same as the demand curve for a perfectly competitive firm.
 - C) a perfectly inelastic demand curve.
 - D) a unitary elastic demand curve.

Answer: A

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 42) Which of the following statements about a monopolist is FALSE?
- A) A pure monopolist is the sole supplier of one product, good, or service.
 - B) The monopolist faces a demand curve for the entire market for that good.
 - C) A pure monopolist is not the same as a perfect competitor.
 - D) The monopolist faces the industry demand curve, which is upward sloping.

Answer: D

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 43) When considering marginal revenue for the monopolist, which of the following is FALSE?
- A) To sell more of a particular product, given the industry demand curve, the monopoly firm must lower the price.
 - B) An essential point for the monopolist, marginal revenue is always less than price.
 - C) Marginal revenue is always less than price because price must be reduced on all units to sell more.
 - D) The more the monopolist wants to sell, the higher the price it has to charge in order to make more profits.

Answer: D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 44) For a monopolist,
- A) marginal revenue is equal to price for all units being sold.
 - B) marginal revenue is less than price for all units being sold except the first unit.
 - C) marginal revenue is greater than price for all units being sold except for the first unit.
 - D) there is no relationship between marginal revenue and price.

Answer: B

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 45) A firm that faces a downward sloping demand curve is
- A) a price taker.
 - B) a price provider.
 - C) a price searcher.
 - D) a price creator.

Answer: C

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 46) A firm that faces a downward sloping demand curve is known as a
- A) price taker.
 - B) utility maximizer.
 - C) price searcher.
 - D) perfect competitor.

Answer: C

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

- 47) In order to sell more goods and/or services, what must a monopoly do?
- A) Reduce price and increase output
 - B) Increase output
 - C) Increase price
 - D) Nothing, since it is the market

Answer: A

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

48) For a monopolist, marginal revenue is always

- A) greater than price. B) equal to price.
C) equal to zero. D) less than price.

Answer: D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

49) Unlike a perfectly competitive firm, a monopolist faces a demand curve that is

- A) upward sloping. B) horizontal.
C) vertical. D) downward sloping.

Answer: D

Diff: 1

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

Price	Quantity
\$19	11
18	12
17	13
16	14
15	15
14	16

50) Given the data in the above table, what is the marginal revenue when the 15th unit is sold?

- A) \$7.00 B) \$5.00 C) \$3.00 D) \$1.00

Answer: D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

51) Given the data in the above table, what is the marginal revenue when the 12th unit is sold?

- A) \$7.00 B) \$5.00 C) \$3.00 D) \$1.00

Answer: A

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

52) Given the data in the above table, what is the marginal revenue when the 13th unit is sold?

- A) \$7.00 B) \$5.00 C) \$3.00 D) \$1.00

Answer: B

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

53) Given the data in the above table, what is the marginal revenue when the 14th unit is sold?

- A) \$7.00 B) \$5.00 C) \$3.00 D) \$1.00

Answer: C

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

54) Given the data in the above table, the marginal revenue curve

- A) lies below the demand curve. B) lies above the demand curve.
C) intersects the demand curve. D) is equal to the demand curve.

Answer: A

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

55) The MR curve of a monopolist is

- A) downward sloping and below the demand curve.
B) downsloping and identical to the demand curve.
C) downsloping and above the demand curve.
D) horizontal and same as the market demand curve.

Answer: A

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

Question Status: Previous Edition

56) When TR is increasing as a monopolist's output increases,

- A) MR is negative. B) MR is positive.
C) MR = 0. D) MR may be positive or negative.

Answer: B

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

57) If a monopolist can sell 2 units at price of \$200 per unit and 3 units at a price of \$180 per unit, its marginal revenue at an output of 3 is

- A) \$-20.00. B) \$80.00. C) \$140.00. D) \$180.00.

Answer: C

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 58) If a monopolist can sell 3 units at price of \$150 per unit and 4 units at a price of \$140 per unit, its marginal revenue at an output of 4 is
- A) \$-10.00. B) \$10.00. C) \$560.00. D) \$110.00.

Answer: D

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: New

- 59) Discuss and explain the relationships between the monopolist's demand curve, average revenue curve, and marginal revenue curve.

Answer: The monopolist's demand curve is the industry demand curve, and it is downward sloping. Total revenue is PQ , so average revenue is $PQ/Q = P$. Thus, the average revenue curve is the demand curve. The marginal revenue curve lies below the demand curve. If a firm sells another unit, it receives the price for the unit. But, it must reduce price to make the sale, and hence must lower price on other units it could have sold at a higher price. Consequently, the extra revenue earned from selling an extra unit is less than the price.

Diff: 2

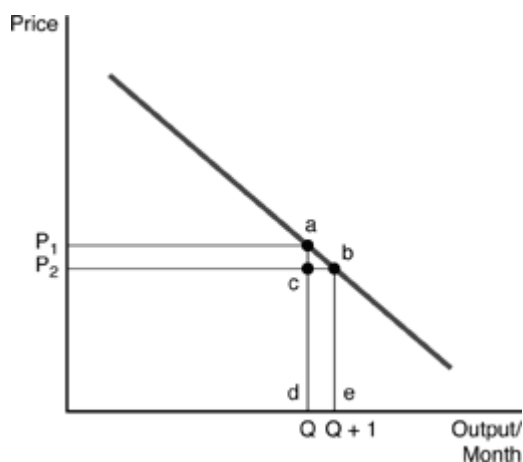
Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

- 60) Why is price less than marginal revenue for a monopolist?

Answer:



Consider the above figure. If the monopolist reduces its price from P_1 to P_2 , its revenues increase by the area of the rectangle $bcde$. At the same time, however, its revenues decline by the area of the rectangle P_1acP_2 . Marginal revenue is the difference between these two areas, which is less than the price of the one-unit change entailed in increasing output from Q to $Q + 1$. Thus, marginal revenue is less than price.

Diff: 3

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

61) What does the demand curve facing a monopoly look like? Why?

Answer: The demand curve facing a monopoly is downward sloping because the monopoly is the industry. Therefore, it faces the industry demand curve, which is downward sloping. For a monopolist to sell more units, it must lower price.

Diff: 1

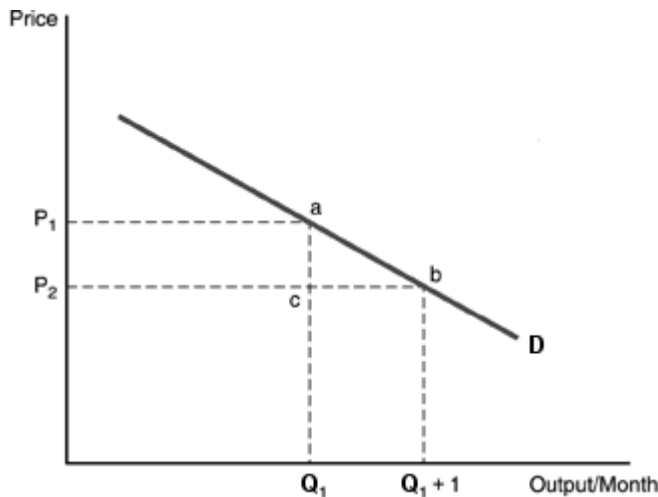
Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

62) Using a graph, show why marginal revenue is always less than price.

Answer:



The demand curve slopes down so the firm must lower price to sell another unit. It receives the price for that unit, shown in the figure above by rectangle Q_1cbQ_1+1 . However, it lowers price so it receives less on the Q_1 units it could have sold at P_1 . This reduced revenue is area P_1acP_2 . The extra revenue then is $Q_1cbQ_1+1 - P_1acP_2$, which is less than P_2 . Hence, the marginal revenue is less than the price.

Diff: 3

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

63) What is the main difference between the demand curves for the perfect competitor and the monopolist?

Answer: The perfect competitor faces a horizontal demand curve because it has no control over the market price. By contrast, the monopolist is the sole supplier of the entire industry so that it faces the industry demand curve, which is downward sloping.

Diff: 2

Topic: 24.3 The Demand Curve a Monopolist Faces

AACSB: Analytic skills

Question Status: Previous Edition

24.4 Elasticity and Monopoly

- 1) The demand curve facing a monopolist will be more elastic

A) the greater is the number of substitute products.
 B) as the consumers' need for the good increases.
 C) the greater is the amount of fixed costs to cover.
 D) as the number of consumers increases.

Answer: A

Diff: 1

Topic: 24.4 Elasticity and Monopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 2) The price elasticity of demand for a good produced by a monopolist

A) equals zero as long as the good has no close substitutes.
 B) is always inelastic since the demand curve slopes down.
 C) does not equal zero because there will always be some substitutes, however imperfect they may be.
 D) does not equal zero because every good has at least one good substitute for it.

Answer: C

Diff: 2

Topic: 24.4 Elasticity and Monopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 3) The profit-maximizing monopolist will *never* operate in a price range over which

A) the demand curve slopes downward. B) demand is inelastic.
 C) $P > MR$. D) $P > MC$.

Answer: B

Diff: 2

Topic: 24.4 Elasticity and Monopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 4) The profit-maximizing monopolist will operate in a price range over which

A) demand is elastic.
 B) demand is inelastic.
 C) the price elasticity of demand is less than 1.
 D) supply is elastic.

Answer: A

Diff: 2

Topic: 24.4 Elasticity and Monopoly

AACSB: Analytic skills

Question Status: New

- 5) The price elasticity of demand for a monopolist's product depends on
- A) the number and similarity of substitutes.
 - B) the ATC of the item it produces.
 - C) the AVC of the item it produces.
 - D) the MC of the item it produces.

Answer: A

Diff: 2

Topic: 24.4 Elasticity and Monopoly

Question Status: Previous Edition

- 6) What is true of the price elasticity of demand faced by a monopoly firm?
- A) Demand is inelastic.
 - B) Demand is more elastic at lower prices and more inelastic at higher prices.
 - C) Demand is perfectly elastic because the monopolist has no competition.
 - D) Demand becomes more elastic as the range of imperfect substitutes expands.

Answer: D

Diff: 2

Topic: 24.4 Elasticity and Monopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Which of the following statements about the elasticity of demand for a monopolist is TRUE?
- A) Since a monopolist produces a good with no close substitutes, the price elasticity of demand for the good is zero.
 - B) A monopolist produces a good with demand that is perfectly inelastic because people can not do without the good.
 - C) Since every good has some substitute, even if imperfect, the demand for a good produced by a monopolist will not have zero price elasticity.
 - D) Since the demand curve of a monopolist is downward sloping, the demand for the good must be inelastic.

Answer: C

Diff: 2

Topic: 24.4 Elasticity and Monopoly

Question Status: Previous Edition

- 8) A monopolist
- A) can charge whatever price it wants because it is the only firm producing the good.
 - B) can usually keep price equal to marginal revenue by lowering the price on the last unit sold only.
 - C) faces a demand curve that is more elastic than the demand curve for the industry.
 - D) is constrained in its pricing decisions by the demand curve it faces.

Answer: D

Diff: 3

Topic: 24.4 Elasticity and Monopoly

Question Status: Previous Edition

- 9) The price elasticity of demand for a monopolist
- A) is infinite since the monopolist is the only firm in the market.
 - B) decreases as more competition occurs in the market.
 - C) increases as similar products enter the market.
 - D) is undefined due to the lack of competition.

Answer: C

Diff: 1

Topic: 24.4 Elasticity and Monopoly

Question Status: Previous Edition

- 10) The more substitutes there are for a monopolist's product
- A) the less elastic is the demand curve.
 - B) the more elastic is the demand curve.
 - C) the steeper is the demand curve.
 - D) the more positively sloped the demand curve becomes.

Answer: B

Diff: 1

Topic: 24.4 Elasticity and Monopoly

Question Status: Previous Edition

- 11) When the number of substitutes increase, the demand curve for a monopolist will
- A) not change.
 - B) become more elastic.
 - C) become more inelastic.
 - D) become steeper.

Answer: B

Diff: 1

Topic: 24.4 Elasticity and Monopoly

Question Status: Previous Edition

- 12) A privately owned monopoly will NEVER produce along a range of output for which
- A) the demand curve is elastic.
 - B) the demand curve is inelastic.
 - C) the price elasticity of demand is greater than 1.
 - D) the price elasticity of supply is greater than 1.

Answer: B

Diff: 2

Topic: 24.4 Elasticity and Monopoly

Question Status: Previous Edition

- 13) The monopolist should NEVER produce in the
- A) elastic segment of its demand curve because it can increase total revenue and reduce total cost by lowering price.
 - B) inelastic segment of its demand curve because further lowering of the price reduces total revenue.
 - C) range of output for which the price elasticity of demand is infinity.
 - D) range of output for which there is a price elasticity exceeding one.

Answer: B

Diff: 2

Topic: 24.4 Elasticity and Monopoly

Question Status: Previous Edition

- 14) If a monopolist were to produce in the inelastic segment of its demand curve,
- A) total revenue would be at a maximum.
 - B) total revenue would be at a minimum.
 - C) the firm would maximize profits.
 - D) a further drop in the price will change quantity demanded less than proportionately.

Answer: D

Diff: 2

Topic: 24.4 Elasticity and Monopoly

Question Status: Previous Edition

- 15) A monopolist produces in the elastic segment of its demand curve because when it lowers the price,
- A) the percentage change increase in quantity demanded is greater than the percentage change decrease in price and total revenue increases.
 - B) the percentage change increase in quantity demanded is less than the percentage change decrease in price and total revenue increases.
 - C) the percentage change increase in quantity demanded is greater than the percentage change decrease in price and total revenue decreases.
 - D) the percentage change decrease in quantity demanded is less than the percentage change decrease in price and total revenue increases.

Answer: A

Diff: 2

Topic: 24.4 Elasticity and Monopoly

Question Status: New

- 16) What affects the price elasticity of demand for a monopolist's product?

Answer: A monopolist may have imperfect substitutes for its product. The price elasticity of demand for the product is higher if the product has more of those imperfect substitutes or the better those products are as substitutes.

Diff: 1

Topic: 24.4 Elasticity and Monopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 17) "A monopolist can charge whatever price it wants." Do you agree or disagree? Why?

Answer: Disagree. The monopolist is limited by the demand curve it faces. Even a monopolist produces a good that has substitutes, even if they are imperfect substitutes. The more substitutes and the better some of them are as substitutes, the more elastic the demand curve of the monopolist.

Diff: 2

Topic: 24.4 Elasticity and Monopoly

AACSB: Analytic skills

Question Status: Previous Edition

24.5 Costs and Monopoly Profit Maximization

- 1) For a monopolist that is maximizing profits,
 A) price exceeds marginal cost. B) price equals marginal revenue.
 C) price equals average total cost. D) marginal revenue exceeds price.

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 2) A monopoly will maximize profits at the level of output at which
 A) $MR = MC$. B) $MR = AFC$. C) $MC = ATC$. D) $MC = P$.

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 3) The monopolist will choose the price and output combination at which
 A) MC equals AR . B) MC equals MR .
 C) MC equals price. D) MR equals AR .

Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 4) Suppose a monopolist's costs and revenues are as follows: $ATC = \$45.00$; $MC = \$35.00$; $MR = \$35.00$; $P = \$45.00$. The firm should
 A) increase output and decrease price. B) decrease output and increase price.
 C) not change output or price. D) shut down.

Answer: C

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 5) Suppose a monopolist's costs and revenues are as follows: $ATC = \$50.00$; $MC = \$35.00$; $MR = \$45.00$; $P = \$55.00$. The firm should
 A) increase output and decrease price. B) decrease output and increase price.
 C) not change output or price. D) shut down.

Answer: A

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Suppose a monopolist's costs and revenues are as follows: $ATC = \$50.00$; $MC = \$45.00$; $MR = \$40.00$; $P = \$55.00$. The firm should
- A) increase output and decrease price.
 - B) decrease output and increase price.
 - C) not change output or price.
 - D) shut down.

Answer: B

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: New

- 7) The profit maximizing behavior of a monopoly is different from that of a perfectly competitive firm in that a monopoly can
- A) only choose the desired output, while a competitive firm can control only price.
 - B) only choose the desired price, while a competitive firm can control only output.
 - C) control the position of its demand schedule, but a competitive firm cannot.
 - D) control the desired price and output to maximize profits, but a perfectly competitive firm can only choose the desired output.

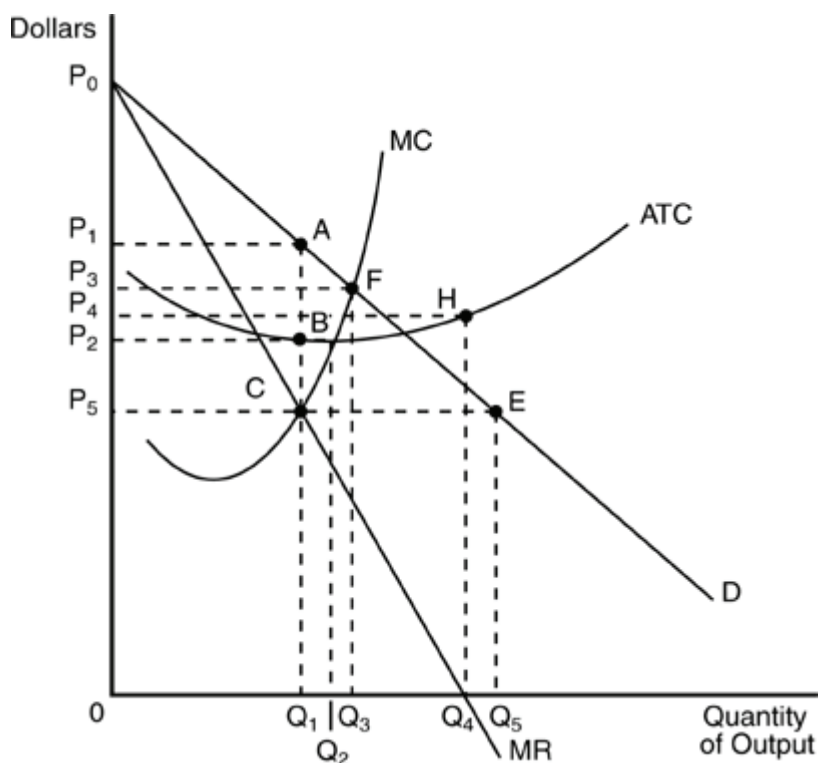
Answer: D

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition



- 8) The profit-maximizing price and quantity established by the unregulated monopolist in the above figure are
- A) Q_1 units of output and a price of P_5 . B) Q_3 units of output and a price of P_3 .
 C) Q_1 units of output and a price of P_1 . D) Q_4 units of output and a price of P_4 .

Answer: C

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 9) In the above figure, at the firm's profit maximizing output, total revenue is rectangle
- A) $0P_1AQ_1$. B) $0P_3FQ_3$. C) $0P_5EQ_5$. D) $0P_2BQ_1$.

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 10) In the above figure, marginal cost and marginal revenue are equal at output
- A) Q_5 . B) Q_1 . C) Q_3 . D) Q_2 .

Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 11) In the above figure, the total cost of producing the profit maximizing level of output is shown by rectangle
- A) OP_1AQ_1 . B) OP_5EQ_5 . C) OP_4HQ_4 . D) OP_2BQ_1 .

Answer: D

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 12) In the above figure, suppose the monopolist is producing at Q_3 . The firm should
- A) increase output and decrease price. B) decrease output and increase price.
C) not change output or price. D) shut down.

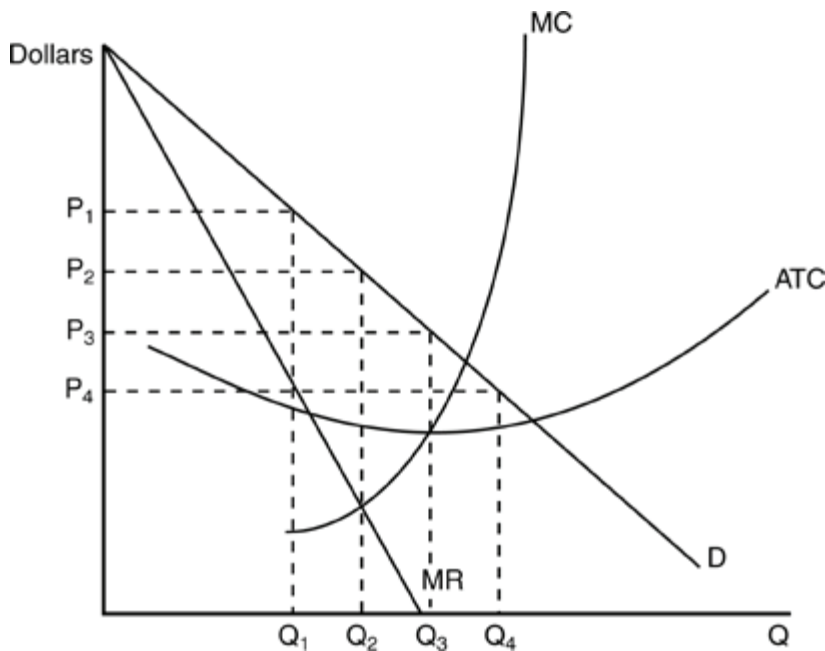
Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: New



- 13) In the above figure, if the firm is producing at Q_3 and charging a price of P_3 , it should
- A) increase output and decrease price. B) decrease output and increase price.
C) not change output or price. D) shut down.

Answer: B

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 14) In the above figure, if the firm is producing Q_1 units at a price P_1 , the firm should
- A) increase output and decrease price.
 - B) decrease output and increase price.
 - C) not change output or price.
 - D) shut down.

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 15) In the above figure, if the firm is producing Q_2 units at a price P_2 , it should
- A) increase output and decrease price.
 - B) decrease output and increase price.
 - C) not change output or price.
 - D) shut down.

Answer: C

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Which of the following statements concerning a monopolist is FALSE?
- A) A monopolist will produce at which $MR = MC$.
 - B) For a monopolist, marginal revenue is less than price.
 - C) A monopolist will charge the highest price at which any individual will purchase the product.
 - D) A monopolist will shut down if price is less than average variable cost.

Answer: C

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

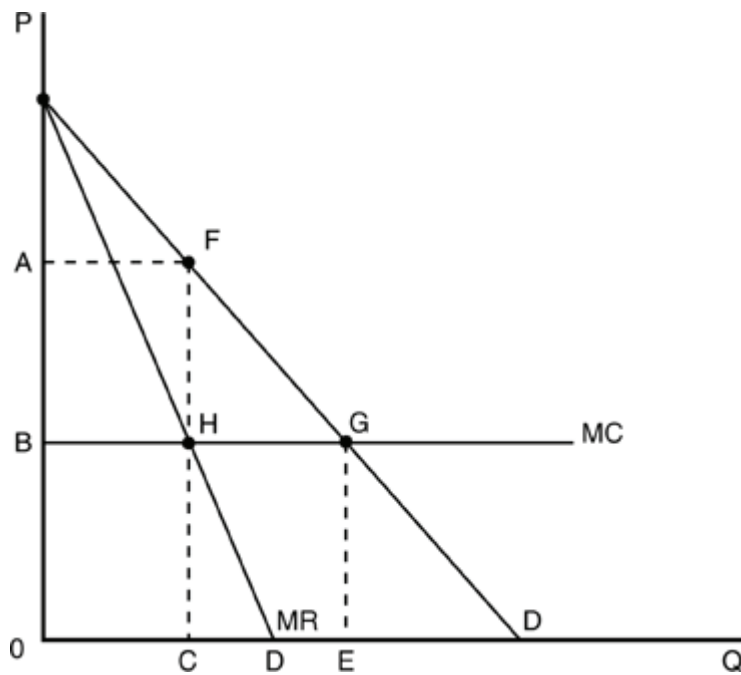
- 17) As a price searcher, a monopoly firm
- A) must only determine the price it charges.
 - B) must determine its optimal price-output combination.
 - C) must determine its output level and then accept the market price for its product.
 - D) must determine the prices it pays for its inputs and accept the market price for its output.

Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition



18) In the above figure, the monopolist's profit-maximizing output level is

- A) A. B) B. C) C. D) D.

Answer: C

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

19) In the above figure, the monopolist's profit-maximizing price is

- A) A. B) B. C) C. D) D.

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: New

20) Suppose a monopolist sells 10,000 units of output at \$22 per unit. The firm's total revenue is

- A) \$2,200. B) \$22,000. C) \$220,000. D) \$2,200,000.

Answer: C

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 21) The price–output combination that maximizes profits for a monopolist occurs at the point where
- A) total revenues and total costs are equal.
 - B) the difference between total revenues and total costs is the greatest.
 - C) total revenues are the greatest.
 - D) the elasticity of demand equals one.

Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 22) A monopolist finds the price–output combination that maximizes its profits by
- A) equating total revenue and total cost.
 - B) equating marginal revenue and marginal cost.
 - C) finding the combination for which the difference between marginal revenue and marginal cost is the greatest.
 - D) equating price and marginal cost.

Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 23) In equilibrium, which of the following conditions is common to both unregulated monopoly and pure competition?

A) $P = MR$ B) $AR = ATC$ C) $MR = MC$ D) $MC = P$

Answer: C

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 24) Profits can be maximized by equating $MR = MC = \text{Price}$,
- A) only in perfectly competitive markets.
 - B) only in monopoly markets.
 - C) only in discriminating monopoly markets.
 - D) only with government price controls.

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 25) In maximizing economic profit, the monopolist will
- A) choose the highest price that still permits some output sales.
 - B) equate marginal cost to minimum average total cost.
 - C) equate price to marginal cost.
 - D) equate marginal revenue to marginal cost.

Answer: D

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 26) The monopolist faces a downward sloping demand curve, and maximizing profits requires the monopolist to
- A) accept the market price for its product.
 - B) will produce where the demand curve is inelastic.
 - C) search for the price consistent with producing to the point at which marginal revenue equals marginal cost.
 - D) search for the highest possible price consistent with maximizing its revenues, irrespective of its explicit and implicit opportunity costs.

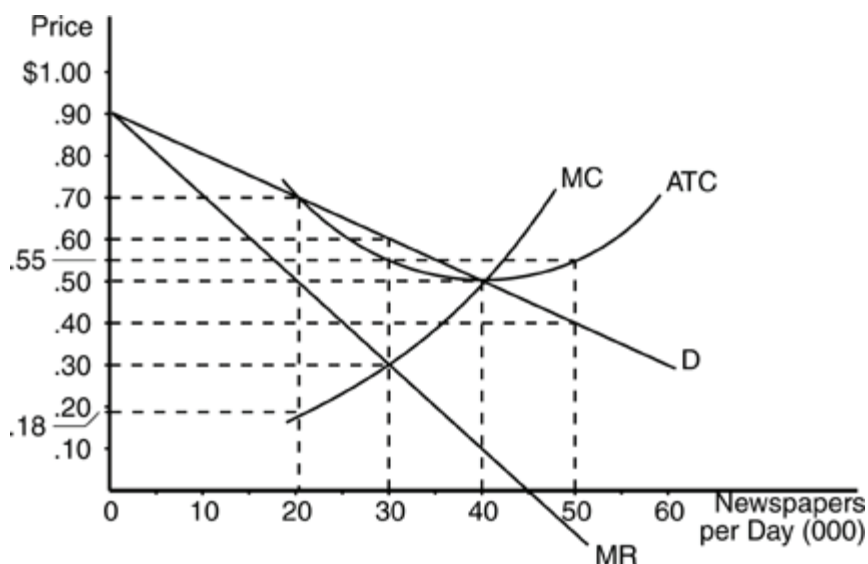
Answer: C

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition



- 27) According to the above figure, the profit maximizing price-output combination for the monopolist is a price of
- A) 50 cents and an output of 40,000 newspapers per day.
 - B) 30 cents and an output of 30,000 newspapers per day.
 - C) 60 cents and an output of 30,000 newspapers per day.
 - D) 45 cents and an output of 45,000 newspapers per day.

Answer: C

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

28) The monopolist is a

- A) price taker who tries to find the profit-maximizing rate of output.
- B) price taker who tries to find the profit-maximizing price.
- C) price searcher who tries to find the profit-maximizing price-output combination.
- D) price searcher who tries to find the rate of output that maximizes price.

Answer: C

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

29) A firm that must determine the price-output combination that maximizes profit because it faces a downward-sloped demand curve

- A) has a perfectly elastic demand curve.
- B) has a perfectly inelastic demand curve.
- C) is a price-taker.
- D) is a price searcher.

Answer: D

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

30) A monopolist maximizes profits by finding

- A) the rate of output where marginal revenue equals marginal cost.
- B) the rate of output where price equals marginal cost.
- C) the price where price exceeds marginal revenue by that largest amount.
- D) the price where average revenue and marginal cost are equal.

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

P	Q	TC
\$13	10	\$15
\$12	14	\$25
\$11	19	\$45
\$10	25	\$75
\$9	30	\$115
\$8	35	\$165

31) Refer to the above table. Given the demand and cost schedules, what is the profit maximizing quantity for this monopolist?

- A) 14
- B) 19
- C) 25
- D) 30

Answer: C

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Revised

- 32) Refer to the above table. Given the demand and cost schedules, what is the profit-maximizing price for this monopolist?

A) \$9 B) \$12 C) \$11 D) \$10

Answer: D

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Revised

- 33) Refer to the above table. Given the demand and cost schedules, what are the maximum economic profits for this monopolist?

A) \$155 B) \$143 C) \$175 D) \$164

Answer: C

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Revised

P	Q	TC
\$13	10	\$8
\$12	15	\$30
\$11	20	\$68
\$10	25	\$128
\$9	30	\$208
\$8	35	\$308

- 34) Refer to the above table. Given the demand and cost schedules, what is the profit maximizing quantity for this monopolist?

A) 15 B) 20 C) 25 D) 30

Answer: B

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Refer to the above table. Given the demand and cost schedules, what is the profit-maximizing price for this monopolist?

A) \$13 B) \$12 C) \$11 D) \$10

Answer: C

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Refer to the above table. Given the demand and cost schedules, what are the maximized economic profits for this monopolist?

A) \$122 B) \$152 C) \$220 D) \$150

Answer: B

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Revised

P	Q	MR	MC
\$7	20	\$12	\$2
\$6	21	\$14	\$5
\$5	22	\$16	\$10
\$4	23	\$18	\$15
\$3	24	\$20	\$20
\$2	25	\$22	\$26

- 37) Refer to the above table. Given the demand and cost schedules, what is the profit maximizing quantity for this monopolist?

A) 23 B) 21 C) 20 D) 24

Answer: D

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Revised

- 38) Refer to the above table. Given the demand and cost schedules, what is the profit-maximizing price for this monopolist?

A) \$3 B) \$4 C) \$6 D) \$7

Answer: A

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Revised

- 39) If a monopolist is producing the quantity at which price equals marginal cost, it should

A) continue to produce this amount if it wants to maximize profits.
 B) reduce output if it wants to maximize profits.
 C) reduce price and keep output unchanged if it wants to maximize profits.
 D) increase output if it wants to maximize profits.

Answer: B

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 40) If a monopolist is producing the quantity at which marginal revenue equals marginal cost, it should
- A) continue to produce this amount if it wants to maximize profits.
 - B) reduce output if it wants to maximize profits.
 - C) increase price and keep output unchanged if it wants to maximize profits.
 - D) increase output if it wants to maximize profits.

Answer: A

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: New

- 41) If a monopolist is producing the quantity at which marginal revenue exceeds marginal cost, it should
- A) continue to produce this amount if it wants to maximize profits.
 - B) reduce output if it wants to maximize profits.
 - C) reduce price and keep output unchanged if it wants to maximize profits.
 - D) increase output if it wants to maximize profits.

Answer: D

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: New

- 42) A monopolist finds the output (Q^*) rate that maximizes profit. It finds the price by
- A) taking the height of the marginal revenue curve at output rate Q^* .
 - B) taking the height of the marginal cost curve at output rate Q^* .
 - C) taking the height of the demand curve at output rate Q^* .
 - D) setting price equal to marginal cost.

Answer: C

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 43) A monopolist who is maximizing profits produces to the point at which
- A) marginal cost and average total cost are equal.
 - B) price, marginal cost and average variable cost are equal.
 - C) price is greater than marginal cost.
 - D) price is greater than average total cost.

Answer: C

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 44) The monopolist determines the price and quantity combination that maximizes short-run profits by
- A) finding the quantity at which marginal cost and marginal revenue are equal and then using the demand curve to find price.
 - B) determining the price by finding the highest price at which sales can be made and then using the demand curve to find the appropriate quantity.
 - C) finding the point at which marginal revenue and demand intersect. This gives the price and quantity that maximizes profits.
 - D) finding the quantity at which average revenue and average total cost are furthest apart.

Answer: A

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 45) If a monopolist produces to a point at which marginal revenue is less than marginal cost then
- A) profits are being maximized.
 - B) profits will always be negative.
 - C) the incremental cost of producing the last unit exceeds the incremental revenue.
 - D) the incremental cost of producing the last unit is less than the incremental revenue.

Answer: C

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 46) If a monopolist produces to a point at which marginal revenue is greater than marginal cost then
- A) profits are being maximized.
 - B) profits will always be negative.
 - C) the incremental cost of producing the last unit exceeds the incremental revenue.
 - D) the incremental cost of producing the last unit is less than the incremental revenue.

Answer: D

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 47) If a monopolist produces to a point at which marginal revenue is less than marginal cost then
- A) the firm should increase output.
 - B) the firm should reduce output.
 - C) the firm is maximizing profits.
 - D) we do not know if the firm should increase or reduce without more information.

Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 48) If a monopolist produces to a point at which marginal revenue is more than marginal cost then
- A) the firm should increase output.
 - B) the firm should reduce output.
 - C) the firm is maximizing profits.
 - D) we do not know if the firm should increase or reduce without more information.

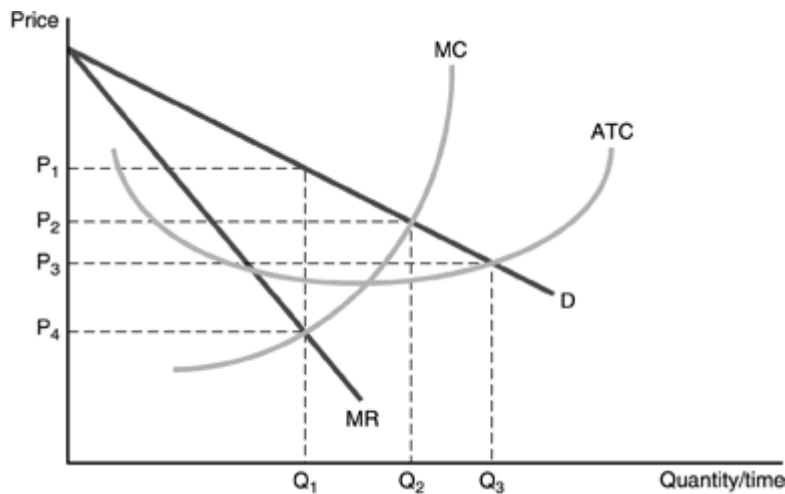
Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition



- 49) Refer to the above figure. The profit maximizing quantity for this firm is
- A) zero.
 - B) Q_1 .
 - C) Q_2 .
 - D) Q_3 .

Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 50) Refer to the above figure. The profit-maximizing price for this firm is
- A) P_1 .
 - B) P_2 .
 - C) P_3 .
 - D) P_4 .

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

51) Refer to the above figure. Profits for this firm are

- A) zero.
- B) negative.
- C) positive.
- D) undetermined without more information.

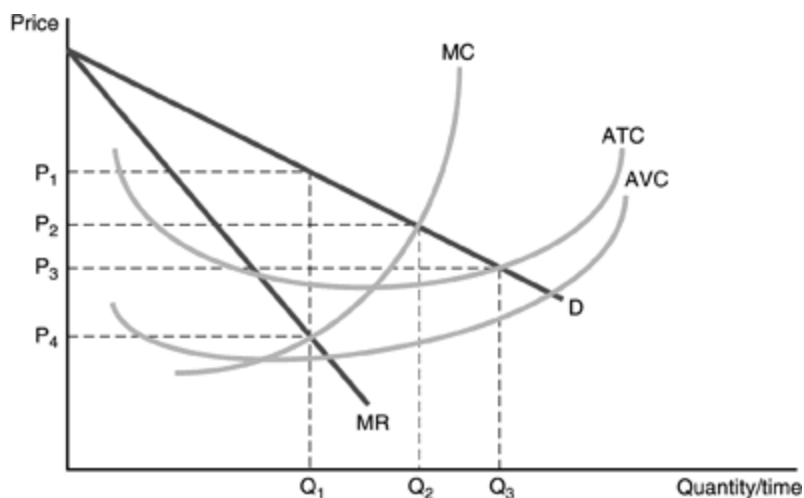
Answer: C

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition



52) Refer to the above figure. The profit-maximizing price and output for this monopolist are

- A) a price of P_1 and output of Q_1 .
- B) a price of P_4 and output of Q_1 .
- C) a price of P_2 and output of Q_2 .
- D) a price of P_3 and output of Q_3 .

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

53) Refer to the above figure. Profits for this firm are

- A) negative.
- B) zero.
- C) positive.
- D) undetermined without more information.

Answer: C

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

54) Refer to the above figure. The firm is currently producing at Q_2 . The firm should

- | | |
|-------------------------|-------------------------------|
| A) reduce production. | B) leave production as it is. |
| C) increase production. | D) shut down. |

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

55) Refer to the above figure. The firm is currently producing at Q_1 . The firm should

- | | |
|-------------------------|-------------------------------|
| A) reduce production. | B) leave production as it is. |
| C) increase production. | D) shut down. |

Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

56) A monopolist

- | | |
|--|-----------------------------------|
| A) is a price searcher. | B) is a price taker. |
| C) faces an upward sloping demand curve. | D) faces a vertical demand curve. |

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

57) A firm that can determine the price–output combination in order to maximize profit is known as a

- | | |
|---------------------|-----------------|
| A) price searcher. | B) price taker. |
| C) demand searcher. | D) cost taker. |

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

58) The point of profit maximization for a monopolist is exemplified by

- | | | | |
|----------------|----------------|-------------------|----------------|
| A) $TR = TC$. | B) $MR = MC$. | C) $ATC_{\min}$. | D) $MR > MC$. |
|----------------|----------------|-------------------|----------------|

Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 59) A monopolist determines the profit-maximizing output
- A) at the point at which $TR = TC$.
 - B) at the point at which $MR = MC$.
 - C) at any point it wants because it is the only producer of the product.
 - D) at the point at which TR is maximum.

Answer: B

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 60) Which of the following conditions hold true for both the perfectly competitive firm and the monopoly at the profit-maximizing output level?
- A) $MR = P$
 - B) $MC = ATC$
 - C) $MC = P$
 - D) $MR = MC$

Answer: D

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 61) A pure monopolist is selling 7 units at a price of \$12. If the marginal revenue of the 8th unit is \$4, then the price of the 8th unit is
- A) \$10.
 - B) \$11.
 - C) greater than \$12.
 - D) \$4.

Answer: B

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 62) A monopoly sells 10 units of output at \$10. If the MR of the 11th unit is \$4.50, then the price of the 11th unit is
- A) also \$10.
 - B) \$9.50.
 - C) greater than \$10.
 - D) \$7.25.

Answer: B

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Revised

- 63) A monopoly sells 5 units of output at \$20. If the MR of the 6th unit is \$14, then the price of the 6th unit is
- A) also \$14.
 - B) \$17.
 - C) greater than \$20.
 - D) \$19.

Answer: D

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: New

- 64) A monopolist is producing at an output level at which $MR = \$6$ and $MC = \$9$. It could increase profits

- A) by increasing both output and price.
- B) by reducing output and by increasing price.
- C) by reducing both output and price.
- D) by increasing output and by reducing price.

Answer: B

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 65) A monopolist is producing at an output level at which $MR = \$9$ and $MC = \$8$. It could increase profits

- A) by increasing both output and price.
- B) by reducing output and by increasing price.
- C) by reducing both output and price.
- D) by increasing output and by reducing price.

Answer: D

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: New

- 66) A monopolist is producing at an output level at which $ATC = \$5$, $P = \$6$, $MC = \$3$, and $MR = \$4$. We can conclude that

- A) economic profit could be increased by producing more.
- B) economic profit could be increased by producing less.
- C) economic profit cannot be increased.
- D) the firm is earning \$10 in economic profits.

Answer: A

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 67) A monopolist is producing at an output level at which $ATC = \$5$, $P = \$6$, $MC = \$4$, and $MR = \$3$. We can conclude that

- A) economic profit could be increased by producing more.
- B) economic profit could be increased by producing less.
- C) economic profit cannot be increased.
- D) the firm is earning \$10 in economic profits.

Answer: B

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: New

- 68) Assume that a monopoly is producing at a profit-maximizing output level. If the firm's total fixed costs decrease, the firm
- A) should lower its price.
 - B) should increase its price.
 - C) should continue to produce at the same level.
 - D) increase its output level.

Answer: C

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 69) For a profit-maximizing monopolist,
- A) $P > MC$.
 - B) $P = MC$.
 - C) $P = MR$.
 - D) $P = ATC$.

Answer: A

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 70) In the long run, all of the following are true for a monopolist EXCEPT
- A) $P > ATC$.
 - B) $P = MC$.
 - C) $MR = MC$.
 - D) $P > AVC$.

Answer: B

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 71) Which of the following is true of a perfectly competitive firm and a monopoly in the long run?
- A) $P = MC$
 - B) $P = ATC$
 - C) $MR = MC$
 - D) $P = MR$

Answer: C

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Previous Edition

- 72) For a monopoly earning positive economic profits at the profit-maximizing output level, all of the following are true EXCEPT
- A) $P > ATC$.
 - B) $P > MR$.
 - C) $P > MC$.
 - D) $P = MR$.

Answer: D

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

- 73) If a monopolist is producing at an output rate at which $P = ATC$, then
- A) its economic profit will be zero.
 - B) its economic profit will be positive.
 - C) it is maximizing its profits.
 - D) it is minimizing its losses.

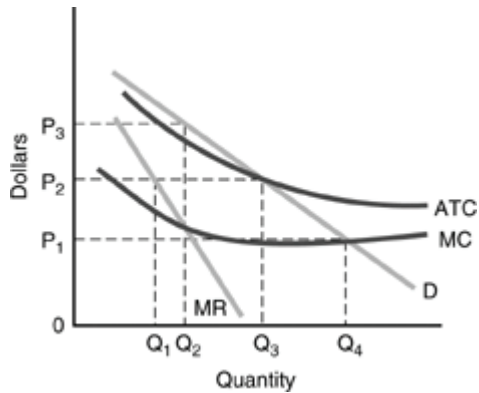
Answer: A

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition



76) Use the above figure. The profit-maximizing or loss minimizing output and price will be

- A) Q_1 and P_2 . B) Q_2 and P_3 . C) Q_3 and P_3 . D) Q_4 and P_1 .

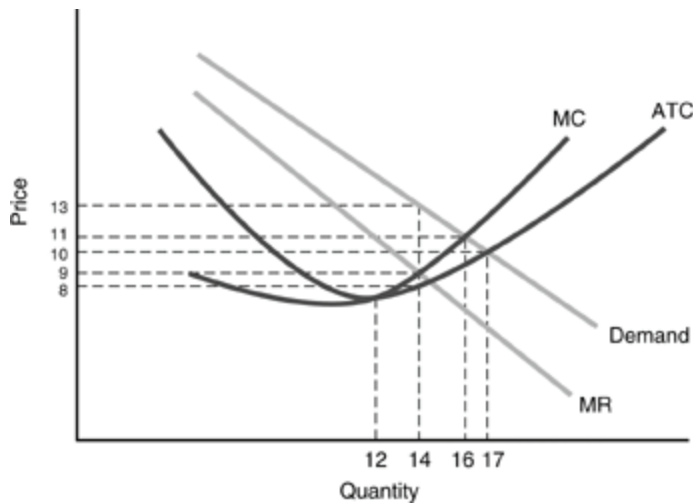
Answer: B

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition



77) In the above figure, what is the profit-maximizing price and output?

- A) \$9, 14 B) \$13, 14 C) \$11, 16 D) \$10, 17

Answer: B

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

78) In the above figure, what is total revenue at the profit-maximizing point?

- A) \$182 B) \$126 C) \$170 D) \$176

Answer: A

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

79) In the above figure, what is total cost at the profit-maximizing point?

- A) \$182 B) \$126 C) \$112 D) \$170

Answer: C

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Revised

80) In the above figure, what is total profit at the profit-maximizing point?

- A) \$14 B) \$56 C) \$42 D) \$70

Answer: D

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Revised

81) In the above figure, the break-even output and price is

- A) \$9 and 14. B) \$13 and 14. C) \$11 and 16. D) \$10 and 17.

Answer: D

Diff: 3

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

82) To maximize profits, the monopolist should produce at which

- A) $MR = MC$. B) MC intersects the demand curve.
C) total revenue is maximized. D) total costs are minimized.

Answer: A

Diff: 1

Topic: 24.5 Costs and Monopoly Profit Maximization

Question Status: Revised

83) How does a monopoly maximize profits? What price does it charge?

Answer: A monopoly finds the rate of output at which marginal revenue equals marginal cost. Any other output will generate lower profits. If marginal revenue is greater than marginal cost, an extra unit generates more revenue than costs, so profits increase. If marginal cost exceeds marginal revenue, cutting output by one unit reduces costs more than revenues, so profits increase. When marginal cost equals marginal revenue, profits are maximized. The price is found by identifying the price on the demand curve associated with the profit maximizing rate of output.

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

84) "Unlike a perfect competitor, a profit-maximizing monopolist produces at an output rate at which marginal revenue exceeds marginal cost." Do you agree or disagree? Why

Answer: Disagree. To maximize profits, the monopolist produces at an output rate at which marginal revenue equals marginal cost as does a perfect competitor. If it goes past that point, then the incremental cost of producing any more units will exceed the incremental revenue and so profits decrease. Below that point, the incremental revenue of producing any more units will exceed the incremental cost and so profits are not maximized either. However, because price is higher than marginal revenue in a monopoly, the profit-maximizing monopolist sells at a price higher than marginal cost.

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: Previous Edition

24.6 Calculating Monopoly Profit

1) A monopolist is maximizing profit at an output rate of 1,000 units per month. At this output rate, the price that its customers are willing and able to pay is \$8 per unit, average total cost is \$5 per unit, and marginal cost is \$6 per unit. It may be concluded that at this monthly output rate, marginal revenue is

- A) \$5 per unit, and the monopolist earns zero economic profits.
- B) \$6 per unit, and the monopolist earns economic profits of \$2,000 per month.
- C) \$6 per unit, and the monopolist earns economic losses of \$1,000 per month.
- D) \$6 per unit, and the monopolist earns economic profits of \$3,000 per month.

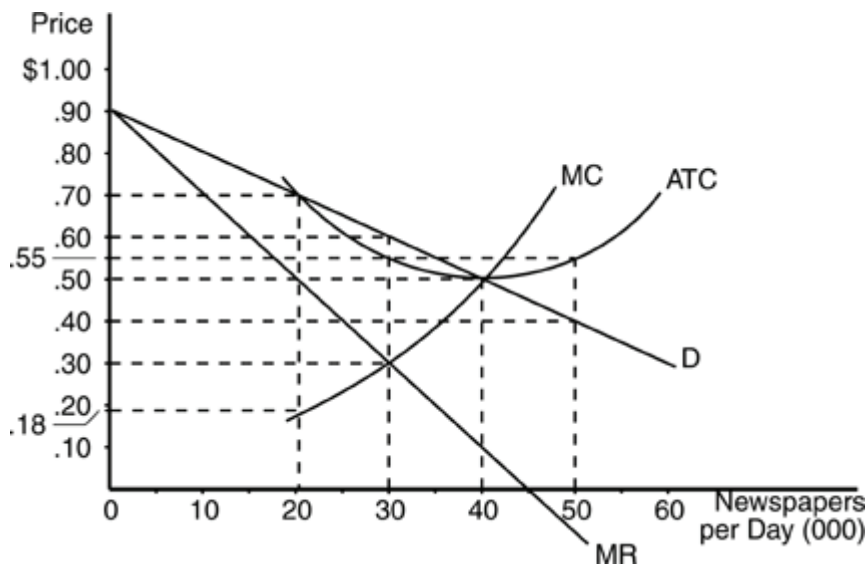
Answer: D

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Revised



- 2) According to the above figure, the maximum profit the monopolist can receive is
 A) 0. B) \$1,500 per day. C) \$9,000 per day. D) \$7,500 per day.

Answer: B

Diff: 3

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 3) According to the above figure, what are the profits of the firm if it produces 50,000 units?
 A) -\$5,000 per day B) -\$10,000 per day
 C) -\$7,500 per day D) -\$17,500 per day

Answer: C

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 4) A monopolist will not earn any economic profits when
 A) AVC is a minimum. B) AFC is very high.
 C) ATC lies above the demand curve. D) ATC lies below the demand curve.

Answer: C

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

5) A monopolist will earn economic profits when

- A) AVC is a minimum. B) ATC intersects the demand curve.
C) ATC lies above the demand curve. D) ATC lies below the demand curve.

Answer: D

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: New

6) Suppose that the profit maximizing level of output for the monopolist is 10 units, and price = \$50, ATC = \$35, and AVC = \$25. What is the monopoly's profit?

- A) \$50 B) \$150 C) \$250 D) \$500

Answer: B

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

7) Suppose that the profit maximizing level of output for the monopolist is 100 units, and ATC = \$45.00; MC = \$35.00; MR = \$35.00; P = \$45.00. What is the monopoly's profit?

- A) -\$1000 B) \$4500 C) \$0 D) \$3500

Answer: C

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: New

8) Suppose that the profit maximizing level of output for the monopolist is 100 units, and ATC = \$45.00; MC = \$35.00; MR = \$35.00; P = \$50.00. What is the monopoly's profit?

- A) -\$1000 B) \$4500 C) \$5000 D) \$500

Answer: D

Diff: 2

Topic: 24.5 Costs and Monopoly Profit Maximization

AACSB: Analytic skills

Question Status: New

9) When the marginal cost curve of the monopolist shifts upward, there will be

- A) an increase in both price and quantity.
B) an increase in price but a decrease in quantity.
C) a decrease in price and in marginal revenue.
D) a decrease in quantity and a decrease in marginal revenue.

Answer: B

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 10) A profit-maximizing monopolist earns an economic loss whenever
- A) it pays taxes to the government on each unit of output it produces.
 - B) the price it charges for its product exceeds average total cost.
 - C) the demand curve lies completely below the ATC curve.
 - D) it produces along the elastic portion of a demand curve.

Answer: C

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 11) A monopolist will not be able to receive a positive economic profit at any price-output combination at which
- A) marginal cost is less than average total cost when the monopolist has equated marginal revenue and marginal cost.
 - B) the average total cost curve is everywhere above the demand curve.
 - C) marginal cost is less than average variable cost when the monopolist has equated marginal revenue and marginal cost.
 - D) marginal revenue falls at a faster rate than marginal cost increases.

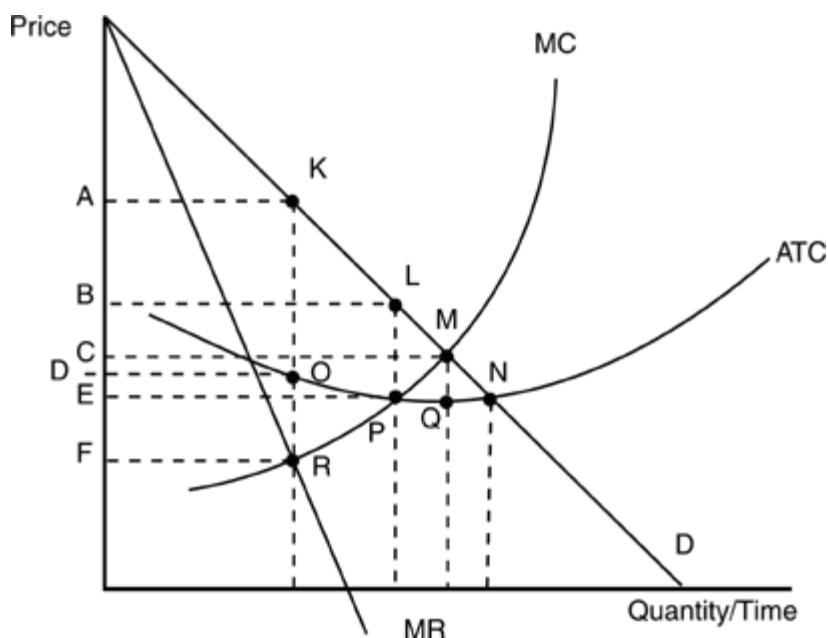
Answer: B

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition



- 12) According to the above figure, the profit-maximizing output for this monopolist is found directly below the letter

A) K. B) M. C) P. D) N.

Answer: A

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 13) According to the above figure, the profit-maximizing price for the monopolist is

A) A. B) B. C) C. D) D.

Answer: A

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 14) According to the above figure, when the monopolist maximizes profits, its profits are equal to the area given by

A) AKMC. B) AKOD. C) BLPE. D) EPRF.

Answer: B

Diff: 3

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 15) A profit-maximizing monopolist will receive zero profits when
- A) the average total cost curve lies above the demand curve for all possible rates of output.
 - B) the average total cost curve is tangent to the demand curve at the profit maximizing price.
 - C) marginal revenue, marginal cost, and average total cost are all equal.
 - D) a second firm enters the industry.

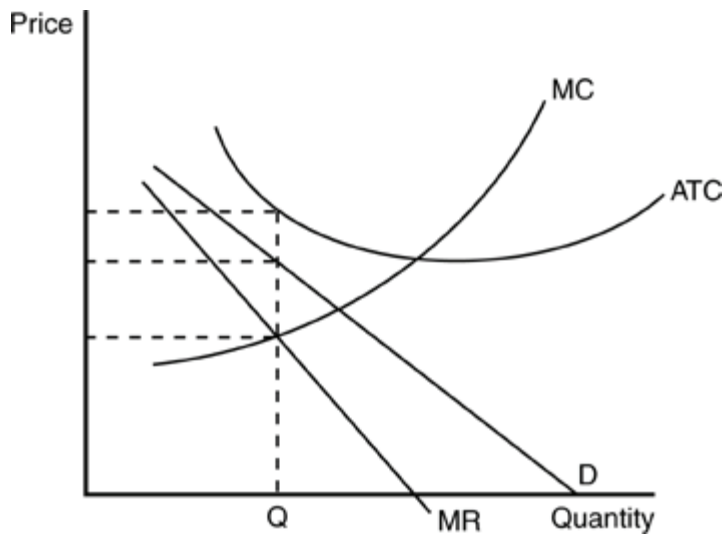
Answer: B

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition



- 16) If the above figure accurately portrays the market conditions for a given monopolist, we can be assured that the monopolist
- A) is making a normal profit.
 - B) is producing at the level that will maximize benefit to society.
 - C) is making excessive profits.
 - D) will be forced to go out of business in the long run.

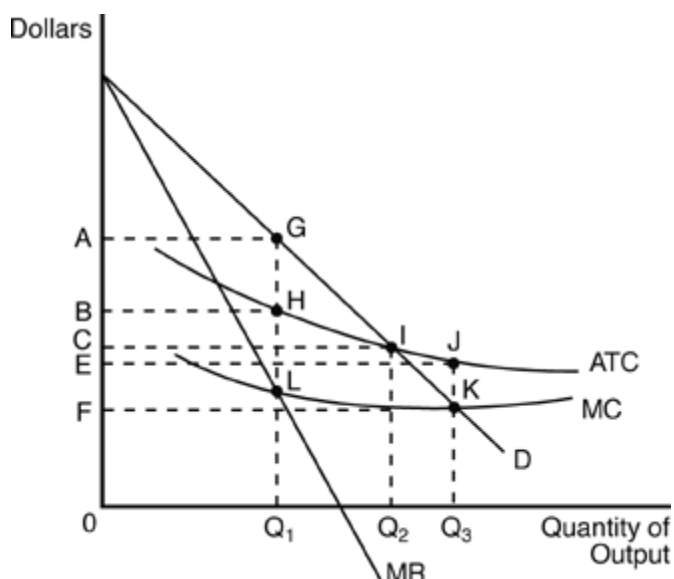
Answer: D

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition



- 17) In the above figure, the area of rectangle ABHG represents the monopolist's
- A) maximized economic profits.
 - B) maximized total revenue.
 - C) average total profits.
 - D) total costs.

Answer: A

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 18) In the above figure, the distance between A and B represents this monopoly firm's
- A) total profit.
 - B) total revenue.
 - C) average profit per unit.
 - D) average cost per unit.

Answer: C

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 19) In the above figure, a monopolist will set its level of output and price at
- A) Q_2 and C, respectively.
 - B) Q_3 and F, respectively.
 - C) Q_1 and A, respectively.
 - D) Q_1 and B, respectively.

Answer: C

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

20) The owner of a patented invention

- A) may or may not have a legal monopoly.
- B) is guaranteed a profit since her idea cannot be copied.
- C) will always have demand high enough and costs low enough to ensure a profit.
- D) will only earn a profit if average total cost is less than price.

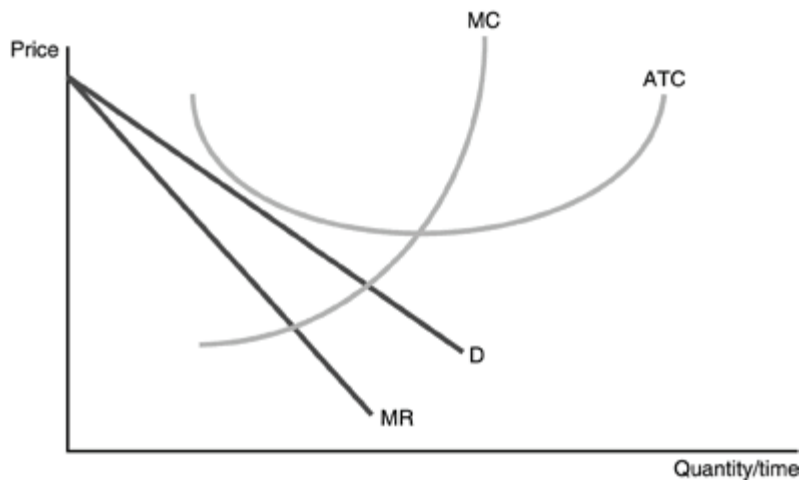
Answer: D

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition



21) Refer to the above figure. Profits for this firm are

- A) negative.
- B) zero.
- C) positive.
- D) undetermined without more information.

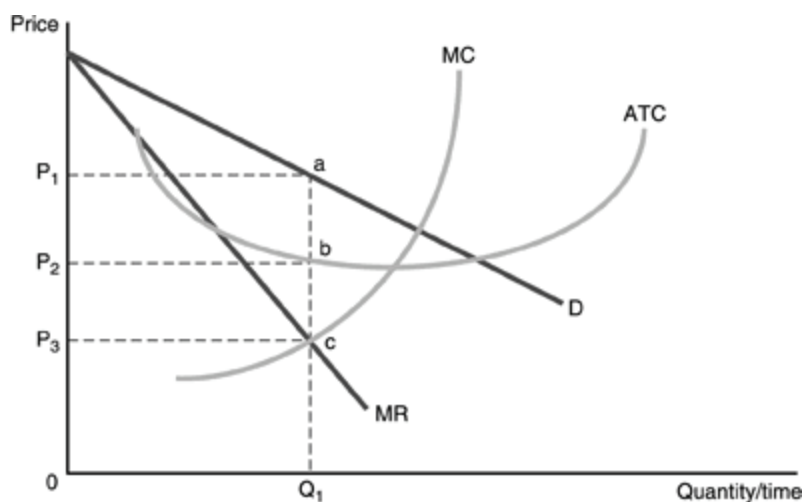
Answer: A

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition



22) Refer to the above figure. Profits for this firm are

- A) positive and equal to P_2P_1ab .
 B) positive and equal to P_3P_1ac .
 C) negative and equal to P_3P_2bc .
 D) negative and equal to $0P_3cQ_1$.

Answer: A

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

23) Refer to the above figure. Total cost for this firm equals

- A) P_2 .
 B) P_3 .
 C) $0P_2bQ_1$.
 D) $0P_3cQ_1$.

Answer: C

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

24) A monopolist would not be able to make a positive profit at any price output combination when

- A) marginal cost is less than average total cost for one more unit of output.
 B) the average variable cost curve is everywhere above the marginal revenue curve.
 C) the minimum point of the average total cost curve lies to the right of the minimum of the average variable cost curve.
 D) the average total cost curve is everywhere above the demand curve.

Answer: D

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Which of the following is a TRUE statement about a monopoly?
- A) A monopoly does not necessarily earn positive economic profits.
 - B) A monopoly must earn an above-normal profit to stay in business.
 - C) As long as there are barriers to entry, a monopoly can always find some price–output combination that generates positive economic profits.
 - D) As long as the demand curve slopes down, a monopoly can always find some price–output combination that generates positive economic profits.

Answer: A

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 26) A monopolistic firm will shut down if
- A) $P < ATC$ for every level of output.
 - B) $P > ATC$ for every level of output.
 - C) $P > AVC$ for every level of output.
 - D) $P < AVC$ for every level of output.

Answer: D

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

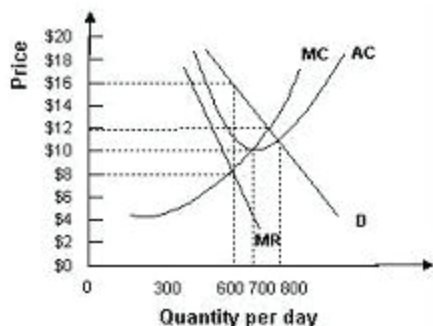
- 27) Which of the following is INCORRECT regarding monopoly and profits?
- A) The mere existence of a monopoly does not guarantee high profits.
 - B) Numerous monopolies have gone bankrupt.
 - C) A monopolist will never experience economic losses.
 - D) The monopolist reaches profit–maximizing output by trial and error.

Answer: C

Diff: 1

Topic: 24.6 Calculating Monopoly Profit

Question Status: Previous Edition



- 28) For the monopoly in the above figure, if the firm is currently producing 700 units, which of the following is correct?

A) It could earn higher profits if it produced more units each day.
 B) It could earn higher profits if it produced fewer units each day.
 C) It is maximizing its profits.
 D) It is incurring a loss.

Answer: B

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Use the above figure. The profit-maximizing output and price is

A) 600 and \$16, respectively. B) 600 and \$10, respectively.
 C) 600 and \$8, respectively. D) 800 and \$10, respectively.

Answer: A

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Use the above figure. Total revenue at the profit-maximizing output is

A) \$4,800. B) \$9,600. C) \$5,600. D) \$8,000.

Answer: B

Diff: 3

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Use the above figure. Total cost at the profit-maximizing output is closest to

A) \$6,600. B) \$9,600. C) \$4,800. D) \$8,000.

Answer: A

Diff: 3

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: New

32) Use the above figure. The profit this monopolist earns is closest to

- A) \$3,000. B) \$4,800. C) \$1,600. D) \$1,000.

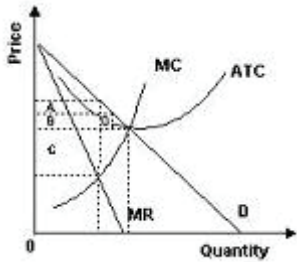
Answer: A

Diff: 2

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Revised



33) Use the above figure. Maximized economic profits are represented by rectangle

- A) "A." B) "B." C) "C." D) "A" + "B."

Answer: A

Diff: 3

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

34) "All monopolies operate with positive economic profits." Do you agree or disagree? Why?

Answer: Disagree. Monopolies can receive negative economic profits and can go out of business. If there is no price that lies above average total costs, the firm will receive negative economic profits. In the short run, it will continue to operate as long as price is greater than average variable cost, but it will go out of business in the long run.

Diff: 2

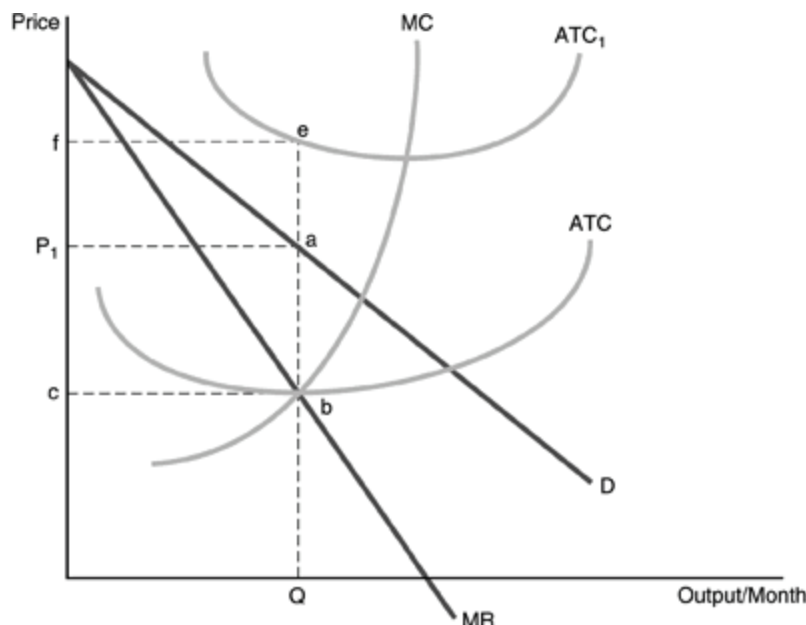
Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Using a graph, show the profits of a monopoly. Suppose fixed costs increased enough to make the firm earn an economic loss. Show such a situation. Would the monopolist earn economic losses in the long run? Why or why not?

Answer:



In the above figure, the monopolist produces to the point at which $MR = MC$, at Q units. Price is P_1 , which is the price on the demand curve associated with Q . Economic profits equal area P_1abc if the average total cost curve is ATC . If fixed costs increase so average total costs increase to ATC_1 , the firm would lose $feaP_1$. The monopolist will not earn economic losses in the long run because it can go out of business.

Diff: 3

Topic: 24.6 Calculating Monopoly Profit

AACSB: Analytic skills

Question Status: Previous Edition

24.7 On Making Higher Profits: Price Discrimination

- 1) Price discrimination refers to
- selling a product at different prices according to the differences in marginal cost of providing it to different consumers.
 - selling a product at different prices, with the price difference being unrelated to differences in marginal cost.
 - charging the same prices to all consumers but selling them different quantities.
 - a deliberate effort on the part of a monopoly producer to confuse consumers.

Answer: B

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 2) A price-discriminating monopolist will equate
- A) price and marginal cost in each market.
 - B) price and marginal revenue in each market.
 - C) marginal revenue and marginal cost in each market.
 - D) average revenue and marginal revenue in each market.

Answer: C

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 3) A monopolist engages in price discrimination
- A) by charging a higher price to consumers whose demand is more elastic.
 - B) by charging a higher price when marginal cost is lower.
 - C) by charging a lower price to consumers whose demand is more elastic.
 - D) by charging the same price to all consumers.

Answer: C

Diff: 3

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 4) A monopolist engages in price discrimination
- A) by charging a higher price to consumers whose demand is more inelastic.
 - B) by charging a lower price when marginal cost is higher.
 - C) by charging a lower price to consumers whose demand is more inelastic.
 - D) by charging the same price to all consumers.

Answer: A

Diff: 3

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: New

- 5) When grocery stores issue special discount membership cards for shoppers effectively offering different prices based on quantities consumed, this is an example of
- A) price discrimination.
 - B) price differentiation.
 - C) product differentiation.
 - D) patent protection.

Answer: A

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 6) Which of the following is NOT a necessary condition for price discrimination?
- A) Preventing resale of the product
 - B) Downward sloping demand curve
 - C) Separating markets for the good
 - D) Having a constant marginal cost

Answer: D

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 7) Price discrimination is the
- A) refusal by a firm to sell to all customers.
 - B) selling of a given product at more than one price when the price differences reflect cost differences.
 - C) pricing of a product so that not everyone can afford it.
 - D) selling of a given product at more than one price when the price difference is unrelated to cost differences.

Answer: D

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 8) A monopoly will look for opportunities to price discriminate because the practice
- A) leads to selling more units.
 - B) leads to greater profits.
 - C) allows it to charge higher prices.
 - D) is desired by customers.

Answer: B

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Which of the following conditions is not necessary for a firm to be able to engage in price discrimination?
- I. The firm must be able to produce to the point at which price equals marginal revenue.
 - II. The firm must easily be able to identify consumers with different demand elasticities.
 - III. The firm must be able to prevent resale of the item it produces and sells.
- A) I only
 - B) III only
 - C) Both I and II only
 - D) Both II and III only

Answer: D

Diff: 3

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 10) A monopolist sells a homogeneous good in several distinct submarkets, and the elasticities of demand differ in these submarkets. If the monopolist selects the rate of output to sell in each submarket by equating marginal revenue and marginal cost, then
- A) all customers in all markets end up paying the same price.
 - B) it is not price discriminating, but merely price differentiating.
 - C) customers in markets with more elastic demand will pay higher prices than customers in markets with less elastic demand.
 - D) customers in markets with more elastic demand will pay lower prices than customers in markets with less elastic demand.

Answer: D

Diff: 3

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 11) If a firm is price differentiating, then it is
- A) producing a homogenous product.
 - B) charging different prices to different consumers based on differences in marginal costs.
 - C) charging different prices based on quality.
 - D) charging different prices based on advertising costs.

Answer: B

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 12) Other things being equal, a price-discriminating firm will charge more to the customers who
- A) have the highest incomes.
 - B) have the least elastic demand for its product.
 - C) have the most elastic demand for the product.
 - D) are the least rational in making their decisions.

Answer: B

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Other things being equal, a price-discriminating firm will charge less to the customers who
- A) have the lowest incomes.
 - B) have the least elastic demand for its product.
 - C) have the most elastic demand for the product.
 - D) are the most rational in making their decisions.

Answer: C

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: New

- 14) In order to price discriminate, a firm must
- A) produce a product that is a close substitute for products of other firms.
 - B) have different marginal costs for serving different customers.
 - C) sell to customers with identical price elasticities of demand.
 - D) be able to prevent resale of its product.

Answer: D

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 15) If different markets for a product produced by a monopolist can be separated and if the elasticity of demand differs between the two markets, then the monopolist will
- A) be able to make higher profits by using price discrimination.
 - B) charge a single price in all markets.
 - C) go out of business.
 - D) sell the product in only one of the markets with inelastic demand curves.

Answer: A

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 16) A price discriminating monopolist will
- A) charge a lower price to those consumers who have more elastic demand.
 - B) charge a higher price to those consumers who have more inelastic demand.
 - C) charge more to those consumers who have more substitute goods.
 - D) charge the same price to all consumers.

Answer: A

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 17) If the price elasticity of demand for U.S. automobiles is higher in Europe than it is in the United States, and transport costs are zero, a price-discriminating monopolist would charge
- A) the same price for autos in the United States as in Europe.
 - B) a lower price for autos in the United States than in Europe.
 - C) a higher price for autos in the United States than in Europe.
 - D) a less profitable price for autos in the United States than in Europe.

Answer: C

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 18) If the price elasticity of demand for airline tickets is 2.0 for a leisure traveler and 0.5 for a business traveler, then a price-discriminating monopolist would charge
- A) a higher price for the business traveler than the leisure traveler.
 - B) the same price for both travelers.
 - C) a lower price for the business traveler than the leisure traveler.
 - D) a less profitable price for the business traveler than the leisure traveler.

Answer: A

Diff: 3

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: New

19) Which of the following is NOT necessary in order for a monopolist to practice effective price discrimination?

- A) The marginal cost of providing the same good to different groups of buyers must be different.
- B) The monopolist must be able to segregate its market into different submarkets.
- C) The buyers in various markets must face different price elasticities of demand.
- D) The monopolist must have a downward sloping demand curve.

Answer: A

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

20) Establishing different prices for similar products to reflect differences in marginal cost in providing those goods to different groups of buyers is

- A) price discrimination.
- B) cost-plus pricing.
- C) price differentiation.
- D) product differentiation.

Answer: C

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

21) Which of the following is TRUE?

- A) Monopoly results in a higher quantity of output being sold compared with perfect competition.
- B) Price discrimination occurs when there are differences in prices that reflect differences in marginal cost.
- C) Charging all customers the same price when costs vary can actually be a case of price discrimination.
- D) Price discrimination guarantees that the monopolist will make a profit.

Answer: C

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

22) Which of the following is NOT a necessary condition for a firm to price discriminate?

- A) The firm must be able to separate markets.
- B) Buyers in different markets must have different elasticities of demand.
- C) Resale of the product must be preventable.
- D) The firm must be a price-taker.

Answer: D

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 23) If Japanese producers sell computer chips at a higher price in the United States than in Japan, and if there is no cost difference in producing or transporting the chips, the Japanese producers would be practicing

A) cartel pricing. B) price discrimination.
C) simple monopoly behavior. D) price sampling.

Answer: B

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Which of the following will make price discrimination difficult for a monopolist?

A) The possibility of resale of the product B) A constant marginal cost curve
C) An increasing marginal cost D) A downward sloping demand curve

Answer: A

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 25) Price discrimination is

A) refusing to sell a given product to some group of customers.
B) selling a given product at more than one price.
C) selling a given product at more than one price, with the price differences reflecting differences in marginal cost in providing the product to different groups of customers.
D) selling a given product at more than one price, with the price differences being unrelated to differences in cost.

Answer: D

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 26) When a monopolist sells the same product at different prices and the prices are not related to cost differences, we have

A) monopoly pricing. B) marginal cost pricing.
C) price discrimination. D) price differentiation.

Answer: C

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 27) When a monopolist sells the same product at different prices and the prices are related to cost differences, we have

A) monopoly pricing. B) marginal cost pricing.
C) price discrimination. D) price differentiation.

Answer: D

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

28) Price differentiation is a situation in which

- A) there are different prices for similar products reflecting differences in the marginal cost of providing the commodities to different groups of buyers.
- B) there are different prices for the same product that are not due to differences in the marginal cost of providing the commodity to different groups of buyers.
- C) consumers' comparison-shop.
- D) the demand curve is vertical.

Answer: A

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

29) Monopolies that price discriminate do so because

- A) they are able to do so and no one else can.
- B) they can increase their profits.
- C) it keeps them out of trouble with the government.
- D) it is more efficient.

Answer: B

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

30) For price discrimination to exist, all of the following are necessary EXCEPT

- A) a downward sloping demand curve.
- B) an identifiable group of buyers with different elasticities of demand.
- C) an upward sloping marginal cost curve.
- D) there can be no resale of the product.

Answer: C

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

31) For a firm to be able to engage in price discrimination, it must

- A) face a downward sloping demand curve.
- B) produce more than one product.
- C) have customers of different levels of wealth and age.
- D) have economies of scale.

Answer: A

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 32) A monopolist has four distinct groups of customers. Group A has an elasticity of demand of 0.2, B has an elasticity of demand of 0.8, C has an elasticity of demand of 1.0, and D has an elasticity of demand of 2.0. The group paying the highest price for the product will be

A) A. B) B. C) C. D) D.

Answer: A

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Price discrimination is more likely in the case of services than in the case of goods because
- A) producers of goods usually do not face downward sloping demand curves.
 - B) it is easier to distinguish customers with different elasticities of demand with respect to services than with goods.
 - C) elasticities of demand vary more with services than with goods.
 - D) it is more difficult to resell services.

Answer: D

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 34) Which of the following is NOT an example of price discrimination?
- A) Gasoline stations charge more for gasoline with higher octane and additional additives.
 - B) Colleges give some students more financial aid than they do other students.
 - C) Airlines charge more for people who don't stay over a Saturday night.
 - D) College bookstore gives a price discount to faculty.

Answer: A

Diff: 3

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Which of the following is NOT an example of price discrimination?
- A) Student discount at a local movie theater.
 - B) Breakfast cereal makers sending coupons to select buyers.
 - C) Pharmaceutical companies charge customers living in wealthier countries higher prices than for identical drugs in poorer nations.
 - D) A hard cover book selling for more than the same book in electronic form.

Answer: D

Diff: 3

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: New

36) Selling a product at different prices when the price difference is unrelated to costs is a practice known as

- A) price fixing.
- B) price monopolization.
- C) price discrimination.
- D) price differentiation.

Answer: C

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

37) Price discrimination exists when

- A) a firm charges different buyers different prices for its product but the costs are the same.
- B) each buyer is treated equally.
- C) sales are made below cost.
- D) a firm charges each buyer a price of the product in proportion to its costs.

Answer: A

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

38) Which is NOT a necessary condition for price discrimination to exist?

- A) The firm must face a downward sloping demand curve.
- B) The firm must identify buyers with different elasticities of demand.
- C) The firm must be able to prevent resale of the product or service.
- D) The firm must establish different prices to reflect marginal cost.

Answer: D

Diff: 3

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

39) When a firm sells a given product at more than one price and the price difference is NOT caused by differences in cost then there is

- A) price discrimination.
- B) price differentiation.
- C) price demarcation.
- D) price delineation.

Answer: A

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

40) Which of the following is NOT necessary for price discrimination to occur?

- A) The firm must be able to separate the market into identifiable groups.
- B) The firm must be selling a durable good.
- C) The firm must have a downward sloping demand curve.
- D) The firm has to be able to prevent resale of the product or service.

Answer: B

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 41) A firm will practice price discrimination when it believes that by doing so it will be able to increase total
- A) sales. B) revenue. C) profits. D) production.

Answer: C

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 42) When a firm practices price discrimination, for each separate set of consumers it will determine the rate of output at which
- A) $MR > MC$. B) $MR = P$. C) $MR = AVC$. D) $MR = MC$.

Answer: D

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 43) Which of the following is NOT a condition for price discrimination to exist?
- A) downward sloping demand curve faced by the firm
B) identification of buyers with differing elasticities
C) unpatented product or the service
D) ability to prevent the resale of the product or service

Answer: C

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 44) Price discrimination occurs when a firm sells
- A) a given product at different prices at different points in time.
B) a given product at different prices to different ethnic groups.
C) a given product at different prices unrelated to differences in cost.
D) a given product at different prices when it is produced in different colors.

Answer: C

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 45) A monopoly's goal using price discrimination is to increase
- A) total revenue. B) marginal revenue.
C) total profit. D) the per unit profit.

Answer: C

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 46) A monopolist will maximize its profits by charging a higher price for customers with a price elasticity of
- A) 0.1. B) 1. C) 1.5. D) 10.

Answer: A

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: New

- 47) Which of the following is NOT a precondition for price discrimination?
- A) The product cannot be resold to another customer.
 B) The price elasticities of demand are different for each group of consumers.
 C) The product is a durable good.
 D) The seller must have some market power.

Answer: C

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

Question Status: Previous Edition

- 48) Senior citizens can buy movie tickets at a lower price than the general public. This is an example of
- A) age discrimination. B) demand discrimination.
 C) price discrimination. D) price differentiation.

Answer: C

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 49) Which of the following is LEAST likely to be able to regularly engage in price discrimination?
- A) a farmer
 B) an airline
 C) a university
 D) a producer of copyrighted computer software

Answer: A

Diff: 1

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 50) An upscale fusion bistro in a small town charges higher prices for the same menu items at dinner time than at lunch time. Does the bistro necessarily practice price discrimination? Explain your answer.

Answer: The bistro practices price discrimination if it charges customers at dinner time more than those at lunch time and there is no cost difference. However, the costs for customers at dinner time are typically higher than the costs for customers at lunch time because customers at dinner time tend to stay longer and therefore consume more services. The higher prices at dinner time may well reflect the higher operating costs for the same menu items.

Diff: 3

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 51) Explain how a monopolist can increase profits by price discriminating. What are the conditions necessary for price discrimination?

Answer: A monopolist can increase profits by price discriminating, in which case it sells some units at a higher price and other units at a lower price. It sells to those whose demand for the good is relatively inelastic at a higher price and to those whose demand is relatively elastic at a lower price. To discriminate, the firm must have monopoly power, it must be able to distinguish different markets, and buyers in those markets must have different elasticities of demand. Finally, the monopolist must be able to prevent the lower-priced consumers from reselling the good in the higher-priced market.

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

- 52) "Price discrimination is the same as price differentiation." Do you agree or disagree? Why?

Answer: Disagree. Price discrimination is the act of selling a given product at more than one price but no difference in marginal cost. In contrast, price differentiation is the act of selling a given product at more than one price in order to reflect differences in marginal cost.

Diff: 2

Topic: 24.7 On Making Higher Profits: Price Discrimination

AACSB: Analytic skills

Question Status: Previous Edition

24.8 The Social Cost of Monopolies

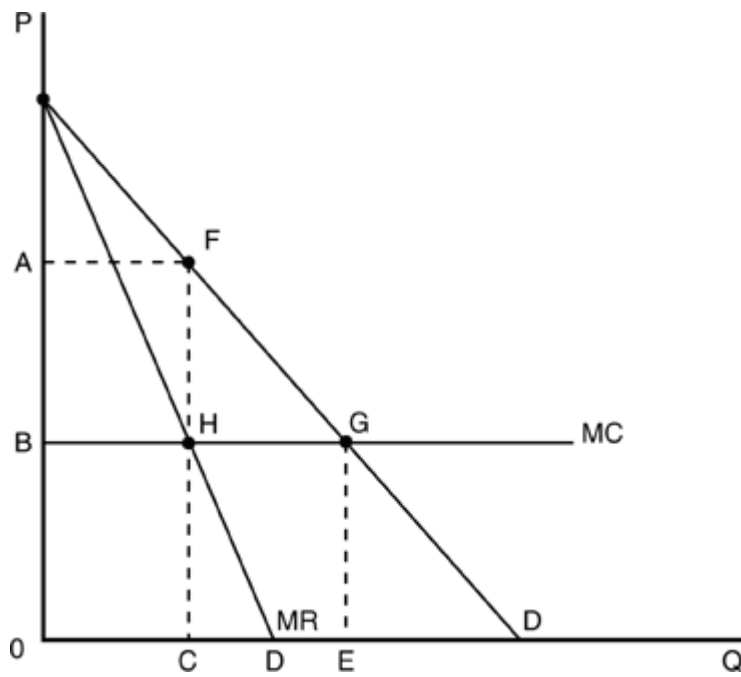
- 1) Which of the following statements about a monopolist is TRUE?
- A) Monopolies tend to misallocate resources.
 - B) All monopolies are unlawful in the United States.
 - C) Monopolies tend to allocate resources in a socially optimal manner.
 - D) Monopolies will always make a profit in the long run.

Answer: A

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

Question Status: Revised



2) In the above figure, the difference between the competitive industry price and that of the monopolist is

A) 0B.

B) 0A.

C) AB.

D) CE.

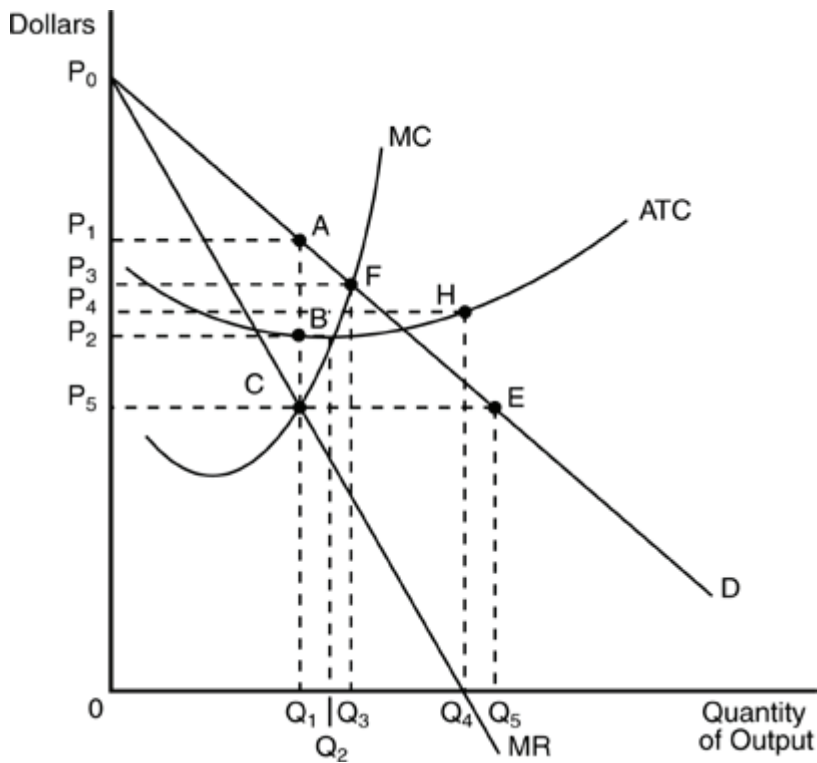
Answer: C

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Revised



- 3) The profit-maximizing price and quantity established by a perfectly competitive firm in the above figure are
- A) Q_1 units of output and a price of P_5 . B) Q_3 units of output and a price of P_3 .
 C) Q_1 units of output and a price of P_1 . D) Q_4 units of output and a price of P_4 .

Answer: B

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: New

- 4) The profit-maximizing price of the monopolist compared to the perfectly competitive industry in the above figure are, respectively
- A) P_1 and P_3 . B) P_1 and P_5 . C) P_1 and P_2 . D) P_2 and P_5 .

Answer: A

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: New

- 5) The profit-maximizing quantity of the monopolist compared to the perfectly competitive industry in the above figure are, respectively

A) Q_1 and Q_2 . B) Q_1 and Q_3 . C) Q_1 and Q_5 . D) Q_2 and Q_3 .

Answer: B

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: New

- 6) The profit-maximizing price and quantity of the monopolist compared to the perfectly competitive industry in the above figure are, respectively

A) A and B. B) A and C. C) A and F. D) C and F.

Answer: C

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: New

- 7) Monopolies are discouraged in the United States because

A) they are more efficient than other industries.
B) they can produce at lower cost in the short run.
C) they restrict output and boost prices.
D) they hire too many workers.

Answer: C

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Compared to perfect competition, a monopoly will produce _____ output, and charge a _____ price.

A) more; higher B) more; lower C) less; higher D) less; lower

Answer: C

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Which of the following statements is TRUE?

A) At the monopolist's equilibrium, resources are being efficiently allocated.
B) With a monopoly, the value to society of the last unit produced is less than its production cost.
C) Monopolists raise the price and restrict production, compared to a competitive situation.
D) A monopolist always produces a higher level of output than would be produced if the market were competitive.

Answer: C

Diff: 1

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

10) Which of the following statements is FALSE?

- A) Other things being equal, society's overall well-being is reduced when a perfectly competitive industry is monopolized.
- B) When both a perfectly competitive industry and a monopolist face the same production costs and the same market demand curve, the monopolist offers a lower level of output for sale.
- C) The profit-maximizing monopolist will always produce only along the inelastic portion of the demand curve, whereas equilibrium in a perfectly competitive industry always occurs along the elastic portion of the demand curve.
- D) When both a perfectly competitive industry and a monopolist face the same production costs and the same market demand curve, the monopolist charges a higher price for its product than what would be charged in a perfectly competitive situation.

Answer: C

Diff: 1

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

11) Under a monopoly, resources are misallocated such that

- A) too few resources are used in other industries, and too many are used by the monopoly.
- B) too few resources are used by the monopoly, and too many are used elsewhere.
- C) resources are being used as efficiently as possible only by the monopoly.
- D) consumers are being forced to pay a price below the MC of the monopolist.

Answer: B

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

12) Conclusions about the misallocation of resources under conditions of monopoly depend, in part, on the crucial assumption that

- A) monopolies are interested in economic profits and competitive firms are not.
- B) the monopolization of a perfectly competitive industry does not change the cost structure of the industry.
- C) the economies of scale exist only in perfectly competitive industries.
- D) the marginal cost curve of a monopolist is different from that of a perfectly competitive firm.

Answer: B

Diff: 1

Topic: 24.8 The Social Cost of Monopolies

Question Status: Previous Edition

- 13) Compared to an efficient perfectly competitive industry, the monopolist will
- A) produce less output at a higher total cost.
 - B) produce less output and charge a higher price.
 - C) produce more output at a higher price and higher profit.
 - D) produce more output at a lower price.

Answer: B

Diff: 1

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 14) The social cost attached to monopolies is reflected by the fact that
- A) monopolies produce more output than consumers desire to buy.
 - B) consumers pay prices that exceed the marginal cost of production.
 - C) the demand for a monopolist's product is always lower than the demand for the products of perfectly competitive firms.
 - D) consumers are always willing to pay lower prices for a monopolist's product than for the products of perfectly competitive firms.

Answer: B

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Economists criticize monopolies because monopolies
- A) always price discriminate.
 - B) receive accounting profits.
 - C) restrict output and raise prices compared to a competitive situation.
 - D) make consumers pay more for their product than the customers value the product.

Answer: C

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 16) The conclusion that a monopoly results in lower output and higher prices than perfect competition relies on the assumption that
- A) the demand curve for a monopoly is horizontal.
 - B) consumers are ignorant of the effects of monopoly.
 - C) the costs of production are the same whether the industry is perfectly competitive or a monopoly.
 - D) elasticity of demand varies along the market demand curve.

Answer: C

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

Question Status: Previous Edition

- 17) Which of the following is a TRUE statement about monopoly and perfect competition?
- A) Price is always higher and output higher under monopoly than under perfect competition.
 - B) Because costs do not depend on market structure, price is usually higher and output is always lower under monopoly than perfect competition.
 - C) If there are substantial economies of scale, price may be lower and output greater under monopoly than under perfect competition.
 - D) If there are substantial economies of scale, price may be lower and output greater under monopoly than under perfect competition, and price may be below marginal cost instead of equal to marginal cost.

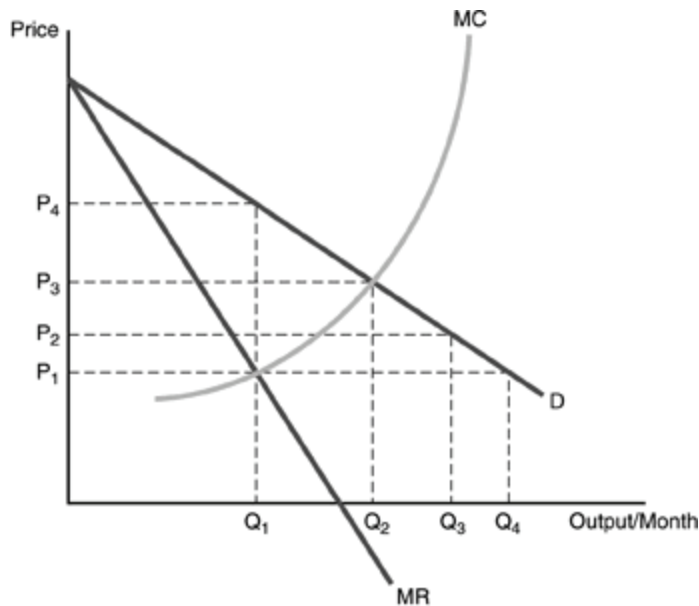
Answer: C

Diff: 3

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition



- 18) Refer to the above figure. What price-output combination would apply under perfect competition?
- A) P₄ and Q₁
 - B) P₃ and Q₂
 - C) P₂ and Q₃
 - D) P₁ and Q₄

Answer: B

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Refer to the above figure. Suppose this industry was perfectly competitive and then merged into one monopolistic firm. The monopoly would
- A) raise price from P_1 to P_2 .
 - B) reduce output from Q_3 to Q_1 .
 - C) reduce output from Q_2 to Q_1 and raise price from P_3 to P_4 .
 - D) raise price from P_1 to P_4 .

Answer: C

Diff: 3

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Refer to the above figure. What is the socially optimal point of production?
- A) P_1 and Q_1 .
 - B) P_4 and Q_1 .
 - C) P_1 and Q_4 .
 - D) P_3 and Q_2 .

Answer: D

Diff: 3

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Refer to the above figure. Which of the following statements is true?
- A) Under perfect competition, the efficient price is charged, which is the lowest price possible (P_1) while under monopoly output is too large (Q_4) and price is too high (P_4).
 - B) Under perfect competition price equals marginal cost (P_3) while under monopoly price (P_4) is greater than marginal cost (P_1).
 - C) The rate of output is the same under both monopoly and perfect competition (Q_1), but price is higher under monopoly (P_4 rather than P_1).
 - D) Price equals marginal cost under both monopoly and perfect competition, but output is too low under monopoly (Q_1 instead of Q_2).

Answer: B

Diff: 3

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 22) Which of the following statements is true about the price that a monopolist charges?
- A) The price is the same as the price that would be charged if there was perfect competition.
 - B) The difference between the price charged by a monopolist and a perfect competitor is due to differences in costs.
 - C) The value that society places on the last unit produced in a monopoly is greater than its cost.
 - D) Too much of the good is being produced in a competitive market and not enough is being produced in a monopoly. Due to the way that prices are set.

Answer: C

Diff: 3

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 23) Monopolies are inefficient because
- A) they price discriminate.
 - B) they want to maximize profits.
 - C) they always make above-normal profits.
 - D) price exceeds marginal cost.

Answer: D

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

Question Status: Previous Edition

- 24) Monopolies misallocate resources because
- A) price does not equal marginal cost.
 - B) price does not equal average variable cost.
 - C) marginal cost does not equal average total cost.
 - D) profits are usually positive.

Answer: A

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 25) A monopoly misallocates resources when it
- A) restricts output so that the marginal benefit of the last unit sold exceeds the marginal social cost of producing the good.
 - B) makes an above-normal profit.
 - C) sells the same product to different groups of customers at different prices.
 - D) exploits scale economies.

Answer: A

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 26) One problem associated with a monopoly firm is that it
- A) produces too little output but also charges a low price.
 - B) produces too much output and charges too low a price.
 - C) restricts output and charges a relatively higher price than a purely competitive firm.
 - D) is just as good as a purely competitive firm in terms of output and price.

Answer: C

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 27) When comparing perfect competition and monopoly, a major assumption made is that
- A) the monopolist faces a downward sloping demand curve.
 - B) consumers only care about the price of the good and not whether the seller is a monopoly or not.
 - C) the costs of production are the same under monopoly as under perfect competition.
 - D) the monopolist can make an above normal rate of return.

Answer: C

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

Question Status: Previous Edition

- 28) A simple way of describing the social cost of monopoly is to say that it
- A) produces too much.
 - B) makes too much money.
 - C) has too much political power.
 - D) restricts output and charges a higher price than a perfectly competitive firm.

Answer: D

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 29) A monopolist charges a price that is _____ and produces _____ than a perfect competitor.
- A) lower; less
 - B) higher; less
 - C) higher; more
 - D) lower; more

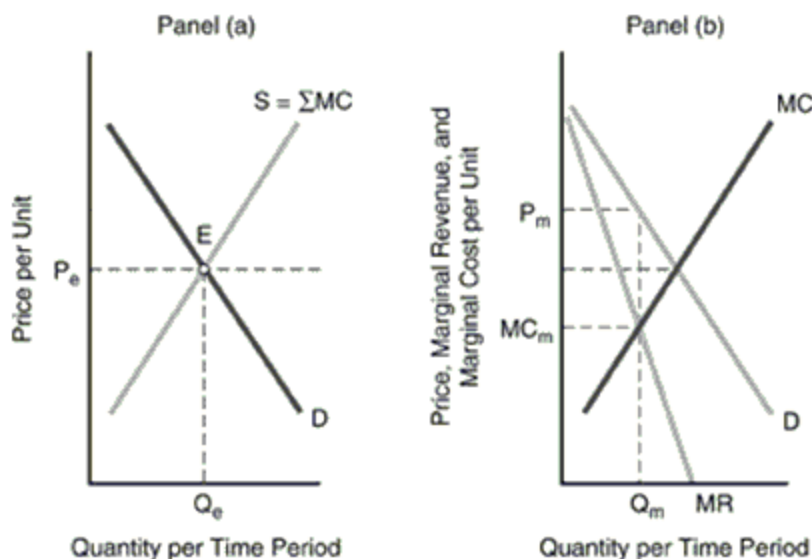
Answer: B

Diff: 1

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition



- 30) Referring to the above graphic, which of the following statements is FALSE?
- A) In panel (a), a competitive situation is shown in which equilibrium is established at the intersection of D and S at point E .
 - B) In panel (a), the equilibrium price is P_e and the equilibrium quantity Q_e .
 - C) The price the monopolist charges in panel (b) at P_m , is lower than the price that the competitive producer charges.
 - D) The monopolist produces at Q_m , and charges a price of P_m , while maximizing profits at the intersection of MC and MR .

Answer: C

Diff: 1

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Which of the following statements with respect to the monopolist is FALSE?
- A) A monopolist can make higher profits if it can price discriminate.
 - B) A monopoly tends to result in a lower quantity being sold than perfect competition does.
 - C) Monopoly is a situation in which a single firm dominates.
 - D) A monopoly arises in a situation with few barriers to entry into the marketplace.

Answer: D

Diff: 1

Topic: 24.8 The Social Cost of Monopolies

Question Status: Previous Edition

- 32) Economic inefficiency of a monopoly is indicated by
- A) $P = ATC_{\min}$.
 - B) $P > MR$.
 - C) $P > MC$.
 - D) $MR = MC$.

Answer: C

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

Question Status: Previous Edition

33) Economic inefficiency exists when

A) $P = MR$.

B) $P = MC$.

C) $MR = MC$.

D) $P > MC$.

Answer: D

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

Question Status: Previous Edition

34) Why is a monopoly inefficient?

Answer: A monopoly is inefficient because it produces such that price is greater than marginal cost. To achieve maximum economic profits, the monopolist restricts output and raises price. When price is greater than the opportunity cost to society of producing the last unit, the allocation of resources is inefficient. Society would prefer more resources were allocated into production of the good produced by the monopolist.

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

35) "The social cost of a monopoly comes from the fact that it charges a price higher than what consumers are willing to pay." Do you agree or disagree? Why?

Answer: Disagree. The social cost of a monopoly comes from the fact that it charges a price higher than the market clearing price under perfect competition. The monopoly is able to sell at a higher price by producing a smaller quantity than in a perfectly competitive situation. As a result, resources are misallocated.

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: New

36) What is the social cost of a monopoly? Explain.

Answer: The social cost of a monopoly comes from the fact that, in order to maximize profits, the monopolist in the market charges a higher price and produces a lower output rate as compared to a perfectly competitive situation. As a result, consumers pay a price that exceeds the marginal cost of production, and the lower production rate represents a resource misallocation.

Diff: 2

Topic: 24.8 The Social Cost of Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

24.9 Appendix G: Consumer Surplus in a Perfectly Competitive Market

- 1) In a perfectly competitive market, if all firms face identical, constant marginal marginal cost curves, then consumer surplus is
- A) the area beneath the market demand curve and above the market clearing price.
 - B) the area above the market demand curve and above the market clearing price.
 - C) the total area beneath the market demand curve.
 - D) definitely zero.

Answer: A

Diff: 2

Topic: 24.9 Appendix G: Consumer Surplus in a Perfectly Competitive Market

Question Status: Previous Edition

- 2) For a perfectly competitive market in which firms face an identical constant marginal costs, the amount of consumer surplus increases if
- A) market demand decreases.
 - B) market demand increases.
 - C) marginal cost increases.
 - D) none of the above: insufficient information to answer.

Answer: B

Diff: 2

Topic: 24.9 Appendix G: Consumer Surplus in a Perfectly Competitive Market

AACSB: Analytic skills

Question Status: Previous Edition

- 3) In a perfectly competitive market, consumer surplus typically is
- A) positive.
 - B) negative.
 - C) zero.
 - D) undefined.

Answer: A

Diff: 2

Topic: 24.9 Appendix G: Consumer Surplus in a Perfectly Competitive Market

Question Status: Previous Edition

- 4) In a perfectly competitive market in which identical firms face the same horizontal marginal cost curve, if demand increases, then the amount of consumer surplus will
- A) increase.
 - B) decrease.
 - C) become negative.
 - D) not change.

Answer: A

Diff: 2

Topic: 24.9 Appendix G: Consumer Surplus in a Perfectly Competitive Market

AACSB: Analytic skills

Question Status: Previous Edition

- 5) If the marginal cost curve of all identical firms in a perfectly competitive industry are horizontal at the same per-unit cost, then the market's consumer surplus equals the area
- A) beneath the demand curve and above the marginal cost curve.
 - B) above the demand curve and beneath the marginal cost curve.
 - C) below the marginal cost curve.
 - D) above the demand curve.

Answer: A

Diff: 2

Topic: 24.9 Appendix G: Consumer Surplus in a Perfectly Competitive Market

AACSB: Analytic skills

Question Status: Previous Edition

- 6) "Unlike a monopoly, consumer surplus in a perfectly competitive market is zero." Do you agree or disagree? Why?

Answer: Disagree. As long as the market demand curve is downward sloping, consumer surplus, which is represented by the area between the demand curve and the market supply curve, is not zero. There is no deadweight loss, however.

Diff: 2

Topic: 24.9 Appendix G: Consumer Surplus in a Perfectly Competitive Market

AACSB: Analytic skills

Question Status: Previous Edition

24.10 Appendix G: How Society Loses from Monopoly

- 1) The portion of consumer surplus that no one in society is able to obtain in a situation of monopoly is known as
- A) a market failure.
 - B) a deadweight loss.
 - C) an unrealized loss.
 - D) a market externality.

Answer: B

Diff: 1

Topic: 24.10 Appendix G: How Society Loses from Monopoly

Question Status: Previous Edition

- 2) A deadweight loss occurs in a
- A) monopoly.
 - B) perfectly competitive market.
 - C) market in which the market clearing price of a good equals the marginal cost of producing it.
 - D) market in which the market clearing price of a good is below the marginal cost of producing it.

Answer: A

Diff: 1

Topic: 24.10 Appendix G: How Society Loses from Monopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 3) If marginal cost is constant, what happens to a market if it alters from perfect competition to monopoly without any change in the position of the market demand curve or any variation in costs?

A) Consumer surplus increases, and the previously existing deadweight loss decreases.
 B) Consumer surplus increases, and the previously existing deadweight loss increases.
 C) Consumer surplus is eliminated, and an equal-sized deadweight loss is created.
 D) Consumer surplus decreases in size, and a deadweight loss is created.

Answer: D

Diff: 1

Topic: 24.9 Appendix G: Consumer Surplus in a Perfectly Competitive Market

AACSB: Analytic skills

Question Status: Previous Edition

- 4) If marginal cost is constant, what happens to a market if it alters from perfect competition to monopoly without any change in the position of the market demand curve or any variation in costs?

A) Consumer surplus decreases, producer surplus increases and a deadweight loss is created.
 B) Consumer surplus decreases, producer surplus decreases and a deadweight loss is created.
 C) Consumer surplus increases, producer surplus decreases and a deadweight loss is created.
 D) Consumer surplus increases, producer surplus increases and a deadweight loss is created..

Answer: A

Diff: 2

Topic: 24.9 Appendix G: Consumer Surplus in a Perfectly Competitive Market

AACSB: Analytic skills

Question Status: New

- 5) Deadweight loss is

A) the amount of taxes that consumers and monopolists pay.
 B) the loss of output when a perfectly competitive firm becomes a monopolist.
 C) a loss of benefit to consumers in a monopoly that no one else in society can obtain.
 D) the price that consumers pay for a product in excess of the average cost of producing it.

Answer: C

Diff: 2

Topic: 24.10 Appendix G: How Society Loses from Monopoly

Question Status: New

- 6) The portion of consumer surplus that would have existed in a perfectly competitive market but is unobtainable by anyone in society under a monopoly is known as

A) monopoly profits.
 B) an unattainable surplus.
 C) a deadweight loss.
 D) an external cost.

Answer: C

Diff: 1

Topic: 24.10 Appendix G: How Society Loses from Monopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 7) If a monopoly situation arises from a perfectly competitive market, the portion of producer surplus that increases in a monopoly is transferred from the perfectly competitive market's
- A) fixed cost.
 - B) long-run positive economic profit.
 - C) deadweight loss.
 - D) consumer surplus.

Answer: D

Diff: 2

Topic: 24.10 Appendix G: How Society Loses from Monopoly

AACSB: Analytic skills

Question Status: New

- 8) Suppose that a perfect-maximizing monopolist operates with a horizontal marginal cost curve and no fixed costs. Which of the following would NOT be represented as part of the area between its demand curve and marginal cost curve?
- A) total costs
 - B) economic profits
 - C) consumer surplus
 - D) deadweight loss

Answer: A

Diff: 2

Topic: 24.10 Appendix G: How Society Loses from Monopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 9) What is deadweight loss? Whose loss is it? Explain.

Answer: Deadweight loss is the portion of consumer surplus that no one in society is able to obtain in a situation of a monopoly. It is a loss by consumers because the failure of the monopolist to produce as many units as would have been produced under perfect competition eliminates consumer surplus that otherwise would have been a benefit to consumers.

Diff: 1

Topic: 24.10 Appendix G: How Society Loses from Monopoly

AACSB: Analytic skills

Question Status: Previous Edition

- 10) "The deadweight loss of a monopoly equals the monopoly firm's profits." Do you agree or disagree? Why?

Answer: Disagree. The deadweight loss from a monopoly is the portion of consumer surplus loss that no one in society can obtain. The monopoly firm's profits represent a transfer of consumer surplus away from consumers to the monopolist, and so profits are not a deadweight loss.

Diff: 2

Topic: 24.10 Appendix G: How Society Loses from Monopoly

AACSB: Analytic skills

Question Status: Previous Edition