

Chapter 25

Monopolistic Competition

25.1 Monopolistic Competition

- 1) Which of the following is NOT a characteristic of monopolistic competition?
- A) Product differentiation
 - B) Barriers to entry into the market
 - C) Advertising
 - D) A significant number of sellers

Answer: B

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 2) Which of the following is a characteristic of monopolistic competition?
- A) Few firms
 - B) Homogeneous products
 - C) Easy entry and exit
 - D) Strategic dependence

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 3) All of the following are characteristics of monopolistic competition EXCEPT
- A) a few firms dominate the industry.
 - B) product differentiation.
 - C) many firms in the industry.
 - D) advertising.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 4) Which of the following is NOT a characteristic of monopolistic competition?
- A) A large number of sellers in a highly competitive market
 - B) Differentiated products
 - C) The existence of advertising
 - D) Marginal cost pricing in the long run

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 5) Which of the following describes monopolistic competition?
- A) Homogenous products
 - B) $P = MR = MC$
 - C) Advertising plays a key role
 - D) There is only one seller in the industry

Answer: C

Diff: 2

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 6) Which of the following is NOT a characteristic of monopolistic competition?
- A) Large number of sellers
 - B) Differentiated products
 - C) Advertising
 - D) Barriers to entry

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 7) Monopolistic competition is characterized by
- A) relative ease of entry into the market.
 - B) a standard, undifferentiated product.
 - C) persistent long-run economic profits.
 - D) production at minimum average cost in the long run.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 8) A good example of a monopolistic competitive industry is
- A) the U.S. auto industry.
 - B) the public utility industry.
 - C) the computer game industry.
 - D) mining.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Reflective thinking skills

Question Status: Revised

- 9) A good example of a monopolistic competitive industry is
- A) the federal highway system.
 - B) oil producing industry.
 - C) the rap music industry.
 - D) farming.

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Reflective thinking skills

Question Status: New

- 10) In a monopolistically competitive market, the consumer receives the benefit of
- A) production at minimum average cost.
 - B) production where price equals marginal cost.
 - C) product diversity.
 - D) allocative efficiency.

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 11) In a monopolistically competitive market there are
- A) many firms producing an identical product.
 - B) many firms producing similar but not identical products.
 - C) many firms producing totally different products.
 - D) few firms producing identical products.

Answer: B

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 12) Entry into a monopolistically competitive industry
- A) is relatively easy.
 - B) is very difficult.
 - C) can be easy or difficult, depending on the type of product.
 - D) is about the same as entering a monopoly industry.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 13) Advertising by monopolistically competitive firms can do all of the following EXCEPT
- A) lower the consumer's purchase price.
 - B) help differentiate a firm's product.
 - C) act as a signal to consumers that the company is serious about staying in business.
 - D) result in increased profits for the advertising firm.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 14) In a monopolistically competitive market, a firm should advertise to the point at which
- A) it is selling the most units it can possibly sell.
 - B) the extra revenue from an additional dollar spent on advertising just equals the marginal cost of producing one more unit of the good.
 - C) the additional revenue generated by one more dollar of advertising just equals the extra dollar cost of advertising.
 - D) it can raise price to the highest level possible.

Answer: C

Diff: 3

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 15) In a monopolistically competitive market if the additional revenue generated from advertising equals the additional cost of advertising, the firm should
- A) advertise more to increase sales.
 - B) advertise more to lower marginal costs.
 - C) maintain its current amount of advertising.
 - D) advertise less to decrease costs.

Answer: C

Diff: 3

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: New

- 16) The main objective of advertising for a monopolistically competitive firm is
- A) to differentiate the product and boost demand.
 - B) to reduce cost.
 - C) to earn long run profits.
 - D) none of the above.

Answer: A

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 17) In which industry structure is advertising and sales promotion likely to be most important?
- A) Perfect competition
 - B) Monopoly
 - C) Monopolistic competition
 - D) All of the above are equally reliant on effective advertising and promotion

Answer: C

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 18) A market situation in which a large number of firms produce similar but not identical products is
- A) a collusive market structure.
 - B) competitive monopoly.
 - C) a homogeneous market.
 - D) monopolistic competition.

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 19) A market situation in which a large number of firms produce similar but not identical products is
- A) a monopoly.
 - B) an oligopoly.
 - C) monopolistic competition.
 - D) perfect competition.

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 20) The theory of monopolistic competition was developed in two separate models by
- A) Adam Smith and David Ricardo.
 - B) John Kenneth Galbraith and John Maynard Keynes.
 - C) Edward Chamberlin and Joan Robinson.
 - D) Roger Leroy Miller and Paul Samuelson.

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 21) Entry into a monopolistic competitive industry
- A) is easy.
 - B) is hard.
 - C) requires governmental approval.
 - D) requires collusion.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 22) All of the following are assumptions of monopolistic competition EXCEPT
- A) many buyers and sellers.
 - B) homogeneous product.
 - C) easy entry of new firms in the long run.
 - D) profit-maximizing behavior.

Answer: B

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 23) Which of the following assumptions is true about monopolistic competition?
- A) The firm's products are differentiated.
 - B) There are few producers of the product.
 - C) Firms will not advertise.
 - D) It is difficult for firms to enter this industry.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 24) For a monopolistically competitive market, the number of firms in the market implies that
- A) each firm faces a perfectly elastic demand.
 - B) all firms will make losses.
 - C) each firm acts independently of other firms.
 - D) firms will collude to set monopoly price and output.

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 25) The number of firms in a monopolistically competitive market means that
- A) all firms will have substantial monopoly power since there are so few firms in the industry.
 - B) each firm has a relatively small share of the total market since there are many firms in the industry.
 - C) the firms will be likely to collude since there are only a few firms in the industry.
 - D) firms will have a hard time earning non-negative profits since there are many firms in the industry.

Answer: B

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 26) The number of firms in a monopolistically competitive industry means that
- A) firms will collude.
 - B) existing firms in the industry will make sure new firms do not enter.
 - C) firms will not cooperate to set a pure monopoly price.
 - D) firms will try to set a common price.

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 27) In a monopolistically competitive market, having a large number of firms in the market means that
- A) no firm attempts to take into account the reaction of rival firms.
 - B) individual firms will have a large portion of the market giving them monopoly power.
 - C) firms will get together and collude because this will be the only way to earn monopoly profits.
 - D) firms will cooperate with each other to drive competitors out of the market.

Answer: A

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 28) The meaning of interdependence in a monopolistically competitive market is
- A) that it is difficult for firms to get together to collude.
 - B) that products produced by firms will be good substitutes.
 - C) that firms will not take into account the reaction of rival firms.
 - D) that price rigging commonly occurs.

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 29) The distinguishing of products by brand name, color, and other attributes
- A) is known as interdependence.
 - B) is known as product differentiation.
 - C) leads to many firms in the market.
 - D) leads to collusion.

Answer: B

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 30) Products can be differentiated
- A) if the buyers are homogeneous and their number increases.
 - B) by location and by brand name.
 - C) only by brand name.
 - D) none of the above

Answer: B

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 31) The model of perfect competition and the model of monopolistic competition differ in that
- A) perfect competition assumes many buyers and sellers while monopolistic competition assumes many buyers but few sellers.
 - B) perfect competition assumes easy entry of new firms while there are more significant barriers to entry in monopolistic competition.
 - C) perfect competition assumes firms make zero profits in the long run and monopolistic competition assumes firms make positive profits.
 - D) perfect competition assumes the product is homogeneous and monopolistic competition assumes the product is differentiated.

Answer: D

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 32) The demand curve for the product of a monopolistic competitor is
- A) downward sloping.
 - B) horizontal.
 - C) vertical.
 - D) unitary elastic.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 33) Because of product differentiation in a monopolistically competitive market, the demand curve for an individual firm will be
- A) horizontal.
 - B) vertical.
 - C) downward sloping.
 - D) upward sloping.

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

34) The demand curve for a monopolistically competitive firm is

- A) more elastic than for a perfectly competitive firm.
- B) more elastic than for a monopoly firm.
- C) more inelastic than for a monopoly firm.
- D) the same elasticity as a perfectly competitive firm.

Answer: B

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

35) The demand curve for a monopolistically competitive firm is

- A) elastic because the products produced are homogeneous.
- B) inelastic because of barriers to entry.
- C) inelastic because of the profit maximizing behavior of the firm.
- D) elastic because of product differentiation.

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

36) The major similarity between monopolistic competition and perfect competition is

- A) the shape of the demand curve.
- B) that both assume many buyers and sellers.
- C) price equals marginal revenue in each.
- D) both assume products are differentiated.

Answer: B

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

37) In general, the demand for the product of a monopolistic competitor is

- A) unitary elastic.
- B) relatively inelastic.
- C) relatively elastic.
- D) perfectly elastic.

Answer: C

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

38) An implication of the downward slope of the demand curve for a monopolistic competitive firm is that

- A) its marginal revenue curve slopes upward.
- B) its marginal revenue curve and its demand curve are identical (same) line.
- C) its marginal revenue curve slopes downward but lies above the demand curve.
- D) its marginal revenue curve slopes downward but lies below the demand curve.

Answer: D

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

39) The demand for the product of a monopolistically competitive firm is highly elastic when

- A) firms collude.
- B) there are fewer firms in the industry.
- C) there is a lot of product differentiation.
- D) there are a lot of close substitutes.

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

40) The key feature of monopolistic competition is

- A) interdependence of the firms.
- B) lack of advertisement.
- C) product differentiation.
- D) the small number of firms in the industry.

Answer: C

Diff: 2

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

41) Monopolistic competitors advertise because

- A) they have downward sloping demand curves.
- B) the demand curves they face are very elastic.
- C) they produce goods that can be differentiated from the goods of other firms in the industry.
- D) they can earn long-run profits if they advertise.

Answer: C

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 42) A monopolistic competitor behaving in a profit-maximizing way will
- A) not advertise.
 - B) advertise as much as it can in order to increase its sales.
 - C) advertise to the point where the additional sales from advertising equal the additional marginal costs of the product.
 - D) advertise to the point where the additional revenue from one more dollar of advertising just equals the extra dollar cost of advertising.

Answer: D

Diff: 3

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 43) Firms in a monopolistically competitive market will advertise because
- A) they want to differentiate their products.
 - B) they want to increase the elasticity of the demand curve.
 - C) of the significant differences in their product over their competitors.
 - D) the elasticity for their product is inelastic.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Which of the following is NOT a feature of a monopolistically competitive market?
- A) numerous buyers and sellers
 - B) differentiated products
 - C) advertising
 - D) a homogeneous product

Answer: D

Diff: 2

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 45) The products sold by monopolistically competitive firms
- A) are differentiated.
 - B) are homogeneous.
 - C) can be either homogeneous or differentiated.
 - D) are close substitutes of each other.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 46) Which of the following is NOT a characteristic of monopolistic competition?
- A) large number of sellers
 - B) sales promotion and advertising
 - C) homogeneous product
 - D) easy entry of new firms in the long run

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 47) The demand curve for the product of a monopolistically competitive firm
- A) is perfectly elastic.
 - B) is unitary elastic.
 - C) is downward sloping.
 - D) is perfectly inelastic.

Answer: C

Diff: 2

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 48) Which of the following products is most likely to be sold in a monopolistically competitive market?

- A) fast food
- B) coal
- C) wheat
- D) electricity

Answer: A

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 49) Which of the following is most likely to be a monopolistically competitive firm?

- A) Smart phone producer
- B) Cell phone service provider
- C) College textbook publisher
- D) Computer software maker

Answer: D

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Reflective thinking skills

Question Status: New

- 50) Monopolistic competition means

- A) monopolies from several countries compete in the global market.
- B) a large number of firms producing homogeneous products.
- C) a large number of firms producing differentiated products.
- D) few firms producing differentiated products.

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 51) In a monopolistically competitive market, entry into the industry

- A) is relatively easy.
- B) is blocked.
- C) is difficult due to extensive government regulation.
- D) is as difficult as entry into a monopoly.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

52) Which of the following is NOT a characteristic of firms in a monopolistically competitive market?

- A) advertising
- B) differentiated products
- C) ease of entry and exit
- D) existence of significant economies of scale

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

53) Which of the following products would most likely be produced in a monopolistically competitive market?

- A) corn
- B) oil
- C) electricity
- D) pizza

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Reflective thinking skills

Question Status: Previous Edition

54) All of the following are characteristics of a monopolistically competitive industry EXCEPT

- A) homogeneous products.
- B) many firms.
- C) low barriers to entry and exit.
- D) sales promotion and advertising.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

55) Which of the following is most likely to be a monopolistically competitive firm?

- A) a soybean farmer
- B) a lettuce farmer
- C) a municipal water district
- D) a fast food restaurant

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Reflective thinking skills

Question Status: Previous Edition

56) Monopolistically competitive firms advertise to attempt to

- A) lower their average variable costs.
- B) build brand loyalty.
- C) lower barriers to entry.
- D) increase barriers to entry.

Answer: B

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 57) The greater the product differentiation between monopolistically competitive firms,
- A) the lower the barriers to entry.
 - B) the greater the price elasticity of demand.
 - C) the higher the average variable costs.
 - D) the lower the price elasticity of demand.

Answer: B

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: New

- 58) The greater the the number and closeness of substitutes available between monopolistically competitive firms,
- A) the greater the ability of a firm to raise its price above the price of *close* substitutes .
 - B) the smaller the ability of a firm to raise its price above the price of *close* substitutes.
 - C) the more inelastic the demand curve.
 - D) the greater the positive economic profits for a single firm.

Answer: B

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: New

- 59) Because the products of firms in a monopolistically competitive market are not homogeneous, the
- A) demand curve for the industry is the same for the firm.
 - B) demand curve for the firm's product is horizontal.
 - C) demand curve for the firm's product is downward sloping.
 - D) demand curve for the firm's product is upward sloping.

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 60) A market situation in which a large number of firms produce similar but not identical products is called
- A) pure monopoly.
 - B) monopolistically competitive.
 - C) oligopolistic behavior.
 - D) perfectly competitive.

Answer: B

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 61) In the 1920s and 1930s, economists became increasingly aware that there were industries that did not fit the model of perfect competition or pure monopoly. Two separate theories of monopolistic competition resulted. Edward Chamberlin of Harvard published the *Theory of Monopolistic Competition* in 1933. Chamberlin defined monopolistic competition as
- A) a relatively large number of producers offering similar but differentiated products.
 - B) a relatively small number of producers offering similar but differentiated products.
 - C) a market situation in which a large number of firms produce identical products.
 - D) a market situation in which a small number of firms produce similar products.

Answer: A

Diff: 2

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 62) Which of the following is NOT a feature of monopolistic competition?
- A) significant numbers of sellers in a highly competitive market
 - B) differentiated products
 - C) sales promotion and advertising
 - D) inability of firms to enter or exit the market

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 63) Considering the relevant market structures, which is an INCORRECT statement?
- A) In a perfectly competitive situation, there is an extremely large number of firms.
 - B) In pure monopoly, there is only one firm.
 - C) In monopolistic competition, there is a large number of firms.
 - D) In any market situation, the number of firms is not very important.

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 64) Which is NOT a characteristic of monopolistic competition?
- A) small share of market to each firm
 - B) lack of collusion among firms
 - C) few firms in the industry
 - D) independence of each firm's decisions

Answer: C

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 65) The two economists associated with the development of the theory of monopolistic competition were

A) Joan Robinson and Edward Chamberlin.
B) David Hume and Adam Smith.
C) John Neville Keynes and John Maynard Keynes.
D) Carl Menger and Eugen Von Bohm-Bawerk.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 66) A monopolistic competitor would face a demand curve with a

A) positive slope. B) negative slope.
C) constant slope. D) slope equal to 0.

Answer: B

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

- 67) When Crest claims that its toothpaste product whitens teeth more than the products of its competitors, Crest is practicing

A) product differentiation. B) libel.
C) marginal revenue pricing. D) marginal cost pricing.

Answer: A

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 68) Advertising is used by firms in a monopolistic competitive industry to

A) differentiate their product from those of competitors.
B) increase brand loyalty.
C) increase demands for their individual products.
D) all of the above

Answer: D

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 69) Because there are low barriers to entry in a monopolistically competitive market,

A) there are many firms in the industry. B) they produce a homogeneous product.
C) the firms are price takers. D) there is no non-price competition.

Answer: A

Diff: 2

Topic: 25.1 Monopolistic Competition

Question Status: Previous Edition

70) The demand curve for the product of a monopolistically competitive firm slopes downward because

- A) products are perceived by consumers as different.
- B) products are homogeneous.
- C) people only care about price when they buy a good.
- D) the firm's goal is to maximize profits.

Answer: A

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Revised

71) The demand curve for the product of a monopolistic competitor

- A) is the same as the market demand curve.
- B) is horizontal.
- C) is vertical.
- D) slopes downward.

Answer: D

Diff: 1

Topic: 25.1 Monopolistic Competition

Question Status: Revised

72) Compared with a monopolist, the demand curve faced by a monopolistically competitive firm is

- A) more elastic.
- B) more inelastic.
- C) perfectly elastic.
- D) perfectly inelastic.

Answer: A

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Revised

73) What is the most important characteristic of monopolistic competition? How do firms behave differently from perfect competitors?

Answer: Product differentiation is the most important characteristic of perfect competition. Product differentiation generates the downward sloping demand curve that a firm faces. With heterogeneous products, monopolistic competitors will advertise and use sales promotion techniques that perfect competitors would not use.

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

74) What are the implications of there being a large number of firms in a monopolistically competitive market?

Answer: A large number of firms has three implications. (1) Each firm will have a small share of the market since there are many firms. (2) There will be a lack of collusion among the firms because the large number will make it impossible for the firms to agree on price and output decisions. (3) Each firm will act independently from their competitors since they cannot take into account how their numerous competitors will react to changes in their behavior.

Diff: 1

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

75) Why do firms in a monopolistically competitive industry advertise?

Answer: In a monopolistically competitive industry, products sold by firms are differentiated or at least perceived to be different by consumers. Other things being equal, product differentiation can result in more profits. Firms can therefore increase their monopoly power and thus profits by differentiating their own products from those of other firms.

Diff: 2

Topic: 25.1 Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

25.2 Price and Output for the Monopolistic Competitor

1) In the short run, a monopolistically competitive firm can earn

A) positive profits only.

B) zero profits only.

C) zero or positive profits only.

D) zero, positive or negative profits.

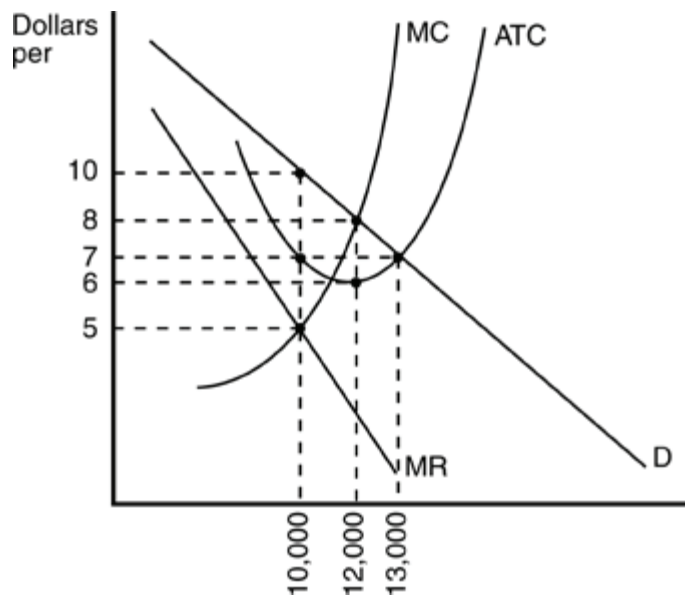
Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised



- 2) In the above figure, the profit-maximizing output and price for this monopolistically competitive firm are
- A) 10,000 units at a price of \$10 per unit. B) 10,000 units at a price of \$5 per unit.
 C) 13,000 units at a price of \$7 per unit. D) 12,000 units at a price of \$8 per unit.

Answer: A

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 3) In the above figure, total revenue for this profit-maximizing monopolistically competitive firm is
- A) \$50,000. B) \$91,000. C) \$96,000. D) \$100,000.

Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: New

- 4) In the above figure, total cost for this profit-maximizing monopolistically competitive firm is
- A) \$91,000. B) \$50,000. C) \$70,000. D) \$72,000.

Answer: C

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: New

- 5) In the above figure, the profit-maximizing monopolistically competitive firm will
- A) make a profit of \$24,000.
 - B) make a profit of \$30,000.
 - C) make a profit of \$0.
 - D) incur a loss of \$20,000.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

- 6) The above figure shows the situation of a monopolistic competitor in the short run. The maximum economic profits of the firm equal
- A) \$50,000.
 - B) \$30,000.
 - C) 15,000.
 - D) zero.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 7) The above figure shows the situations of a monopolistic competitor in the short run. To maximize profits, the firm should produce
- A) 10,000 units.
 - B) 12,000 units.
 - C) 13,000 unit.
 - D) somewhere between 10,000 and 12,000 units.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 8) In the short run, the profit-maximizing monopolistically competitive firm will produce the rate of output at which
- A) $P = MC$.
 - B) $MR = MC$.
 - C) $P = ATC$.
 - D) $MR = ATC$.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 9) The demand curve faced by a monopolistically competitive firm is
- A) horizontal.
 - B) vertical.
 - C) downward sloping.
 - D) upward sloping.

Answer: C

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

10) For a monopolistic competitive firm, which of the following is true in the long run?

- A) ATC is minimized.
- B) Economic profit is zero.
- C) $P = MC$.
- D) All of the above.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

11) Which of the following is TRUE for a monopolistically competitive firm?

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

Answer: C

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

12) Which of the following statements about a monopolistically competitive firm is FALSE?

- A) It tries to differentiate its product from that of competitors.
- B) It may earn short-run economic profits.
- C) It produces the quantity at which $MC = MR$.
- D) It sets price like a perfectly competitive firm.

Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

13) Graphically, how does a monopolistically competitive firm determine its profit-maximizing price?

- A) It accepts the price set by the industry-wide forces of supply and demand.
- B) Graphically, it finds the place where $MR = MC$ and charges the price directly to the left of that point.
- C) The firm's pricing structure is set by government regulators.
- D) The firm determines its profit-maximizing output and then charges the price associated with the point on its demand curve directly above that quantity.

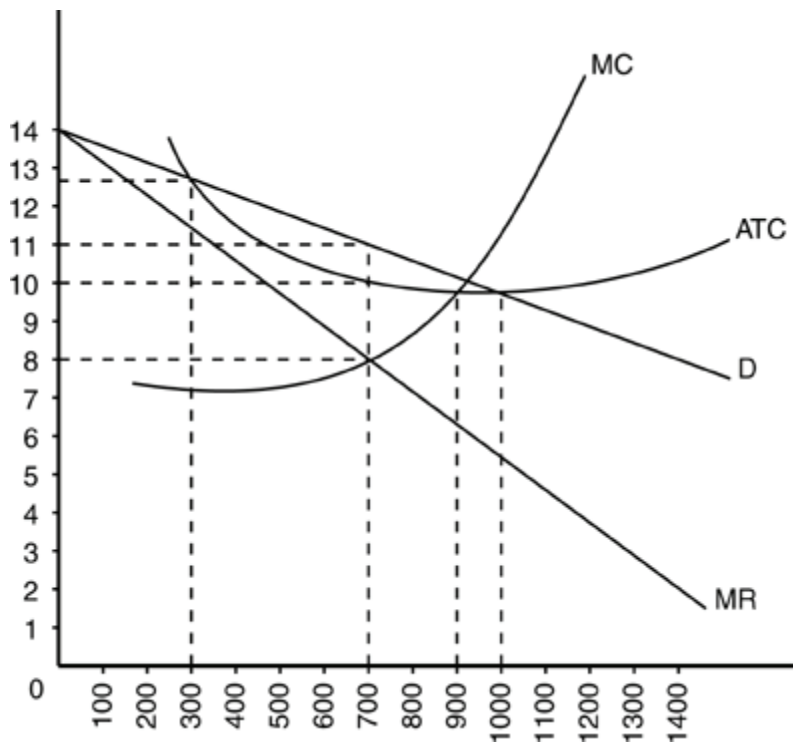
Answer: D

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition



- 14) In the above figure, the monopolistically competitive firm's profit-maximizing output is
 A) 1,000 units. B) 300 units. C) 900 units. D) 700 units.

Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 15) In the above figure, when this monopolistically competitive firm produces its profit-maximizing output, it sets a per-unit price of
 A) \$13. B) \$11. C) \$10. D) \$8.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

- 16) At its profit-maximizing output, the firm in the above figure incurs a total cost of production of
 A) \$7,000. B) \$9,000. C) \$6,300. D) \$3,900.

Answer: A

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 17) In the above figure, this profit-maximizing monopolistic competitive firm will realize an economic profit of

A) -\$1,400. B) \$2,100. C) \$1,400. D) \$700.

Answer: D

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

- 18) Since the firm in the above figure is operating in a monopolistically competitive industry, in the long run we can expect to see

A) the typical firm's economic profits expand as production becomes more efficient.
B) more firms entering the industry until economic profits are zero.
C) the typical firm producing at the minimum point on its ATC curve.
D) each firm expand its share of the total market.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 19) The demand curve for a monopolistically competitive firm is

A) the same as the industry demand curve.
B) more elastic than the demand curve of the perfectly competitive firm.
C) less elastic than the demand curve of the perfectly competitive firm.
D) horizontal.

Answer: C

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 20) For the monopolistically competitive firm, in both the short run and the long run

A) the demand curve is inelastic.
B) price will exceed marginal cost.
C) there will be no economic profit.
D) production will be at minimum average cost.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 21) The demand curve faced by a monopolistically competitive firms is

A) horizontal. B) vertical.
C) downward sloping. D) unitary elastic.

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 22) The monopolistic competitive firm in short-run equilibrium may experience economic profits that are
- A) always zero.
 - B) greater than, equal to, or less than zero.
 - C) always positive.
 - D) always negative.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 23) In both a monopolistically competitive market and a pure monopoly market, firms
- A) can make long-run profits.
 - B) set price greater than marginal cost.
 - C) are protected by entry barriers.
 - D) advertise extensively.

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 24) The monopolistically competitive firm maximizes profit by producing to the point at which
- A) $ATC = AVC$.
 - B) $MC = MR$.
 - C) $MR = AR$.
 - D) $MC = AR$.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 25) In the short run, a firm operating as a monopolistic competitor will produce to the point at which
- A) $MR = ATC$.
 - B) $MC = ATC$.
 - C) $P = MC$.
 - D) $MR = MC$.

Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 26) Which will be true for a monopolistic competitor experiencing short-run losses?
- A) $P > ATC$
 - B) $P = ATC$
 - C) $P < ATC$
 - D) $P < MC$

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 27) A monopolistically competitive firm finds its profit-maximizing rate of output by equating
- A) the marginal revenue of advertising with the marginal cost of advertising.
 - B) average revenue and average total cost.
 - C) price and marginal cost.
 - D) marginal revenue and marginal cost.

Answer: D

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 28) In the short run, a monopolistically competitive firm
- A) always earns positive economic profits.
 - B) never earns positive economic profits.
 - C) can earn positive, negative, or zero economic profits.
 - D) always earns positive accounting profits.

Answer: C

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 29) In the long run, in a monopolistically competitive market, price will be
- A) equal to MR.
 - B) equal to MC.
 - C) greater ATC.
 - D) equal to ATC.

Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 30) In the long run in a monopolistically competitive market, a firm will, in theory,
- A) earn economic profits.
 - B) suffer losses.
 - C) break even.
 - D) earn zero accounting profits.

Answer: C

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 31) In the long run, the monopolistically competitive firm's demand curve will
- A) intersect the ATC at its minimum point.
 - B) intersect the ATC curve somewhere past the minimum point.
 - C) become tangent to the ATC curve at its minimum point.
 - D) become tangent to the ATC curve somewhere to the left of its minimum point.

Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 32) The monopolistically competitive firm's economic profits tend toward zero in the long run. Why is this so?
- A) Monopolistically competitive firm's are rarely able to maintain the corporate discipline necessary to sustain profits in the long run.
 - B) If a monopolistically competitive firm is profitable for more than 2 years, the Justice Department orders a corporate restructuring to pull the company back to a normal rate of return.
 - C) In the long run, other firms will successfully offer substitutes for the profitable firm's product, and competition will eliminate economic profits.
 - D) Even though the monopolistically competitive firm can successfully maintain barriers to entry, keeping competition at bay becomes very expensive.

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

- 33) The long-run equilibrium of monopolistic competition is characterized by
- A) $P = MC = ATC$.
 - B) $P = MC > ATC$.
 - C) $P = MR = MC$.
 - D) $P = ATC > MC$.

Answer: D

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 34) In the long run, monopolistically competitive firms will not earn economic profits because
- A) average total cost will shift up to meet the demand curve.
 - B) input prices will be bid up.
 - C) production will not be at minimum average cost.
 - D) new firms will enter the industry.

Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 35) In the long run, if some monopolistically competitive firms are earning economic losses then
- A) firms will leave the industry.
 - B) raise prices until they earn economic profits.
 - C) they will increase production until marginal costs fall.
 - D) new firms will enter the industry.

Answer: A

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: New

- 36) If firms in a monopolistically competitive industry are operating with economic losses, over time we would see
- A) firms alter their advertising rates until they made at least normal profits.
 - B) some firms exiting the industry, causing the market supply curve to shift to the left, raising price.
 - C) some firms exiting the industry, causing the demand curves of the remaining firms to shift to the right.
 - D) the firms working together to increase price and everyone's profitability.

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 37) If firms in a monopolistically competitive industry are operating with positive economic profit, over time we would see
- A) firms alter their advertising rates until they made at least normal profits.
 - B) some firms entering the industry, causing the market supply curve to shift to the right, lowering price.
 - C) some firms entering the industry, causing the demand curves of the existing firms to shift to the left.
 - D) some firms entering the industry, causing the demand curves of the existing firms to shift to the right.

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: New

- 38) In the long run, firms in a monopolistically competitive market
- A) usually earn positive economic profits.
 - B) always earn monopoly profits.
 - C) usually earn economic losses.
 - D) earn zero economic profits.

Answer: D

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 39) The long-run equilibrium of a monopolistically competitive firm is characterized by
- A) a tangency of the average total cost curve with the firm's demand curve.
 - B) price equal to marginal cost.
 - C) production at the minimum point of the firm's average total cost curve.
 - D) production at the minimum point of the firm's average variable cost curve.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 40) Long-run equilibrium is characterized by zero profits in
- A) monopolistic competition only.
 - B) perfect competition only.
 - C) both perfect competition and monopolistic competition.
 - D) market structures in which there are barriers to entry.

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 41) A monopolistically competitive firm maximizes profits when it
- A) produces the quantity at which marginal cost equals the market price.
 - B) produces the quantity at which marginal cost equals marginal revenue and uses the demand curve to determine the market price.
 - C) produces the quantity at which marginal cost equals marginal revenue and sets the price equal to the marginal cost.
 - D) produces the quantity at which marginal cost equals marginal revenue and sets the price equal to the marginal revenue.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 42) Which of the following statements about a monopolistically competitive firm is TRUE?
- A) A monopolistically competitive firm does not always equate marginal cost to marginal revenue because it uses other means to maximize profits.
 - B) A monopolistically competitive firm maximizes profits by charging a price equal to marginal cost.
 - C) A monopolistically competitive firm produces the quantity at the point at which the demand curve crosses the marginal cost curve.
 - D) A monopolistically competitive firm maximizes profits when it produces the quantity at which marginal cost equals marginal revenue.

Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 43) A monopolistic competitor finds its profit-maximizing rate of output by
- A) equating the marginal revenue from advertising with the marginal revenue from selling the good.
 - B) setting average revenue equal to average total cost.
 - C) equating marginal revenue and marginal cost.
 - D) equating price and marginal revenue.

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 44) In the short run, the monopolistic competitor is just like the perfect competitor in that
- A) equilibrium is determined by setting price equal to marginal cost.
 - B) either type of firm can earn economic profits, experience economic losses, or break even in the short run.
 - C) each equates marginal revenue and marginal cost in order to maximize profits, with the result that price exceeds marginal revenue.
 - D) new firms enter in the short run when firms are making profits.

Answer: B

Diff: 3

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 45) If firms in a monopolistically competitive industry experience short-run losses,
- A) some firms would like to exit the industry but find they cannot.
 - B) firms increase prices further, until they make at least a normal return.
 - C) firms increase advertising spending to increase demand, until they make at least a normal return.
 - D) some firms exit the industry, causing the demand curves for the remaining firms to shift to the right until they earn a normal profit.

Answer: D

Diff: 3

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 46) If monopolistically competitive firms earn short-run economic profits, we expect to see
- A) new firms enter the industry, which shifts the demand curves of the existing firms to the left until firms earn zero economic profits.
 - B) new firms trying to enter the industry, but unable to do so because of barriers to entry.
 - C) existing firms altering their scale of plant to try to capture larger profits. The combined effect is to cause all firms to earn zero economic profits.
 - D) existing firms increasing prices to try to capture larger economic profits.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 47) A monopolistic competitor is like a competitive firm in the long run, because
- A) it earns positive economic profits.
 - B) it earns zero economic profits
 - C) both firms will earn positive economic profits.
 - D) both firms will increase price to increase profits.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 48) A monopolistic competitor is like a monopolist in the long run in that when economic profits are
- A) equal to zero, positive economic profits are made.
 - B) equal to zero, economic profits are made.
 - C) greater than zero, changes in output are due to changes to plants by existing firms and there is no entry.
 - D) greater than zero, price exceeds marginal cost.

Answer: D

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 49) A monopolistic competitor is in long-run equilibrium when
- A) economic profits are equal to zero and the average total cost curve is tangent to the demand curve.
 - B) economic profits are equal to zero and the marginal cost curve is tangent to the demand curve.
 - C) economic profits are greater than zero and the average total cost curve is tangent to the demand curve.
 - D) economic profits are greater than zero and the marginal cost curve is tangent to the demand curve.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 50) Which of the following statements is true about the economic profits earned by a monopolistic competitor firm in the long run?
- A) Economic profits can be positive since firms have some degree of monopoly power.
 - B) Economic profits will be positive since the firm has a downward sloping demand curve.
 - C) Economic profits will tend towards zero since positive profits will attract new firms into the industry.
 - D) Economic profits can be negative since there is so much competition in the market.

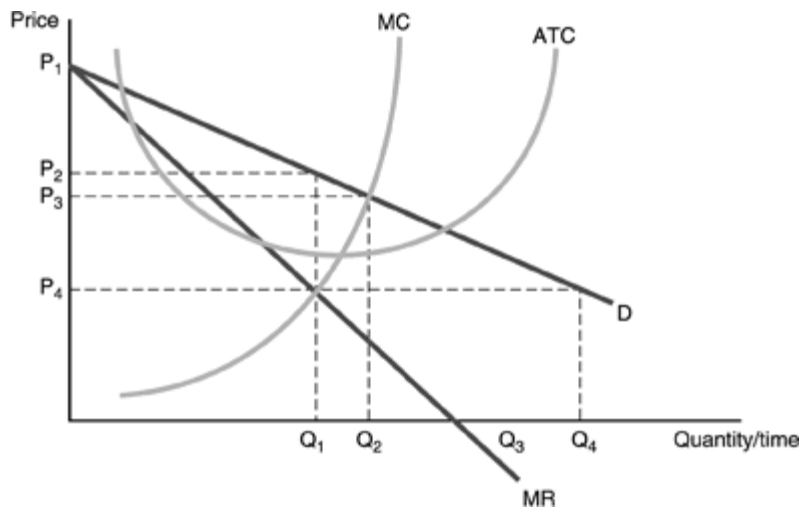
Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition



- 51) Refer to the above figure. The profit maximizing quantity for a monopolistic competitor is
 A) Q_1 . B) Q_2 . C) Q_3 . D) Q_4 .

Answer: A

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 52) Refer to the above figure. The profit maximizing price for a monopolistic competitor is
 A) P_1 . B) P_2 . C) P_3 . D) P_4 .

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 53) Refer to the above figure. As more and more firms are able to and actually do enter the industry, the demand curve of each firm and its marginal revenue curve
 A) will shift inward until the demand curve is tangent to the average total cost curve.
 B) will become vertical.
 C) will become upward sloping.
 D) None of the above will occur.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 54) Refer to the above figure. This firm is operating in the
- A) long run since economic profits are greater than zero.
 - B) long run since economic profits are less than zero.
 - C) short run since economic profits are greater than zero.
 - D) short run since economic profits are less than zero.

Answer: C

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 55) Refer to the above figure. Economic profits for this firm are
- A) negative.
 - B) zero.
 - C) positive.
 - D) undetermined without more information.

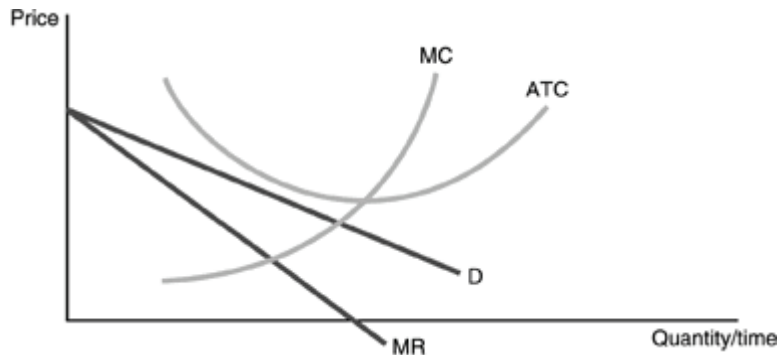
Answer: C

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition



- 56) Refer to the above figure. Economic profits for this firm are
- A) negative.
 - B) zero.
 - C) positive.
 - D) undetermined without more information.

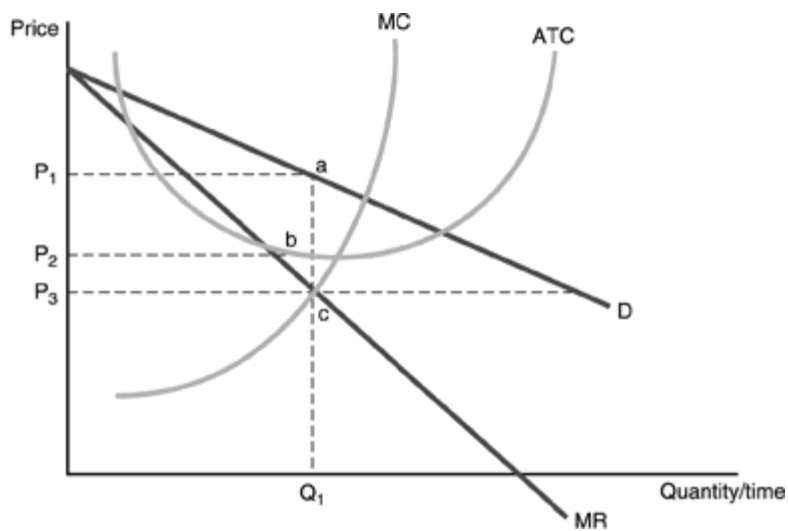
Answer: A

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition



57) Refer to the above figure. Economic profits for this firm are

- A) negative and equal to P_2bcP_3 .
- B) negative and equal to P_1bcP_2 .
- C) positive and equal to P_2bcP_3 .
- D) positive and equal to P_1abP_2 .

Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

58) A monopolistic competitor is in long-run equilibrium when

- A) it is making zero profits and price equals marginal cost.
- B) its average total cost curve is tangent to the demand curve at the profit-maximizing rate of output.
- C) price is greater than marginal cost.
- D) it is making positive profits or zero profits and price is greater than marginal cost.

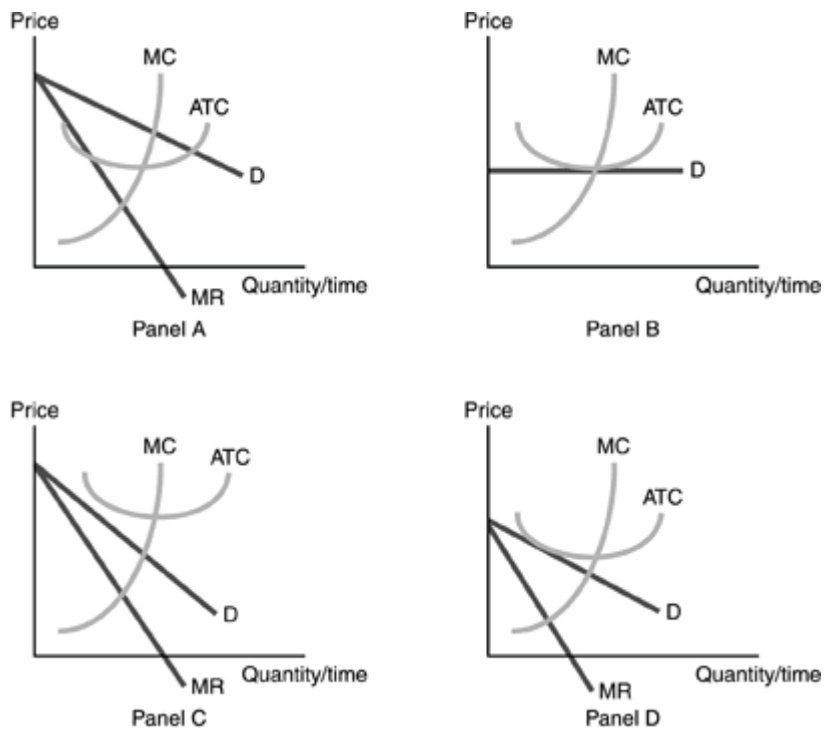
Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition



59) Refer to the above figure. Which panel does not represent a possible short-run situation for a monopolistically competitive firm?

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

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

60) Refer to the above figure. Which panel represents the long-run situation for a monopolistically competitive firm?

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

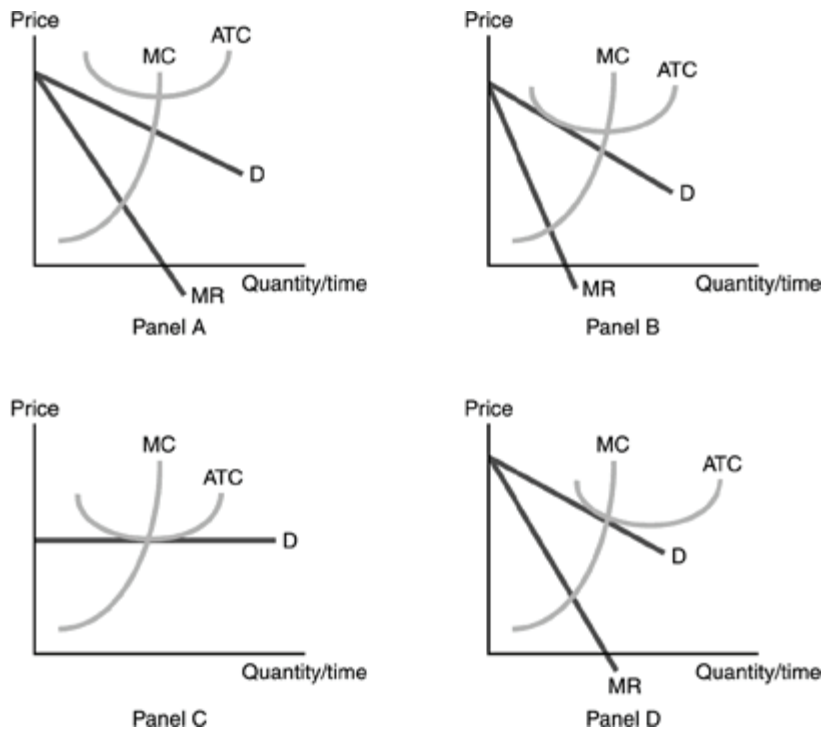
Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition



- 61) Refer to the above figure. A long-run equilibrium in monopolistic competition is pictured by
 A) Panel A. B) Panel B. C) Panel C. D) Panel D.

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 62) Refer to the above figure. Which panel shows a possible short-run equilibrium for monopolistic competition, but is not also a long-run equilibrium?
 A) Panel A. B) Panel B. C) Panel C. D) Panel D.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

63) Refer to the above figure. Which of the following statements about panel D in the figure is TRUE?

- A) The figure represents a long-run equilibrium for a monopolistic competitor.
- B) The figure represents an industry long-run equilibrium for monopolistic competition.
- C) The figure is in error since it doesn't show the monopolistic competitor making profits in the long run.
- D) The figure is in error since it has marginal cost intersecting the ATC curve at a point other than the minimum of ATC.

Answer: D

Diff: 3

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

64) Refer to the above figure. Which panel represents a monopolistic competitor that is earning zero economic profits?

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

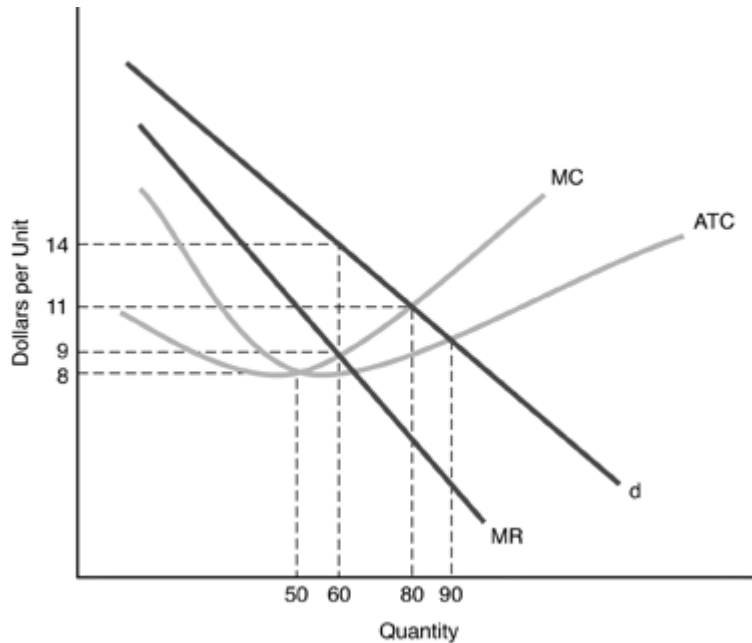
Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition



65) In the above figure for a monopolistically competitive firm, the profit-maximizing output and price are respectively

- A) 80 units and \$11. B) 50 units and \$8.
C) 60 units and \$9. D) 60 units and \$14.

Answer: D

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

66) In the above figure for a monopolistically competitive firm, the total revenue at the profit-maximizing point is

- A) \$540 B) \$840 C) \$400 D) \$880

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

67) In the above figure for a monopolistically competitive firm, the total cost at the profit-maximizing point is

- A) \$480 B) \$400 C) \$540 D) \$880

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

- 68) In the above figure for a monopolistically competitive firm, the total economic profit at the profit-maximizing point is

A) \$0 B) \$240 C) \$360 D) \$300

Answer: C

Diff: 3

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

- 69) In the above figure, what would happen to the monopolistically competitive industry in the long run?

- A) More producers would enter the market, and the share of the market to this firm would fall, which would cause the demand curve to shift leftward until there is zero economic profit.
- B) More producers would exit the market, and the share of the market to this firm would fall, which would cause the demand curve to shift leftward until there is zero economic profit.
- C) More producers would enter the market, and the share of the market to this firm would rise, which would cause the demand curve to shift rightward until there is zero economic profit.
- D) More producers would enter the market, and the share of the market to this firm would fall, which would cause the demand curve to shift leftward until there is negative economic profit.

Answer: A

Diff: 3

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 70) For the monopolistic competitor, which of the following is INCORRECT?

- A) Because the firm is not a perfect competitor, its demand curve slopes downward.
- B) The marginal revenue curve is downward sloping and lies below the demand curve.
- C) The profit-maximizing rate of output arises at the point at which the marginal cost curve intersects the marginal revenue curve.
- D) If the firm in a monopolistically competitive industry were making economic losses, new firms will enter the industry.

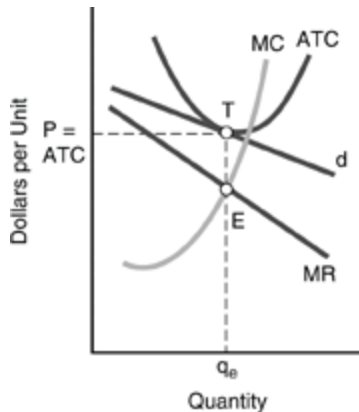
Answer: D

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition



71) Use the above figure. For this monopolistic competitor, which of the following is INCORRECT?

- A) The profit-maximizing rate of output is q_e , and the profit-maximizing price is P .
- B) The demand curve shows a direct relationship between price and quantity demanded.
- C) The profit-maximizing rate of output is at E , where MR intersects MC .
- D) A downward sloping marginal revenue curve that is below the demand curve.

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

72) Use the above figure. The economic profit for this firm is

- A) zero.
- B) the distance between T and E .
- C) the distance between E and x -axis.
- D) the distance between T and x -axis.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

Output	Price per Book (\$)	Marginal Cost
0	8.00	0
1	7.00	1.00
2	6.00	2.00
3	5.00	3.00
4	4.00	4.00

- 73) The above table depicts prices, quantities, and marginal costs faced by the campus bookstore. At the profit-maximizing level of output, what is the total revenue earned by the store?

A) \$12 B) \$5 C) \$15 D) \$6

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

- 74) The above table depicts prices, quantities, and marginal costs faced by the campus bookstore. At the profit-maximizing level of output, what is the total cost earned by the store?

A) \$4 B) \$9 C) \$3 D) \$16

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: New

- 75) The above table depicts prices, quantities, and marginal costs faced by the campus bookstore. Based on marginal analysis, what is the profit-maximizing level of output for the bookstore?

A) 1 book B) 2 books C) 3 books D) 4 books

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 76) The above table depicts prices, quantities, and marginal costs faced by the campus bookstore. At the profit-maximizing level of output, what is the profit earned by the store?

A) \$15 B) \$6 C) \$8 D) \$0

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: New

- 77) For a monopolistically competitive firm,
- A) price equals marginal revenue at all levels of output.
 - B) price is less than marginal revenue at all levels of output.
 - C) price is greater than marginal revenue at all levels of output except for the first unit.
 - D) the demand curve is perfectly inelastic and marginal revenue is zero.

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 78) A firm in a monopolistically competitive market determines the profit-maximizing output at which
- A) $MR = P$.
 - B) $MR = ATC$.
 - C) $MR = AVC$.
 - D) $MR = MC$.

Answer: D

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 79) Which of the following is true of the price charged by a monopolistically competitive firm at the profit-maximizing level of output?
- A) $P > MC$
 - B) $P = MC$
 - C) $P = MR$
 - D) $P < AVC$

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 80) In the long run, a monopolistically competitive firm
- A) earns positive economic profits.
 - B) earns zero economic profits.
 - C) earns negative economic profits.
 - D) can have positive, zero, or negative profits.

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 81) Which of the following short-run outcomes for monopolistic competition is **not** possible?
- A) $P = MR = MC$.
 - B) $P > MC > ATC$.
 - C) $P = ATC$.
 - D) $P > ATC$.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: New

82) Which of the following is the long-run outcome for monopolistic competition?

- A) $MR > MC$.
- B) $P > ATC > MC$.
- C) $P = ATC$.
- D) $P > ATC$.

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: New

83) A monopolistic competitor will maximize its profits at the output level at which

- A) $TC = TR$.
- B) $MC = MR$.
- C) the MC curve intersects the demand curve.
- D) $MR = ATC$.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

84) In the long run, what level of economic profits can a monopolistic competitor expect to receive?

- A) positive
- B) zero
- C) negative
- D) either negative or positive, depending on the demand for its product and its costs

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

85) Which of the following is NOT a characteristic of the demand curve faced by a firm in a monopolistically competitive market?

- A) The demand curve is downward sloping.
- B) The slope of the demand curve is negative.
- C) The firm will produce where the demand curve is inelastic.
- D) The firm will produce where the demand curve is elastic.

Answer: C

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

86) The marginal revenue curve of a monopolistically competitive firm is

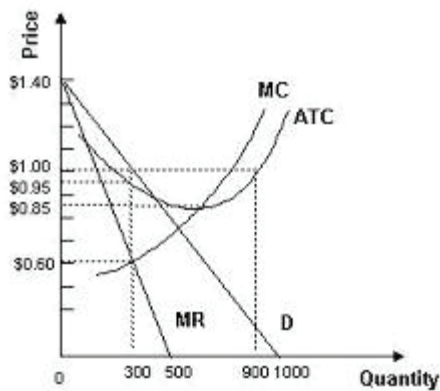
- A) downward sloping and above the demand curve.
- B) downward sloping and below the demand curve.
- C) identical to the demand curve as there are many small firms in the market.
- D) perfectly elastic.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition



- 87) Use the above figure. The profit-maximizing monopolistically competitive firm
- A) is losing \$0.05 per unit of output.
 - B) is earning \$0.40 per unit of output.
 - C) is earning \$0.15 per unit of output.
 - D) is earning \$0.05 per unit of output.

Answer: D

Diff: 3

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 88) Use the above figure. The total revenue earned by the monopolistically competitive firm is
- A) \$300.
 - B) \$285.
 - C) \$180.
 - D) \$255.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 89) Use the above figure. The total profit earned by the monopolistically competitive firm is
- A) +\$300.
 - B) +\$15.
 - C) -\$15.
 - D) \$0.

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 90) Use the above figure. The total cost of producing at the optimal level for the monopolistically competitive firm is

- A) \$285.
- B) \$255.
- C) \$180.
- D) \$300.

Answer: A

Diff: 3

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

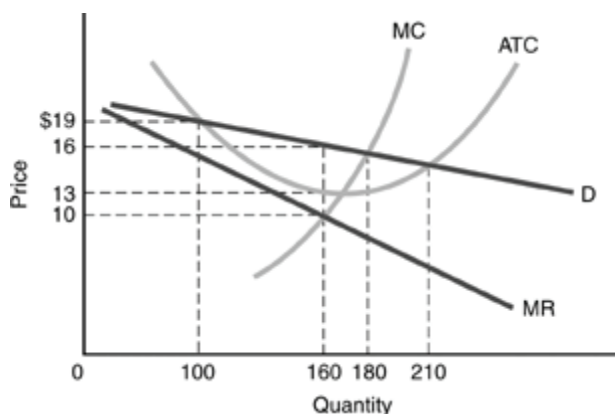
- 91) The short-run profit-maximizing output level for a monopolistically competitive firm is the point at which
- A) $P = ATC$. B) $MR = MC$. C) $MR > P$. D) $MR > ATC$.

Answer: B

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition



- 92) Use the above figure. The profit-maximizing output and price for this monopolistically competitive firm are respectively,
- A) 100 and \$19. B) 160 and \$13. C) 160 and \$16. D) 210 and \$15.

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

- 93) Use the above figure. The total revenue earned by this monopolistically competitive firm is
- A) \$2,560. B) \$1,600. C) \$480. D) \$1,900.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

- 94) Use the above figure. The total cost earned by this monopolistically competitive firm is
- A) \$2,080. B) \$3,150. C) \$1,600. D) \$1,900.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: New

95) Use the above figure. The total profit earned by this monopolistically competitive firm is

- A) \$2,560. B) \$1,600. C) \$480. D) \$1,900.

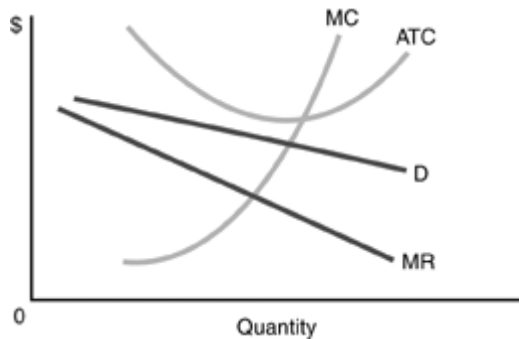
Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition



96) Use the above figure. When it maximizes its economic profits, the monopolistically competitive firm depicted in the figure

- A) is earning an economic profit.
B) is earning an accounting profit.
C) is earning an economic loss.
D) must increase output to reduce the ATC.

Answer: C

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

97) Which of the following statements is true for a monopolistically competitive firm in the long run?

- A) $P = ATC > MR$ B) $MC > P > ATC$
C) $P > MC > ATC$ D) $P = MC = MR$

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

98) In the long run, the economic profits of a monopolistically competitive firm

- A) will tend to be larger than in the short run.
B) equal zero.
C) will be the average short-run profits earned in the last five years.
D) will be the same as in the short run.

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

Question Status: Previous Edition

- 99) Suppose a sushi restaurant is making significant economic profit in the short run. In the long run
- A) more people will open sushi restaurants, reducing the economic profit for each restaurant.
 - B) high barriers to entry keep people from opening sushi restaurants.
 - C) the government will require the sushi restaurant to sell part of its interests in the city.
 - D) more people will open steak restaurants, increasing the economic profit for the sushi restaurant.

Answer: A

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 100) Compared with a firm in a perfectly competitive market, the demand curve faced by a monopolistically competitive firm is
- A) more elastic.
 - B) more inelastic.
 - C) perfectly elastic.
 - D) perfectly inelastic.

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Revised

- 101) Why can't a monopolistic competitor earn economic profits in the long run?

Answer: A monopolistic competitor may earn economic profits in the short run. In the long run, however, other firms will enter the market and produce substitutes for the product so that any economic profits earned by the existing firms will disappear due to competition. This means that the monopolistic competitor will earn zero economic profits in the long run.

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 102) Explain what will happen if firms in a monopolistically competitive industry are earning positive economic profits.

Answer: Positive economic profits will attract new firms into the industry. The new firms will produce a product that is slightly different attracting customers away from existing firms. The demand curves of the existing firms will shift downward until economic profits equal zero.

Diff: 1

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

- 103) Why is it that a monopolistically competitive firm cannot earn positive economic profits in the long run?

Answer: A monopolistically competitive firm can earn positive economic profits only in the short run. In this case, other firms will enter the industry and produce substitutes for the existing firm's product so that its demand curve will become more elastic. Because of the increased competition in the long run, the existing firms' economic profits will disappear.

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: Previous Edition

25.3 Comparing Perfect Competition with Monopolistic Competition

- 1) In the long run, monopolistic competitive firms are considered to be operating inefficiently because their

- A) economic profits are positive.
- B) economic profits are zero.
- C) average total costs are not at a minimum.
- D) marginal costs are rising.

Answer: C

Diff: 3

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

Question Status: Revised

- 2) Which of the following is FALSE about a comparison between a perfectly competitive firm and a monopolistically competitive firm?

- A) A perfectly competitive firm has a horizontal demand curve, while a monopolistically competitive firm has a downward sloping demand curve.
- B) In the short run, a perfectly competitive firm will earn zero economic profits, while a monopolistically competitive firm will earn positive economic profits.
- C) Both the perfectly competitive and monopolistically competitive firm will earn economic profits equal to zero in the long-run.
- D) In the long run, the perfectly competitive firm will produce at the minimum of the average total cost curve, while the monopolistically competitive firm will produce to the left of the minimum of the average total cost curve.

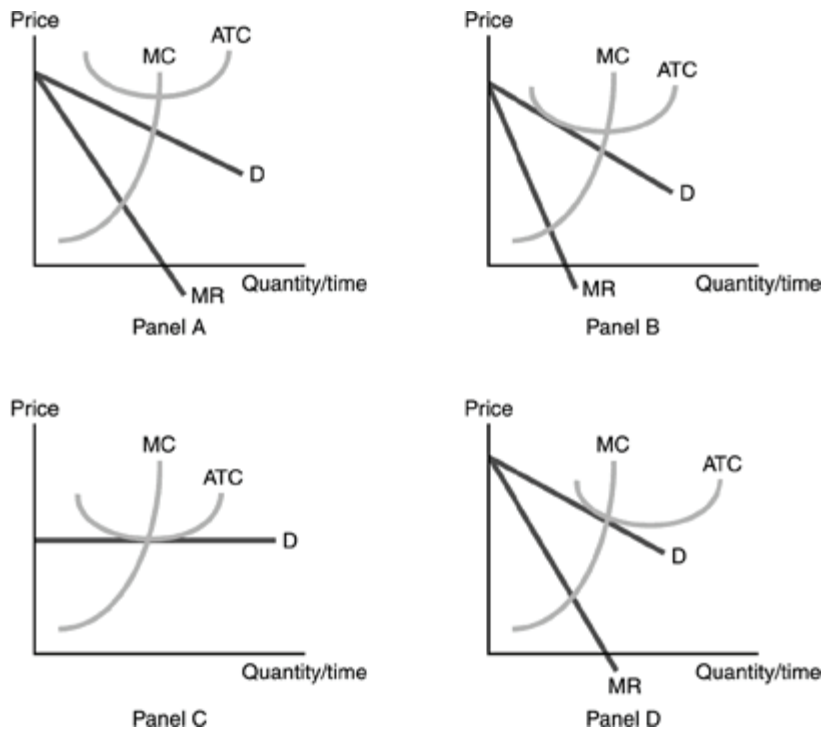
Answer: B

Diff: 3

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Revised



- 3) Refer to the above figure. Which panels represent long run equilibrium for the perfectly competitive firm and monopolistic competitive firm, respectively?
- A) Panel C & Panel A.
 B) Panel C & Panel B.
 C) Panel B & Panel C.
 D) Panel C & Panel D.

Answer: B

Diff: 2

Topic: 25.2 Price and Output for the Monopolistic Competitor

AACSB: Analytic skills

Question Status: New

- 4) A monopolistically competitive firm differs from a perfectly competitive firm in the long run in that
- A) the demand curve faced by a monopolistically competitive firm is downward sloping, while the demand curve faced by a perfectly competitive firm is horizontal.
 B) profits are positive for a monopolistically competitive firm and zero for a perfectly competitive firm.
 C) profits are zero for a monopolistically competitive firm and positive for a perfectly competitive firm.
 D) marginal cost equals the market price for a monopolistically competitive firm but not for a perfectly competitive firm.

Answer: A

Diff: 1

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Revised

- 5) In long-run equilibrium in a monopolistically competitive industry, a firm will
- A) always earn an economic profit.
 - B) produce an output rate at which $P = MC$.
 - C) produce at a point to the left of the minimum point on its average total cost curve.
 - D) have a perfectly elastic demand curve.

Answer: C

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

Question Status: Revised

- 6) Compared with a perfectly competitive firm facing the same costs, long-run equilibrium for a monopolistically competitive firm will result in
- A) a higher price and greater output.
 - B) a lower price and less output.
 - C) a higher price and less output.
 - D) a lower price and greater output.

Answer: C

Diff: 1

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 7) Compared to perfect competition, a monopolistically competitive market will produce _____ output and charge a _____ price.
- A) more; higher
 - B) more; lower
 - C) less; higher
 - D) less; lower

Answer: C

Diff: 1

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Compared to a perfectly competitive firm, in a long run the monopolistically competitive firm will have
- A) a lower price.
 - B) a lower average cost.
 - C) a horizontal demand function.
 - D) a lower rate of output.

Answer: D

Diff: 1

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 9) In which market structure will a firm choose not to shut down when price is less than average variable cost?
- A) Perfect competition
 - B) Monopoly
 - C) Monopolistic competition
 - D) None of the above. All firms will shut down when $P < AVC$.

Answer: D

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Monopolistic competition and perfect competition are similar in that each market structure is characterized by
- A) advertising.
 - B) production at minimum average cost in the long run.
 - C) a horizontal demand curve.
 - D) the absence of long-run economic profits.

Answer: D

Diff: 1

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Monopolistic competition and perfect competition are different in that
- A) only monopolistically competitive firms advertise.
 - B) only monopolistically competitive firms can earn economic losses in the short-run.
 - C) only perfectly competitive firms maximize profits where marginal revenue equals marginal cost.
 - D) only perfectly competitive firms are characterized by long-run economic profits of zero.

Answer: A

Diff: 1

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: New

- 12) One way to view the cost structure of monopolistic competition is to say that the cost of product differentiation is equal to
- A) the difference between marginal revenue and marginal cost.
 - B) the difference between the cost of production for a monopolistically competitive firm in an open market and the minimum average total cost.
 - C) the sum of price and marginal cost.
 - D) the sum of marginal cost and minimum average cost.

Answer: B

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 13) What did Harvard economist Edward Chamberlain say about the observation that a monopolistically competitive firm's average cost of production exceeds its minimum average total cost?
- A) Chamberlain argued that these higher costs represent the wastefulness of this market structure.
 - B) Chamberlain argued that this belief is incorrect. In his view, monopolistically competitive firms do not produce at a cost above their minimum average total costs.
 - C) According to Chamberlain, this cost difference represents the value consumers place on variety and having more choice.
 - D) In Chamberlain's view, this is evidence that monopolistic competition uses society's resources inefficiently and in a fashion that merits government intervention.

Answer: C

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

Question Status: Previous Edition

- 14) The long-run equilibrium of a monopolistic competitor differs from the long-run equilibrium of a perfect competitor in that
- A) the monopolistic competitor makes economic profits.
 - B) the monopolistic competitor sets price equal to marginal cost.
 - C) the monopolistic competitor produces at the minimum point of its average total cost curve.
 - D) the monopolistic competitor charges a price that exceeds marginal cost.

Answer: D

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 15) A monopolistic competitor in long-run equilibrium is like a perfect competitor in that
- A) price equals marginal cost.
 - B) price is greater than marginal cost.
 - C) zero economic profits are made.
 - D) both produce at the minimum points of their average total cost curves.

Answer: C

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Long-run equilibrium for a monopolistic competitor is characterized by
- A) a price exceeding marginal cost.
 - B) marginal cost pricing.
 - C) economic profits.
 - D) too few firms in the industry.

Answer: A

Diff: 1

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 17) It has been argued that a monopolistically competitive industry involves "waste" because
- A) there is too much product differentiation making shelves too crowded.
 - B) they end up producing to the right of the minimum of the average total cost curve and the price is below the marginal cost.
 - C) the firms do not equate marginal cost to marginal revenue to find the profit maximizing price and output.
 - D) the firms do not produce at the minimum of the average total cost curve and price is above marginal cost.

Answer: D

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 18) According to Chamberlin, the fact that in the long run average total cost exceeds its minimum value under monopolistic competition is
- A) the social cost of monopolistic competition.
 - B) the most important reason for why monopolistic competition is not efficient.
 - C) part of the cost of producing different products for consumers.
 - D) actually beneficial because it makes adjustments easier when demand increases.

Answer: C

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

Question Status: Previous Edition

- 19) In the long run, a monopolistic competitor will produce to the point at which
- A) average total costs are at the minimum of possible ATC.
 - B) average total costs are higher than the minimum of possible ATC.
 - C) resources are used at the lowest possible cost.
 - D) at the lowest possible price.

Answer: B

Diff: 3

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

Question Status: Previous Edition

- 20) In the long run, equilibrium positions that arise in both monopolistically competitive and perfectly competitive markets are
- A) $MR = MC$ and $P = MC$.
 - B) $P = ATC$ and $P = MC$.
 - C) $MR = MC$ and $P = ATC$.
 - D) $MR = MC = P$.

Answer: C

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

21) In a long-run monopolistically competitive equilibrium,

- A) $P = ATC$, and ATC is not at its minimum value.
- B) $P = ATC$, and ATC is at its minimum value.
- C) $P > ATC$, and ATC is at its minimum value.
- D) $P > ATC$, and ATC is not at its minimum value.

Answer: A

Diff: 3

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

Question Status: Previous Edition

22) In the long run, both monopolistically competitive and perfectly competitive firms attain

- A) lowest cost production.
- B) positive economic profits.
- C) zero economic profits.
- D) productive efficiency.

Answer: C

Diff: 1

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

23) It has been argued that in the long run monopolistic competition is inefficient because

- A) there are too many firms, each with excess capacity, producing too little output.
- B) there are few many firms, each with excess capacity, producing too much output.
- C) minimum average total costs are achieved but price exceeds marginal cost.
- D) minimum average total costs are not achieved and marginal cost exceeds price.

Answer: A

Diff: 1

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: New

24) In the long run, a perfectly competitive market produces at _____, whereas the monopolistic competitive firm does not.

- A) the output at which the lowest average total cost of production is reached
- B) an output level at which positive economic profits exist
- C) zero economic profits
- D) the point at which $MR = MC = ATC$

Answer: A

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 25) The most significant difference between perfect competition and monopolistic competition is that
- A) in a perfectly competitive market products are differentiated, while in a monopolistically competitive market products are homogeneous.
 - B) in a perfectly competitive market products are homogeneous, while in a monopolistically competitive market products are differentiated.
 - C) in a perfectly competitive market there is a large number of sellers, while in a monopolistically competitive market there is a small number of sellers.
 - D) in a perfectly competitive market there is a small number of sellers, while in a monopolistically competitive market there is a large number of sellers.

Answer: B

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 26) How is monopolistic competition like perfect competition? How is it like monopoly?

Answer: Monopolistic competition is like perfect competition in that there are many buyers and sellers and it is easy for firms to enter and exit the industry. But it is like monopoly in that firms face downward sloping demand curves. The demand curves slope down because the product is not homogeneous, so the product of one firm is not a perfect substitute for the product of another firm.

Diff: 1

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 27) How does the short-run equilibrium of a monopolistic competitor differ from a monopolist? How does it differ from a perfect competitor?

Answer: The short-run equilibrium of a monopolistic competitor looks just like that for a monopolist, with the exception that the demand curve facing the monopolist will be less elastic than the demand curve facing the monopolistic competitor. The equilibrium differs from a perfect competitor in that the demand curve slopes down, so price is greater than marginal cost.

Diff: 3

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 28) Is monopolistic competition efficient? Explain. What is Edward Chamberlin's view about the efficiency of monopolistic competition?

Answer: Monopolistic competition is not efficient because a monopolistic competitive firm produces where price exceeds marginal cost and because in the long run a monopolistically competitive firm produces to the point at which average total cost is above minimum point of its average total cost curve. However, Chamberlin argued that the difference between the average cost of production for a monopolistic competitor and the minimum of average total cost represented the cost of producing differentiated products, which consumers value.

Diff: 3

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

- 29) According to Edward Chamberlin, is the "differentness" of products a waste of resources? Explain.

Answer: According to Chamberlin, the "differentness" of products that consumers pay for is represented by the difference between the average cost of production for a monopolistic competitor and the minimum average total cost. He did not consider this amount a waste of resources but what consumers are willing to pay for in exchange for more choice and variety in output.

Diff: 2

Topic: 25.3 Comparing Perfect Competition with Monopolistic Competition

AACSB: Analytic skills

Question Status: Previous Edition

25.4 Brand Names and Advertising

- 1) When a telemarketer calls you about a product, this is an example of
- | | |
|--------------------------|--------------------------|
| A) direct marketing. | B) indirect marketing. |
| C) searching for a good. | D) persuasive marketing. |

Answer: A

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 2) A product with qualities that consumers lack the expertise to assess without assistance is called a(n)
- | | |
|-------------------|---------------------|
| A) search good. | B) experience good. |
| C) credence good. | D) inferior good. |

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 3) By promoting its brand name heavily, the monopolistically competitive firm
- A) earns more profit in the long run.
 - B) signals its long-term intention to stay in the industry.
 - C) signals its intention to leave the industry.
 - D) guarantees a short run profit.

Answer: B

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 4) If a firm produces an *experience good*, its mode of advertising will be
- A) persuasive advertising.
 - B) direct advertising.
 - C) not to advertise.
 - D) none of the above.

Answer: A

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 5) To differentiate its product, a monopolistic competitive firm will engage in all of the following advertising practices EXCEPT
- A) direct marketing.
 - B) mass marketing.
 - C) interactive marketing.
 - D) indirect marketing.

Answer: D

Diff: 2

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 6) Persuasive advertising is used to
- A) induce a consumer to try a product and discover a previously unknown taste for it.
 - B) promote only used goods.
 - C) sell to an established clientele.
 - D) cut costs.

Answer: A

Diff: 2

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 7) Mass marketing involves
- A) using all types of media, such as television and radio, to reach as many consumers as possible.
 - B) internet ads only.
 - C) using direct mailings only.
 - D) lower-cost methods of advertising.

Answer: A

Diff: 2

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 8) The brand name of a firm
- A) has nothing to do with the profitability of a firm.
 - B) has been considered irrelevant by economists since profits for a monopolistic competitive firm are zero in the long-run.
 - C) relates to consumers' perception of product differentiation and to the market value of a firm.
 - D) is important in the short-run but not in the long-run.

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 9) A firm's trademark is protected from misuse if it is registered with the
- A) U.S.D.A.
 - B) U.S. Patent and Trademark Office.
 - C) U.S. Supreme Court.
 - D) F.C.C.

Answer: B

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 10) In order to differentiate their product brands from those of competing firms, monopolistically competitive firms
- A) equate marginal cost to marginal revenue to determine the profit maximizing quantity.
 - B) spread false rumors about their competitors.
 - C) take their competitor's reactions to changes in their policies into account.
 - D) advertise their product.

Answer: D

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 11) Personalized advertising that uses postal mailings, phone calls, and e-mail messages is known as
- A) direct marketing.
 - B) mass marketing.
 - C) indirect marketing.
 - D) interactive marketing.

Answer: A

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

12) Direct marketing is

- A) advertising that permits a consumer to follow up directly by searching for more information and placing direct product orders.
- B) advertising that targets a specific audience and allows the consumer to follow up directly by placing direct product orders usually through television or radio.
- C) advertising targeted at specific consumers.
- D) advertising intended to reach as many consumers as possible.

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

13) When a firm relies on radio and TV ads to reach potential customers, the firm is engaging in

- A) direct marketing.
- B) mass marketing.
- C) interactive marketing.
- D) none of the above.

Answer: B

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Revised

14) Mass marketing is

- A) advertising that permits a consumer to follow up directly by searching for more information and placing direct product orders.
- B) advertising that targets a specific audience and allows the consumer to follow up directly by placing direct product orders usually through television or radio.
- C) advertising targeted at specific consumers.
- D) advertising intended to reach as many consumers as possible.

Answer: D

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

15) Interactive marketing is

- A) advertising that permits a consumer to follow up directly by searching for more information and placing direct product orders.
- B) advertising that targets a specific audience and allows the consumer to follow up directly by placing direct product orders usually through television or radio.
- C) advertising targeted at specific consumers.
- D) advertising intended to reach as many consumers as possible.

Answer: A

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 16) Advertisement in which firms aim messages to as many customers as possible via media is known as
- A) direct marketing.
- B) mass marketing.
- C) indirect marketing.
- D) interactive marketing.

Answer: B

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 17) The advertisement approach that allows a consumer to follow up directly to an advertising message is known as
- A) direct marketing.
- B) mass marketing.
- C) indirect marketing.
- D) interactive marketing.

Answer: D

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 18) All of the following are advertisement methods EXCEPT
- | | |
|------------------------|---------------------------|
| A) direct marketing. | B) mass marketing. |
| C) indirect marketing. | D) interactive marketing. |

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 19) Jim has just researched and purchased a computer through the Internet as a result of responding directly to a pop-up ad. The pop-up ad is an example of
- A) mass marketing.
- B) direct marketing.
- C) indirect marketing.
- D) interactive marketing.

Answer: D

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 20) Judy has just looked through her favorite catalog that came in the mail and has placed an order. The catalog is an example of
- A) mass marketing.
- B) direct marketing.
- C) indirect marketing.
- D) interactive marketing.

Answer: B

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 21) Stephanie has just placed an order for the latest video after she received a personalized e-mail. The e-mail is an example of
- A) mass marketing.
 - B) direct marketing.
 - C) indirect marketing.
 - D) interactive marketing.

Answer: B

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Use of information technology

Question Status: New

- 22) Carol has just purchased a cereal she saw advertised on TV because of the health benefits contained in the ad. The TV ad is an example of
- A) mass marketing.
 - B) direct marketing.
 - C) indirect marketing.
 - D) interactive marketing.

Answer: A

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 23) Bonnie has just purchased a crystal vase she saw advertised when she went on line to find her local weather forecast. The internet ad is an example of
- A) mass marketing.
 - B) direct marketing.
 - C) indirect marketing.
 - D) interactive marketing.

Answer: A

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Use of information technology

Question Status: New

- 24) A good that has qualities that are easy for a consumer to assess in advance of a purchase is called
- A) a credence good.
 - B) a search good.
 - C) an experience good.
 - D) a persuasive good.

Answer: B

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 25) A search good is a product
- A) with qualities that consumers lack the expertise to assess without assistance.
 - B) that emphasizes the features of its product.
 - C) with characteristics that enable an individual to evaluate the product's quality in advance of a purchase.
 - D) that an individual must consume before the quality can be established.

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

26) A good that people must actually consume before they can determine qualities is called

- A) a credence good.
- B) a search good.
- C) an experience good.
- D) a persuasive good.

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

27) An experience good is a product

- A) with qualities that consumers lack the expertise to assess without assistance.
- B) that emphasizes the features of its product.
- C) with characteristics that enable an individual to evaluate the product's quality in advance of a purchase.
- D) that an individual must consume before the quality can be established.

Answer: D

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

28) A good with qualities that consumers lack the experience to assess without assistance is called

- A) a credence good.
- B) a search good.
- C) an experience good.
- D) a persuasive good.

Answer: A

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

29) A credence good is a product

- A) with qualities that consumers lack the expertise to assess without assistance.
- B) that emphasizes the features of its product.
- C) with characteristics that enable an individual to evaluate the product's quality in advance of a purchase.
- D) that an individual must consume before the quality can be established.

Answer: A

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

30) All of Jill's friends have been telling Jill that she must see a certain movie but she is not sure that she will like it. The movie is a(n)

- A) experience good.
- B) credence good.
- C) logo good.
- D) search good.

Answer: A

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 31) John has just tried on the most comfortable pair of pants that he has ever known. The pants are a(n)
- A) experience good.
 - B) credence good.
 - C) logo good.
 - D) information good.

Answer: A

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 32) Harry needs to hire a lawyer but does not know how to find a good one. The lawyer is a(n)
- A) experience good.
 - B) credence good.
 - C) logo good.
 - D) search good.

Answer: B

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 33) Steve can tell if his car has been fixed or not—it works, or it doesn't—but he cannot tell how it was fixed. The car repair is a(n)
- A) experience good.
 - B) credence good.
 - C) logo good.
 - D) search good.

Answer: B

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: New

- 34) If a customer buys an airline ticket based only on the price of the ticket, then the airline ticket is a(n)
- A) experience good.
 - B) credence good.
 - C) logo good.
 - D) search good.

Answer: D

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: New

- 35) The type of advertising that emphasizes the features of its product is
- A) informational advertising.
 - B) persuasive advertising.
 - C) search advertising.
 - D) experience advertising.

Answer: A

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 36) The type of advertising that is used to induce a consumer to discover a previously unknown taste for an item is known as
- A) informational advertising.
 - B) persuasive advertising.
 - C) search advertising.
 - D) experience advertising.

Answer: B

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 37) Informational advertising is the type of advertising that
- A) is used exclusively on television.
 - B) is used exclusively on radio.
 - C) emphasizes the features of a product.
 - D) is used to influence a consumer's tastes and preferences.

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 38) Persuasive advertising is the type of advertising that
- A) is used exclusively on television.
 - B) is used exclusively on radio.
 - C) emphasizes the features of its product.
 - D) is used to induce a consumer to discover previously unknown tastes and preferences.

Answer: D

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 39) Informational advertising is mostly used for
- A) a logo good.
 - B) a search good.
 - C) an experience good.
 - D) a persuasive good.

Answer: B

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 40) Persuasive advertising is mostly used for
- A) a logo good.
 - B) a search good.
 - C) an experience good.
 - D) a persuasive good.

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

41) The type of advertising used for a search good is

- A) informational advertising.
- B) persuasive advertising.
- C) search advertising.
- D) experience advertising.

Answer: A

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

42) The type of advertising used for an experience good is

- A) informational advertising.
- B) persuasive advertising.
- C) search advertising.
- D) experience advertising.

Answer: B

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

43) When you see an advertisement on TV for a hair care product in which the actor using the product is depicted as beautiful and happy, this is

- A) informational advertising.
- B) direct market advertising.
- C) indirect market advertising.
- D) persuasive advertising.

Answer: D

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: Previous Edition

44) When you see a preview of a coming movie at the movie theater, this is

- A) informational advertising.
- B) direct market advertising.
- C) indirect market advertising.
- D) persuasive advertising.

Answer: A

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: Previous Edition

45) The goal of advertising is to

- A) increase the price elasticity of demand for the firm's product.
- B) reduce the price elasticity of demand for the firm's product.
- C) increase the standardization of the industry.
- D) encourage firms to enter into the industry.

Answer: B

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 46) The goal of advertising is to
- A) pay for public broadcasting.
 - B) differentiate a firm's product.
 - C) overwhelm the buyer so they buy a firm's product.
 - D) minimize cost curves for the firm.

Answer: B

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: New

- 47) Typically a mix of informational and persuasive advertising is used for
- A) experience goods.
 - B) credence goods.
 - C) credible goods.
 - D) search goods.

Answer: B

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 48) Which statement is INCORRECT with respect to sales promotion and advertising?
- A) Perfect competition differs from monopolistic competition in that no individual firm in a perfectly competitive market will advertise.
 - B) A perfectly competitive firm, by definition, can sell all that it wants to sell at the going market price.
 - C) A perfect competitor advertises a product that is different from the products that all other firms in the industry are selling.
 - D) Advertising should be carried to the point at which the additional revenue from one more dollar of advertising just equals that one dollar of marginal cost.

Answer: C

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 49) Advertising intended to reach as many consumers as possible, typically through television, newspaper, or magazine ads is referred to as
- A) interactive advertising.
 - B) direct marketing.
 - C) mass marketing.
 - D) subliminal advertising.

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 50) Which of the following is FALSE with respect to brand names and advertising?
- A) Because "differentness" has value to customers, monopolistically competitive firms regard their brand names as valuable.
 - B) Firms use trademarks—words, symbols, and logos—to distinguish their product brands.
 - C) Companies do not regard their brands as valuable private (intellectual) property because the value cannot be quantified.
 - D) There is considerable shifting over time in the market value rankings of various U.S. product brands.

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 51) Which of the following is most likely to be the subject of informational advertising?
- A) a search good
 - B) a credible good
 - C) an experience good
 - D) an inexperience good

Answer: A

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 52) Advertising that is intended to alter a consumer's tastes and preferences and induce the customer to purchase a particular product is
- A) persuasive advertising.
 - B) educational advertising.
 - C) informational advertising.
 - D) effective advertising.

Answer: A

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 53) An example of direct marketing is
- A) the use of coupons in newspapers.
 - B) allowing the use of the product for 7 days before the consumer is billed for the product.
 - C) charging customers who pay with cash a different price than those using credit cards.
 - D) the use of personalized advertising by using mailing lists.

Answer: D

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 54) Out of all advertising spending, the largest share goes to
- A) television ads.
 - B) magazine ads.
 - C) direct marketing.
 - D) newspaper ads.

Answer: C

Diff: 1

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 55) A product that must be actually consumed before the quality of the product can be determined is a(n)

A) search good. B) consumable good.
C) consumption good. D) experience good.

Answer: D

Diff: 2

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 56) Advertising intended to induce a consumer to discover a previously unknown taste or preference is

A) persuasive advertising. B) informational advertising.
C) direct advertising. D) mass marketing advertising.

Answer: A

Diff: 1

Topic: 25.4 Brand Names and Advertising

Question Status: Previous Edition

- 57) Products such as office supplies are examples of

A) experience goods. B) simple goods.
C) search goods. D) selective goods.

Answer: C

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 58) When a pharmaceutical company advertises that its allergy medication is clinically proven to alleviate hay fever symptoms, the pharmaceutical company is engaging in

A) informational advertising. B) trademark protection.
C) persuasive advertising. D) direct marketing.

Answer: A

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 59) Explain why the amount that firms spend on advertising depends on the characteristics of their products.

Answer: There are three types of goods: search goods, whose quality can be evaluated by consumers in advance of a purchase; experience goods, whose quality can be evaluated only after consumption; and credence goods, whose quality cannot be assessed by consumers without assistance. For search goods, firms are likely to use informational advertising that emphasizes the features of the product. For experience goods, firms are likely to use persuasive advertising to induce consumers to try the products. For credence goods, firms are likely to use a mix of informational and persuasive advertising.

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 60) Explain how advertising can act as a signal.

Answer: Advertising can act as a signal that the firm plans to stay in business for a long time and it is not a fly-by-night operation. Advertising can entail significant expenses, so by engaging in costly advertising the firm indicates that it plans to remain in business and aims to count on repeat business to recoup the costs. Of course, in this process the firm also seeks to differentiate its product from the products of other firms.

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 61) Explain the difference between informational advertising and persuasive advertising. Give an example of a product that would be the subject of each type of advertising and explain why that type of advertising fits the product.

Answer: Informational advertising explains the features of a good while persuasive advertising tries to influence a consumer's tastes and preferences. Informational advertising is used when a consumer can assess the benefits of the good before purchasing while persuasive advertising is used when a consumer must purchase the good to determine the good's benefits. Furniture would be advertised by informational advertising. The consumer can touch and try the furniture out before purchasing. A candy bar would be advertised by persuasive advertising since you must eat the candy before you know whether or not you will like it.

Diff: 3

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

- 62) Why would Sunkist incur substantial costs to advertise and establish a brand name when the quality of its oranges can easily be evaluated by consumers?

Answer: Oranges might be considered as experience goods, whose quality in terms of taste and sweetness can be established only after consumption. Because of this characteristic, the Sunkist brand name can convey a signal of high quality to consumers.

Diff: 2

Topic: 25.4 Brand Names and Advertising

AACSB: Analytic skills

Question Status: Previous Edition

25.5 Information Products and Monopolistic Competition

- 1) If a monopolistically competitive firm selling an information product engages in marginal cost pricing, it will
- A) earn additional profits.
 - B) fail to earn sufficient revenues to cover its fixed costs.
 - C) lower costs.
 - D) break even.

Answer: B

Diff: 3

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 2) The manufacturers of information products typically
- A) have low fixed costs.
 - B) have high marginal costs.
 - C) have high fixed costs.
 - D) have zero fixed costs.

Answer: C

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 3) In the long run, the price of information products in monopolistically competitive markets will be equal to
- A) AVC.
 - B) MC.
 - C) AFC.
 - D) ATC.

Answer: D

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 4) The production of information products is characterized by
- A) relatively low fixed cost.
 - B) relatively low marginal cost.
 - C) diseconomies of operation.
 - D) an upward sloping marginal cost curve.

Answer: B

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 5) The ATC curve for a firm that produces an information product
- A) slopes downward, because AVC is constant, AFC slopes downward, and $ATC = AVC + AFC$.
 - B) slopes upward, because AFC is constant, AVC slopes upward, and $ATC = AFC + AVC$.
 - C) is U-shaped, because AVC is U-shaped, AFC slopes downward, and $ATC = AVC + AFC$.
 - D) slopes downward, because MC slopes downward, AVC is constant, and $ATC = AVC + MC$.

Answer: A

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 6) Which of the following conditions best explain the short-run economies of operation associated with production of an information product?
- A) AVC slopes downward, and AFC is constant, so that ATC slopes downward.
 - B) AVC is constant, and AFC slopes downward, so that ATC slopes downward.
 - C) AFC is constant, and MC slopes downward, so that AVC slopes downward.
 - D) MC is constant, and MC slopes upward, so that AVC slopes upward.

Answer: B

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 7) If the producer of an information product engages in marginal cost pricing, it earns
- A) a normal profit.
 - B) an economic loss.
 - C) zero economic profits.
 - D) positive economic profits.

Answer: B

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 8) There is no incentive for additional producers of an information product to enter the industry when the price charged for these products by each firm already in the industry is equal to
- A) marginal cost.
 - B) average total cost.
 - C) average fixed cost.
 - D) average variable cost.

Answer: B

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 9) In a long-run equilibrium in a monopolistically competitive industry that produces information products, revenues are equal to the _____ costs of developing, producing, and selling the product.
- A) total
 - B) fixed
 - C) variable
 - D) marginal

Answer: A

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 10) A good that entails relatively high fixed costs associated with the use of knowledge and other information-intensive inputs as key factors of production is
- A) a logo good.
 - B) a search good.
 - C) a persuasive good.
 - D) an information product.

Answer: D

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 11) Which of the following statements is generally TRUE about information products?
- A) High fixed costs and low marginal costs
 - B) High fixed costs and high marginal costs
 - C) Low fixed costs and low marginal costs
 - D) Low fixed costs and high marginal costs

Answer: A

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 12) Marginal cost for an information product would
- A) first decrease and then increase as quantity increases.
 - B) increase constantly as quantity increases.
 - C) decrease constantly as quantity increases.
 - D) remain constant as quantity increases.

Answer: D

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 13) A very high fixed cost and a relatively low marginal cost is associated with
- A) every type of good or product.
 - B) an information product.
 - C) a persuasive good.
 - D) an experience good.

Answer: B

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 14) Average total cost for an information product would
- A) first decrease and then increase as quantity increases.
 - B) increase constantly as quantity increases.
 - C) decrease constantly as quantity increases.
 - D) remain constant as quantity increases.

Answer: C

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 15) Average fixed cost for an information product would
- A) first decrease and then increase as quantity increases.
 - B) increase constantly as quantity increases.
 - C) decrease constantly as quantity increases.
 - D) remain constant as quantity increases.

Answer: C

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 16) An information product is a product for which
- A) the first item is produced inexpensively but additional units are more costly to produce.
 - B) the first unit is very costly to make but additional units are less costly to produce.
 - C) the marginal cost first falls and then rises but the average total cost rises throughout its range.
 - D) the average fixed cost first falls and then rises, but the average total cost falls throughout its range.

Answer: B

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 17) Average variable cost for an information product would
- A) first decrease and then increase as quantity increases.
 - B) increase constantly as quantity increases.
 - C) decrease constantly as quantity increases.
 - D) remain constant as quantity increases.

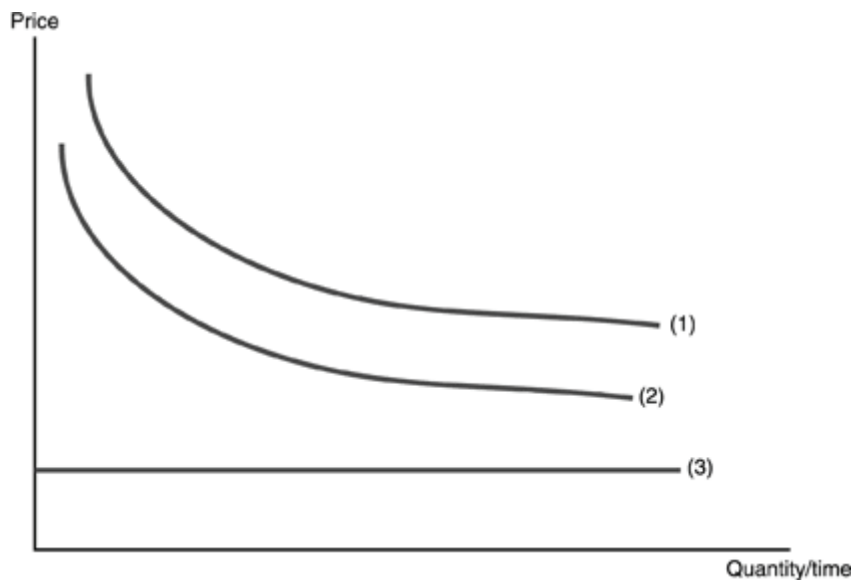
Answer: D

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition



18) Refer to the above figure. The above figure shows the cost structure of a firm producing an information product. Which curve represents average total cost?

- A) Any of the 3 could be ATC. B) Curve 1
C) Curve 2 D) Curve 3

Answer: B

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

19) Refer to the above figure. The above figure shows the cost structure of a firm producing an information product. Which curve represents average fixed cost?

- A) Curve 1 B) Curve 2
C) Curve 3 D) Any of the 3 could be AFC.

Answer: B

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Revised

20) Refer to the above figure. The figure shows the cost structure of a firm producing an information product. Which curve would represent the marginal cost for an information product?

- A) Curve 1 B) Curve 2
C) Curve 3 D) none of the above

Answer: C

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 21) Refer to the above figure. The above figure shows the cost structure of a firm producing an information product. Which curve would represent the average variable cost?
- A) Curve 1
 - B) Curve 2
 - C) Curve 3
 - D) none of the above

Answer: C

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 22) Because the short-run average total cost curve slopes downward for an information product, the firm experiences
- A) a downward sloping marginal cost curve.
 - B) a downward sloping average variable cost curve.
 - C) short-run economies of operation.
 - D) long-run diseconomies of scale.

Answer: C

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 23) Firms that produce an information product experience short-run economies of operation because
- A) the firm will always produce in the decreasing portion of the marginal cost curve.
 - B) of the U-shaped nature of the average total cost curve.
 - C) of the U-shaped nature of the average variable cost curve.
 - D) the average total cost of producing and selling the product declines as output increases.

Answer: D

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 24) If a firm that produces an information product uses marginal cost pricing, then the firm
- A) will earn negative profits.
 - B) will earn profits equal to zero.
 - C) will earn positive profits but could earn a higher profit by using a different method.
 - D) will maximize profits.

Answer: A

Diff: 1

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Question Status: Previous Edition

- 25) For a firm that sells an information product, the long-run equilibrium exists at a point at which economic profits are
- A) negative.
 - B) zero.
 - C) positive.
 - D) dependent upon the particular product.

Answer: B

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 26) The long-run equilibrium for a firm in an information product industry exists at a point at which
- A) marginal cost equals marginal revenue.
 - B) the demand curve crosses the marginal cost curve.
 - C) the demand curve is tangent to the average total cost curve.
 - D) average total cost is minimized.

Answer: C

Diff: 1

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Question Status: Previous Edition

- 27) For a firm that sells an information product, the long-run equilibrium exists at a point where
- A) price equals average total cost.
 - B) price equals average variable cost.
 - C) price equals average fixed cost.
 - D) price equals marginal cost.

Answer: A

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 28) Information products (e.g., software)
- A) have relatively high fixed costs but low marginal and average variable costs.
 - B) have relatively low fixed costs but high marginal and average variable costs.
 - C) have relatively high fixed costs and relatively high marginal and average variable costs.
 - D) have relatively low fixed costs and relatively low marginal and average variable costs.

Answer: A

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 29) Which of the following statements is INCORRECT regarding the properties of information products?
- A) Providing an information product entails incurring relatively high fixed costs.
 - B) The average total cost curve for a firm that sells an information product slopes upward.
 - C) The firm experiences economies of operation in the short run.
 - D) In the long run, the producer earns sufficient revenue to cover the opportunity cost of capital.

Answer: B

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

- 30) Which of the following statements is INCORRECT regarding the model for information products?
- A) Average total costs slope downward, because average variable cost is constant, average fixed cost slopes downward.
 - B) The firm maximizes profit by setting the price of its product equal to marginal cost.
 - C) Marginal cost equals average variable cost.
 - D) In the long run, accounting profit is positive.

Answer: B

Diff: 2

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Question Status: New

- 31) The first unit of an information product is produced at a high fixed cost. Producing additional units entails relatively low
- A) total costs.
 - B) marginal and average variable cost.
 - C) external cost.
 - D) social cost.

Answer: B

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 32) A distinguishing characteristic of producers of information products is their
- A) low fixed costs.
 - B) short-run economies of operation.
 - C) low average fixed costs.
 - D) low overhead.

Answer: B

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 33) The ATC curve and the AFC curve for information products (e.g., software) in the short run are
- A) downward sloping.
 - B) horizontal.
 - C) upward sloping.
 - D) vertical.

Answer: A

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 34) A computer game is an example of
- A) a public use product.
 - B) an information product.
 - C) a capital good.
 - D) a credibility product.

Answer: B

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 35) Firms that sell information products experience relatively high fixed costs but, once they have produced the first unit, can
- A) sell additional units at a loss, or above cost.
 - B) provide expensive information products to consumers.
 - C) sell additional units at a relatively low cost per unit.
 - D) experience short-run diseconomies of scale.

Answer: C

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 36) An information product typically has
- A) high total fixed costs and high marginal costs.
 - B) low total fixed costs and low marginal costs.
 - C) low total fixed costs and high marginal costs.
 - D) high total fixed costs and low marginal costs.

Answer: D

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

- 37) Marginal cost pricing for an information product
- A) would cause the firm to experience economic losses.
 - B) would allow the firm to break even.
 - C) would cause the firm to earn economic profits.
 - D) would cause the firm to expand output to increase economic profits.

Answer: A

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

38) Explain how information products are "special."

Answer: Producing an information product entails incurring relatively high fixed costs, but once the first unit is produced, a firm can produce additional units at a constant and relatively low unit cost. Consequently, producers of information products experience short-run economies of operation, because their short-run average total cost curves slope downward. Furthermore, the constant marginal cost is always less than average total cost, so marginal cost pricing would result in economic losses for these firms. In the long-run equilibrium for monopolistically competitive producers of information products, price and average total cost are equal, so the firms earn revenues just sufficient to cover the relatively high fixed costs of developing the first unit of their products, plus the relatively low variable costs of selling additional units.

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

AACSB: Use of information technology

Question Status: Previous Edition

39) How does an information product differ from a product such as a desk?

Answer: An information product has a very high fixed cost component compared to the marginal cost of production while a desk does not. Once an information product have been developed it is relatively inexpensive to reproduce while the cost of reproducing a desk is more expensive.

Diff: 1

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition

40) For an information product, why a profit-maximizing firm unable to practice marginal cost pricing? How is its price determined in the long run?

Answer: An information product has the characteristics of high fixed costs, low marginal costs, and a short-run downward sloping average total cost curve. As a result, marginal cost pricing will result in economic losses. In the long run, the firm's price equals average total cost. Thus, the firm charges a price that covers its average total cost and earns zero economic profits in the long run.

Diff: 2

Topic: 25.5 Information Products and Monopolistic Competition

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Question Status: Previous Edition