

Chapter 27

Regulation and Antitrust Policy in a Globalized Economy

27.1 Forms of Industry Regulation

- 1) U.S. government regulation of social and economic activity
- A) only began after World War II.
 - B) costs less now than it did in the 1980s.
 - C) has increased steadily since 1970.
 - D) is confined to antitrust law.

Answer: C

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 2) The Food and Drug Administration (FDA) is an agency that would enforce
- A) social regulation.
 - B) economic regulation.
 - C) antitrust laws.
 - D) price discrimination.

Answer: A

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 3) The two basic types of government regulation are
- A) regulation of natural monopolies and regulation of cartels.
 - B) economic regulation and industry regulation.
 - C) social regulation and labor law.
 - D) social regulation and economic regulation.

Answer: D

Diff: 1

Topic: 27.1 Forms of Industry Regulation

Question Status: Previous Edition

- 4) The Securities and Exchange Commission and the Federal Aviation Administration are examples of agencies engaged in
- A) the regulation of natural monopolies.
 - B) the regulation of nonmonopolistic industries.
 - C) social regulation.
 - D) health and safety regulation.

Answer: B

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

5) Which of the following federal agencies is NOT engaged in social regulation?

- A) Environmental Protection Agency
- B) Federal Trade Commission
- C) Food and Drug Administration
- D) Federal Deposit Insurance Corporation

Answer: D

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

6) Which of the following federal agencies is NOT engaged in economic regulation?

- A) The Federal Reserve
- B) Federal Aviation Administration
- C) Food and Drug Administration
- D) Federal Deposit Insurance Corporation

Answer: C

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: New

7) Which type of regulation applies to all firms in the economy, as opposed to only covering specific industries?

- A) Economic regulation
- B) Social regulation
- C) Rate regulation
- D) Statutory regulation

Answer: B

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

8) Commonwealth Edison is the only provider of electricity to many households in the Chicago area. Commonwealth Edison is regulated by the government. This type of regulation is known as

- A) the Federal Register.
- B) social regulation.
- C) the market share test.
- D) economic regulation.

Answer: D

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

9) The regulation of the prices charged by insurance companies is known as

- A) the Federal Register.
- B) social regulation.
- C) the market share test.
- D) economic regulation.

Answer: D

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 10) The Federal Trade Commission (FTC) is a regulatory agency that is responsible for preventing firms from engaging in misleading advertising. This type of regulation is known as
- A) the Federal Register.
 - B) social regulation.
 - C) the market share test.
 - D) economic regulation.

Answer: B

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Which of the following protects people from incompetent or unscrupulous producers?
- A) The Federal Register
 - B) Social regulation
 - C) The market share test
 - D) Economic regulation

Answer: B

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 12) According to OSHA standards, the air in the building that John works in is unsafe. The type of regulation that OSHA engages in is known as
- A) the Federal Register.
 - B) social regulation.
 - C) the market share test.
 - D) economic regulation.

Answer: B

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 13) One of the basic differences between social and economic regulations is that
- A) economic regulations only apply to financial institutions while social regulations apply to a greater variety of institutions.
 - B) social regulations only apply to non-profit organizations while economic regulations apply only to for-profit organizations.
 - C) economic regulations cover only particular industries while social regulations apply to all firms in the economy.
 - D) economic regulations focus on the banking industry while social regulations focus on monopolies.

Answer: C

Diff: 3

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 14) One key purpose of economic regulation is
- A) to force a firm to produce at the point at which marginal cost equals marginal revenue.
 - B) to control the quality of service provided by a monopolist.
 - C) to control the price that regulated enterprises are allowed to charge.
 - D) to focus on the impact of production on the environment and society, the working conditions under which goods and services are produced, and sometimes the physical attributes of goods.

Answer: C

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Which of the following federal agencies is engaged in social regulation?

- A) Equal Employment Opportunity Commission
- B) Office of the Comptroller of the Currency
- C) The Securities and Exchange Commission
- D) Federal Deposit Insurance Corporation

Answer: A

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: New

- 16) Which of the following federal agencies is engaged in economic regulation?

- A) Occupational Safety and Health Administration
- B) Federal Motor Carrier Safety Administration
- C) Food and Drug Administration
- D) Consumer Product Safety Commission

Answer: B

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: New

- 17) Cab drivers operating from JFK Airport to the City of New York legally must charge a specific fare. This is an example of

- A) social regulation.
- B) economic regulation.
- C) the market share test.
- D) the rate of return test.

Answer: B

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Reflective thinking skills

Question Status: Previous Edition

18) The goals of rate regulation have included the prevention of

- A) monopoly profits.
- B) oligopolistic pricing.
- C) marginal cost pricing.
- D) average cost pricing.

Answer: A

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

19) A difference between economic regulation and social regulation is that

- A) the former tends to affect the prices at which products are sold and the latter does not.
- B) the former tends to affect the profits of firms and the latter does not.
- C) the former tends to be specific to an industry and the latter tends to affect firms in all industries.
- D) the former tends to be done at the state level and the latter at the federal level.

Answer: C

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

20) The purpose of social regulation is

- A) to force a firm to produce at the point where marginal cost equals marginal revenue.
- B) to control the quality of service provided by a monopolist.
- C) to control the price that regulated enterprises are allowed to charge.
- D) to focus on the impact of production on the environment and society, the working conditions under which goods and services are produced, and sometimes the physical attributes of goods.

Answer: D

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

21) The major goal of social regulation is

- A) a better quality of life through a less polluted environment, better working conditions, and safer and better products.
- B) to make sure that firms are not earning monopoly profits.
- C) to make sure that prices are kept low enough so that every person can purchase the good.
- D) to make sure that the firm produces at the socially optimal point of production.

Answer: A

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

22) All of the following are regulatory agencies EXCEPT

- A) the National Rifle Association.
- B) the Environmental Protection Agency.
- C) the Food and Drug Administration.
- D) the Occupational Safety and Health Administration.

Answer: A

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

23) This agency is responsible for preventing businesses from engaging in misleading advertising, unfair trade practices, and monopolistic actions, as well as for protecting consumer rights.

- A) Environmental Protection Agency
- B) Food and Drug Administration
- C) Equal Employment Opportunity Commission
- D) Federal Trade Commission

Answer: D

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

24) This agency is responsible for regulating the quality and safety of foods, health and medical products, pharmaceuticals, cosmetics, and animal feed.

- A) Environmental Protection Agency
- B) Food and Drug Administration
- C) Equal Employment Opportunity Commission
- D) Federal Trade Commission

Answer: B

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

25) This agency is responsible for investigating complaints of discrimination based on race, religion, sex or age in hiring, promotion, firing, wages, testing, and all other conditions of employment.

- A) Environmental Protection Agency
- B) Food and Drug Administration
- C) Equal Employment Opportunity Commission
- D) Federal Trade Commission

Answer: C

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

26) This agency develops and enforces environmental standards for air, water, toxic waste, and noise.

- A) Environmental Protection Agency
- B) Consumer Product Safety Commission
- C) Equal Employment Opportunity Commission
- D) Occupational Safety and Health Administration

Answer: A

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

27) This agency regulates workplace safety and health conditions.

- A) Environmental Protection Agency
- B) Consumer Product Safety Commission
- C) Equal Employment Opportunity Commission
- D) Occupational Safety and Health Administration

Answer: D

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

28) This agency is responsible for protecting consumers from products posing fire, electrical, chemical, or mechanical hazards or dangers to children.

- A) Environmental Protection Agency
- B) Consumer Product Safety Commission
- C) Equal Employment Opportunity Commission
- D) Occupational Safety and Health Administration

Answer: B

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

29) The two basic types of government regulation are

- A) monopoly and oligopoly regulation.
- B) labor and environmental regulation.
- C) federal and state industrial regulation.
- D) economic and social regulation.

Answer: D

Diff: 1

Topic: 27.1 Forms of Industry Regulation

Question Status: Previous Edition

- 30) The two basic types of government regulation are
- A) economic regulation and monopoly regulation.
 - B) economic and social regulation.
 - C) social regulation and health and safety regulation.
 - D) social regulation and financial regulation.

Answer: B

Diff: 1

Topic: 27.1 Forms of Industry Regulation

Question Status: Previous Edition

- 31) While economic regulation applies to _____ industries, social regulation applies to _____ firms.
- A) particular; individual
 - B) particular; all
 - C) all; individual
 - D) utility; healthcare

Answer: B

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Which of the statements best describes the difference between economic regulation and social regulation?
- A) There are no significant differences between economic and social regulation, social regulation is a more modern way of regulating an economy.
 - B) Economic regulation focuses on output and price; social regulation focuses on improving the quality of life.
 - C) Social regulation focuses on output and price; economic regulation focuses on quality of life issues.
 - D) Social regulation targets industries like transportation, while economic regulation targets utilities.

Answer: B

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Since 1970, federal expenditures by regulatory agencies have
- A) remained constant.
 - B) decreased slightly.
 - C) increased dramatically.
 - D) increased slightly.

Answer: C

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 34) All of the following are forms of social regulation EXCEPT
- A) the Food and Drug Administration regulating the quality of drugs.
 - B) the Public Utility Commission regulating the price of telephone service.
 - C) the Environmental Protection Association regulating automobile emissions.
 - D) the Occupational Safety and Health Administration regulating workplace safety.

Answer: B

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Revised

- 35) Regulation imposed by such organizations as the Food and Drug Administration or the Environmental Protection Agency seeking to protect the welfare of people in our nation is referred to as

- A) moral regulation.
- B) natural regulation.
- C) rate-of-return regulation.
- D) social regulation.

Answer: D

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Revised

- 36) The federal regulatory agency whose mission is to regulate workplace health and safety is the
- A) AFL-CIO.
 - B) FTC.
 - C) OSHA.
 - D) SEC.

Answer: C

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Revised

- 37) Which of the following is concerned with social regulation?
- A) Federal Reserve Board
 - B) Sherman Commission
 - C) Food and Drug Administration
 - D) Board of Education

Answer: C

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Revised

- 38) An agency that regulates product markets is the
- A) Equal Employment Opportunity Commission.
 - B) Environmental Protection Agency.
 - C) Federal Trade Commission.
 - D) Occupational Safety and Health Administration.

Answer: C

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Revised

- 39) An agency that regulates labor markets is the
- A) Equal Employment Opportunity Commission.
 - B) Environmental Protection Agency.
 - C) Federal Trade Commission.
 - D) Consumer Product Safety Commission.

Answer: A

Diff: 1

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Revised

- 40) Social regulation is focused on all of the following EXCEPT
- A) the impact of production on the environment and society.
 - B) better working conditions, and safer and better products.
 - C) a better quality of life through a less polluted environment.
 - D) ensuring costs are minimized and benefits are maximized.

Answer: D

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Revised

- 41) The Federal Register
- A) itemizes state and local government spending.
 - B) is used to track immigration.
 - C) publishes all the new federal regulatory rules.
 - D) has decreased in size.

Answer: C

Diff: 1

Topic: 27.1 Forms of Industry Regulation

Question Status: Revised

- 42) Financial markets are regulated by
- A) the Securities and Exchange Commission.
 - B) the Stock and Bond Exchange Commission.
 - C) the Security and Protection Commission.
 - D) the Stock and Exchange Commission.

Answer: A

Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Revised

43) What is the main difference between economic regulation and social regulation?

Answer: Economic regulation involves only particular industries, including policies aiming at controlling prices or influencing the characteristics of specific products. In contrast, social regulation applies to all firms in the economy and aims at improving the quality of life by, for example, regulating product safety, advertising and environmental effects.

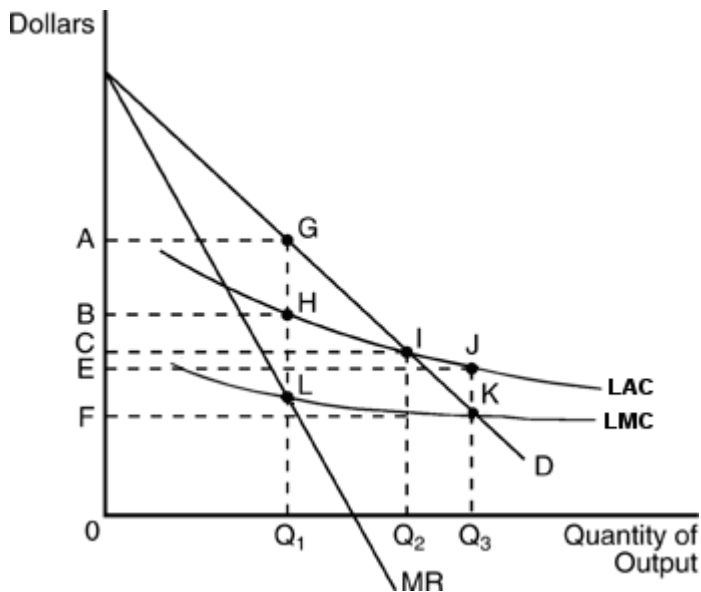
Diff: 2

Topic: 27.1 Forms of Industry Regulation

AACSB: Analytic skills

Question Status: Previous Edition

27.2 Regulating Natural Monopolies



- 1) In the above figure, if this natural monopolist were forced to use marginal cost pricing, it would produce
- A) at Q_1 output rate.
 - B) at Q_2 output rate.
 - C) at Q_3 output rate.
 - D) past the Q_3 output rate.

Answer: C

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Revised

- 2) In the above figure, if this natural monopolist were unregulated, the profit maximizing firm would produce
- A) at Q_1 output rate.
 - B) at Q_2 output rate.
 - C) at Q_3 output rate.
 - D) past the Q_3 output rate.

Answer: A

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: New

- 8) If a public service commission requires a natural monopoly to set its price equal to the long-run marginal cost, this will result in
- A) excessive economic profits to the monopoly.
 - B) normal economic profits to the monopoly.
 - C) losses to the monopoly.
 - D) either economic profits or losses, depending on the efficiency of the monopoly.

Answer: C

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Revised

- 9) Suppose that a regulatory agency has imposed marginal cost pricing on a natural monopolist. We expect that
- A) the firm will earn only a normal profit.
 - B) the firm's average total cost of production is rising over the relevant range of production.
 - C) the firm will earn economic profits.
 - D) the firm will eventually go out of business.

Answer: D

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Revised

- 10) Regulators usually encourage natural monopolists to engage in
- A) marginal cost pricing.
 - B) average cost pricing.
 - C) marginal cost pricing, with subsidies from the government offsetting the losses.
 - D) inefficient pricing.

Answer: B

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Revised

- 11) In a natural monopoly situation,
- A) there are large economies of scale relative to demand.
 - B) the firm has an upward sloping average cost curve.
 - C) producers try to differentiate their product with advertising.
 - D) there is no need for government regulation.

Answer: A

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 12) In average cost pricing, the natural monopoly would have to set price equal to
- A) AFC.
 - B) AVC.
 - C) ATC.
 - D) MC.

Answer: C

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 13) In marginal cost pricing, the natural monopoly would have to set price equal to
A) AFC. B) AVC. C) ATC. D) MC.

Answer: D

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: New

- 14) A natural monopoly owes its existence to
A) control of a key input.
B) persistently declining long-run average costs as scale increases.
C) patents.
D) increasing marginal returns and the ability to obtain quantity discounts from suppliers.

Answer: B

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 15) A firm that has taken advantage of economies of scale and expanded to become the only producer in the market is
A) a cartel. B) a natural monopoly.
C) a monopolistic competitor. D) an oligopolist.

Answer: B

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 16) For a natural monopoly, long-run average costs
A) fall as output increases. B) rise as output increases.
C) fall as output falls. D) rise as output falls.

Answer: A

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 17) The price charged by a monopolist is socially inefficient because the price
A) exceeds the true marginal cost of the resources used.
B) is less than the opportunity cost of the resources used.
C) puts the monopolist into a higher tax bracket.
D) is too low.

Answer: A

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

18) An unregulated natural monopolist would produce to the point at which

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

Answer: C

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

19) A regulated natural monopolist allowed to earn a "fair" rate of return would produce to the point at which

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

Answer: A

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: New

20) Without any regulation, the natural monopolist will

- A) not produce any output.
 B) produce to the point at which $P = ATC$.
 C) produce less output than it would if the industry was purely competitive.
 D) have an upward-shifting average cost curve.

Answer: C

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

21) A natural monopoly that is not regulated will choose to produce at the

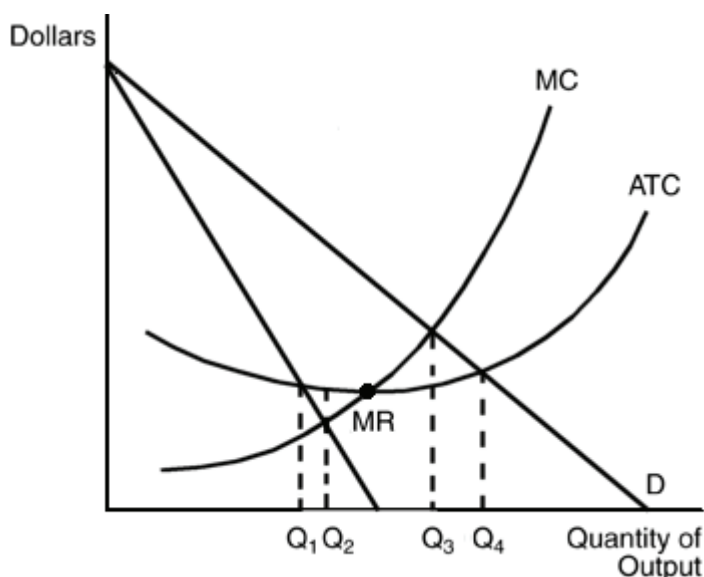
- A) minimum point of the long-run average cost curve.
 B) point at which marginal cost is above average total cost.
 C) point at which the demand curve intersects the long-run average cost curve.
 D) point at which marginal revenue equals marginal cost.

Answer: D

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition



- 22) In the above figure, which of the following statements is FALSE if the firm is operating at output level Q_2 ?

A) The output is equivalent to an unregulated monopolist.
 B) Economic profits are positive.
 C) The price is lower than at an equivalent firm forced by regulators to charge ATC pricing.
 D) Average costs would be lowered by expanding output.

Answer: C

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 23) One goal of rate-of-return regulation is the prevention of

A) free market entry.
 B) positive economic profits.
 C) poor quality service.
 D) environmental degradation.

Answer: B

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 24) The primary purpose of economic regulation of an industry is to

A) control the prices charged by the regulated industry.
 B) increase taxes across the board.
 C) reduce output.
 D) control hiring and firing within the industry.

Answer: A

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 25) If regulators disallow price increases requested by a natural monopoly that is currently earning an economic loss, quality of service will
- A) increase rapidly.
 - B) likely fall.
 - C) remain unchanged.
 - D) none of the above.

Answer: B

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Which of the following statements regarding economic regulation is TRUE?
- A) Economic regulation has failed by insisting that firms must be allowed to earn a normal rate of return.
 - B) Rate-of-return regulation has been much more effective than cost-of-service regulation.
 - C) Economic regulation deals only with rates of return, and not with prices.
 - D) Economic regulation deals mainly with prices firms charge, but firms can alter their return by altering quality of service, effectively raising the price per constant-quality-unit.

Answer: D

Diff: 3

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 27) With average cost pricing, the monopolist
- A) earns no accounting profit.
 - B) produces where $P = MC$.
 - C) earns a normal rate of return for its shareholders.
 - D) does not cover opportunity costs.

Answer: C

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 28) When promoting average cost pricing, regulators
- A) include what they consider to be a normal rate of return on investment.
 - B) encourage firms to produce at the output level where price equals marginal cost.
 - C) fail to consider a return to investors, so regulated firms often have a hard time raising investment funds.
 - D) inflate costs so much that price ends up as large as would prevail under unregulated monopoly.

Answer: A

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Regulators employ average cost pricing instead of marginal cost pricing because
- A) average cost pricing is more efficient than marginal cost pricing.
 - B) price must be high enough to cover all opportunity costs if the firm is to stay in business.
 - C) the price is lower with average cost pricing.
 - D) average cost pricing is simpler to compute than marginal cost pricing.

Answer: B

Diff: 3

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 30) A natural monopoly exists when
- A) control of a key input leads to a single-firm industry.
 - B) increasing marginal returns and the ability to obtain quantity discounts from suppliers leads to a single-firm industry.
 - C) economies of large-scale production are substantial, leading to a single-firm industry.
 - D) the government restricts entry that leads to a single-firm industry.

Answer: C

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 31) When production is characterized by persistently declining long-run average costs as output increases,
- A) the costs of production are greater when competition exists than when a single firm produces a good.
 - B) it is impossible for two firms to compete in the market.
 - C) the costs are lower if a single firm exists, and even if the firm is unregulated, price will still be lower with a single firm.
 - D) there is no need for the government to limit competition by licensing requirements.

Answer: A

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 32) An unregulated natural monopolist will produce the quantity at which
- A) average total costs are minimized.
 - B) marginal cost equals marginal revenue.
 - C) marginal cost equals the long run average cost curve.
 - D) the long-run average cost curve intersects the demand curve.

Answer: B

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

33) Which of the following statements about natural monopoly is correct?

- A) Governments regulate natural monopolies in order to ensure that costs of production are minimized.
- B) Governments regulate natural monopolies in order to ensure that the firm earns a normal profit.
- C) Governments regulate natural monopolies in order to prevent them from making profits.
- D) Governments regulate natural monopolies in order to keep their workers from earning wages that are too high.

Answer: B

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

34) If a natural monopolist is unregulated, then

- A) the monopoly will produce efficiently from society's point of view.
- B) the monopoly will produce inefficiently from society's point of view.
- C) the monopolist will be earning just a normal rate of return on investment.
- D) the monopolist will determine the profit maximizing quantity by equating marginal cost to the demand curve.

Answer: B

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

35) The reason an unregulated natural monopolist will produce at an economically inefficient quantity is

- A) due to the fact that the monopolist will equate marginal cost with price to determine the output level.
- B) due to the fact that the monopolist will equate average total cost with price to determine the output level.
- C) that the price does not equal the true marginal cost of producing the good.
- D) that the monopolist will produce a quantity greater than the minimum of the average total cost curve.

Answer: C

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

36) For a firm to be economically efficient from society's point of view, it should produce to the point at which

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

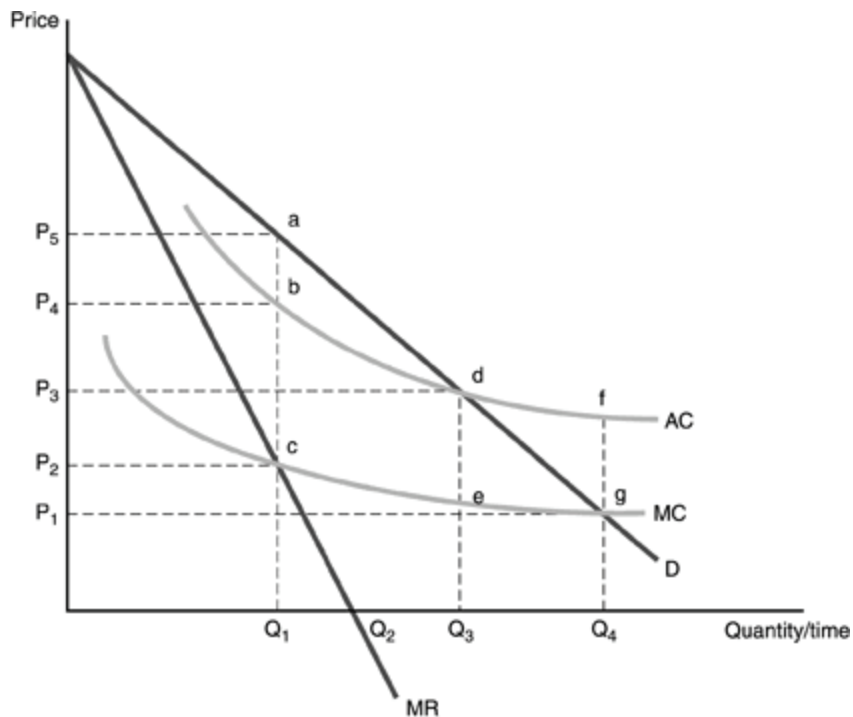
Answer: C

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition



- 37) Refer to the above figure. An unregulated natural monopolist would choose
- A) output rate of Q_1 and price P_2 .
 - B) output rate Q_1 and price P_5 .
 - C) output rate Q_3 and price P_3 .
 - D) output rate Q_4 and price P_1 .

Answer: B

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 38) Refer to the above figure. If the government requires the natural monopolist to charge the efficient price, it will charge price
- A) P_5 and sell Q_1 units.
 - B) P_2 and sell Q_1 units.
 - C) P_3 and sell Q_3 units.
 - D) P_1 and sell Q_4 units.

Answer: D

Diff: 3

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

39) Refer to the above figure. If the government uses rate-of-return regulation for the natural monopolist, the firm will charge price

- A) P_5 and sell Q_1 units.
- B) P_2 and sell Q_1 units.
- C) P_3 and sell Q_3 units.
- D) P_1 and sell Q_4 units.

Answer: C

Diff: 3

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: New

40) Refer to the above figure. Suppose the government requires the natural monopolist to charge the efficient price. Then profits for the firm will be

- A) zero.
- B) losses equal to Q_4 times distance f–g.
- C) losses equal to Q_3 times distance d–e.
- D) profits equal to Q_1 times distance a–b.

Answer: B

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

41) Refer to the above figure. An unregulated natural monopolist's profits will be

- A) profits equal to Q_1 times distance a–c.
- B) losses equal to Q_4 times distance f–g.
- C) losses equal to Q_3 times distance d–e.
- D) profits equal to Q_1 times distance a–b.

Answer: D

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: New

42) Refer to the above figure. Regulators cannot force natural monopolies to operate in the long run at a loss. Therefore, they usually require the firms to charge a price equal to

- A) marginal cost, which is P_1 .
- B) marginal cost, which is P_2 .
- C) average cost, which is P_3 .
- D) average cost, which is P_4 .

Answer: C

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

43) Refer to the above figure. What are the price and quantity if this monopolist is required to use average cost pricing?

- A) P_5 , Q_1
- B) P_3 , Q_3
- C) P_2 , Q_1
- D) P_1 , Q_4

Answer: B

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Refer to the above figure. From the standpoint of society, the optimal output is
- A) Q1 B) Q2 C) Q3 D) Q4

Answer: D

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 45) Refer to the above figure. From the standpoint of society, the optimal price is
- A) P1 B) P2 C) P3 D) P5

Answer: A

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: New

- 46) If government regulators make the natural monopolist set price equal to marginal cost
- A) the natural monopolist will make zero economic profits.
B) the natural monopolist will make normal profits.
C) the natural monopolist will make losses and go out of business.
D) the natural monopolist will make positive economic profits larger than if it wasn't regulated at all.

Answer: C

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 47) When regulating a natural monopoly, average cost pricing is usually used rather than marginal cost pricing because
- A) average cost pricing allows the firm to earn a normal rate of return on investment, while marginal cost pricing leads to economic losses.
B) average cost pricing is more economically efficient than marginal cost pricing.
C) average cost pricing leads to lower profits than marginal cost pricing.
D) average cost pricing leads to a lower market price than marginal cost pricing.

Answer: A

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 48) Under rate-of-return regulation, natural monopolies must use
- A) marginal cost pricing. B) average cost pricing.
C) efficient pricing. D) monopoly pricing.

Answer: B

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 49) Under rate-of-return regulation, average cost pricing
- A) is inflated so the firm can make economic profits.
 - B) includes variable costs but not a cost for capital.
 - C) includes what they consider to be a fair rate of return on investment.
 - D) includes a cost for capital that generates an above normal rate of return.

Answer: C

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 50) Cost-of-service-regulation sets prices by considering
- A) the actual variable cost of providing the service to the customer.
 - B) the actual total cost of providing the service to the customer.
 - C) the actual average cost of providing the service to the customer.
 - D) the actual marginal cost of providing the service to the customer.

Answer: C

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 51) Under rate-of-return regulation, the price is set so that
- A) price equals the marginal cost of production.
 - B) the firm earns a positive economic profit.
 - C) the firm earns a monopoly profit.
 - D) the firm earns a normal rate of return on investment.

Answer: D

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 52) Which of the following best describes the difference between cost-of-service regulation and rate-of-return regulation?
- A) Costs determine prices in cost-of-service regulation and prices determine costs in rate-of-return regulation.
 - B) Costs determine prices in cost-of-service regulation and prices are set in rate-of-return regulation so the firm can make a normal rate of return.
 - C) Variable costs determine prices in cost-of-service regulation and prices are set in rate-of-return regulation so the firm can make an economic profit.
 - D) Regulators determine prices in cost-of-service regulation and market forces determine prices in rate-of-return regulation.

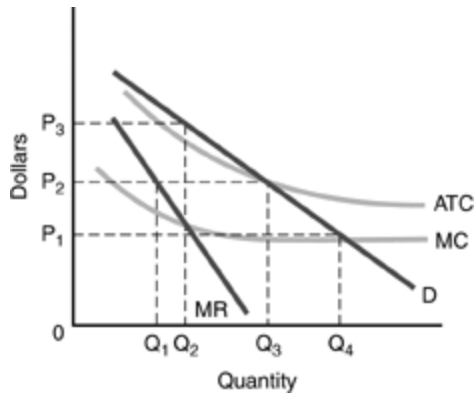
Answer: B

Diff: 3

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition



- 53) Use the above figure. A regulatory commission sets the maximum price this monopolist can charge at P_1 . If this monopolist were to produce, it
- A) would produce Q_4 output and generate losses.
 - B) would produce Q_4 output and generate profits.
 - C) would produce Q_2 output and generate losses.
 - D) would produce Q_2 output and generate profits.

Answer: A

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 54) Use the above figure. If a commission regulates the above monopoly using fair-return (average cost pricing), then the industry's output will be _____ and the product's price will be _____.
- A) Q_1 ; P_1
 - B) Q_2 ; P_3
 - C) Q_3 ; P_2
 - D) Q_4 ; P_1

Answer: C

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 55) Use the above figure. If a commission regulates the above monopoly using marginal cost pricing, then the industry's output will be _____ and the product's price will be _____.
- A) Q_2 ; P_1
 - B) Q_2 ; P_3
 - C) Q_3 ; P_2
 - D) Q_4 ; P_1

Answer: D

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: New

56) Use the above figure. If this monopolist was not regulated, the profit-maximizing quantity and price would be

- A) Q2 and P1. B) Q2 and P3. C) Q3 and P2. D) Q4 and P1.

Answer: B

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

57) Use the above figure. Suppose that a regulatory agency requires this natural monopolist to engage in marginal cost pricing. This would lead to

- A) losses, which would drive the monopolist out of business in the long run.
B) profits, which would encourage new producers to enter the industry in the long run.
C) profits, but new firms cannot enter the industry in the long run due to high barriers to entry.
D) losses, which would encourage the monopolist to lower costs in the long run.

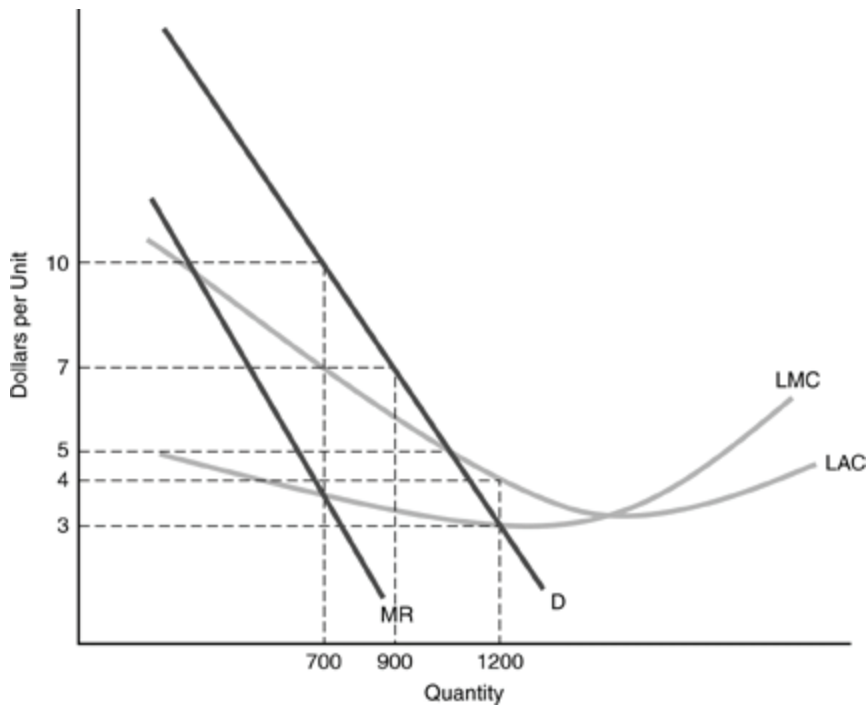
Answer: A

Diff: 3

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition



- 58) In the above figure, what would be the profit-maximizing output and price for this natural monopolist?

A) 1,200; \$3 B) 900; \$7 C) 700; \$7 D) 700; \$10

Answer: D

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 59) In the above figure, what would be the profit or loss at the profit-maximizing output for this natural monopolist?

A) -\$300 B) \$2,700 C) \$2,100 D) -\$1,200

Answer: C

Diff: 3

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 60) In the above figure, if the monopolist engages in marginal cost pricing, what are its output and price?

A) 1,200, \$3 B) 900, \$7 C) 700, \$7 D) 700, \$10

Answer: A

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Revised

- 61) In the above figure, what would be the profit or loss at the marginal cost pricing point for this natural monopolist?

A) -\$300 B) \$2,700 C) \$2,100 D) -\$1,200

Answer: D

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 62) In the above figure, what will be the output level produced if average cost pricing is used?

A) 1,200 B) 900
C) 700 D) somewhere between 900 and 1,200

Answer: D

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 63) Natural monopolies

A) have one lowest-cost producer in an industry.
B) are not regulated.
C) have long-run average costs equal to zero.
D) do not experience economies of scale.

Answer: A

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 64) Which of the following is the BEST example of a natural monopoly?

A) book publisher B) electric utility
C) tobacco products company D) airline

Answer: B

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 65) If a regulator forced a natural monopolist to set $P = MC$,

A) the monopolist would earn economic profits.
B) the monopolist would suffer economic losses.
C) the monopolist would break even.
D) the monopolist would earn monopolistic profits.

Answer: B

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 66) When a regulator allows a monopolist to set its price equal to long-run average cost, the regulator is practicing
- A) marginal cost pricing.
 - B) operating cost pricing.
 - C) average cost pricing.
 - D) optimal cost pricing.

Answer: C

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 67) The following table depicts the cost and demand structure a natural monopoly faces. Provided that the firm operates as a monopolist, what is the price charged and quantity produced in order to maximize profits?

Quantity	Price (\$)	Total Revenue	Marginal Revenue	Total Cost	Marginal Cost
0	1,000	0	0	0	0
1	900	900	900	800	800
2	800	1,600	700	1,400	600
3	700	2,100	500	1,900	500
4	600	2,400	300	2,400	500
5	500	2,500	100	2,800	400
6	400	2,400	100	3,200	400

- A) price charged of \$900 and quantity produced of 1
- B) price charged of \$800 and quantity produced of 2
- C) price charged of \$700 and quantity produced of 3
- D) price charged of \$600 and quantity produced of 4

Answer: C

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 68) Regulation of a natural monopoly that forces it to price and produce as if it were a competitive firm results in
- A) the market being instantly competitive.
 - B) higher profits for the monopoly.
 - C) economic losses for the monopoly.
 - D) a highly unstable marketplace.

Answer: C

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 72) Regulation that is based on allowing prices to reflect only the actual operating cost of production is known as
- A) average cost regulation.
 - B) marginal cost regulation.
 - C) rate-of-return regulation.
 - D) cost-of-service regulation.

Answer: D

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 73) Regulation that is based upon the cost of providing the good or service is known as
- A) rate-of-return regulation.
 - B) cost-of-service regulation.
 - C) social regulation.
 - D) deregulation.

Answer: B

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

- 74) Regulation that keeps the rate of return in the industry competitive is known as
- A) rate-of-return regulation.
 - B) cost-of-service regulation.
 - C) social regulation.
 - D) deregulation.

Answer: A

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition

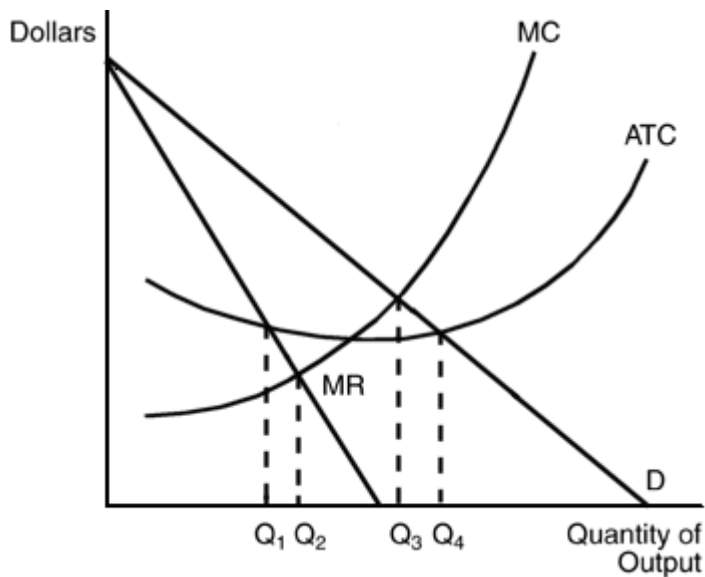
- 75) Which of the following is NOT an objective of economic regulation?
- A) to regulate the prices enterprises are allowed to charge
 - B) to fix prices so that they are never allowed to rise
 - C) to keep rates of return in an industry at a competitive level
 - D) to prevent monopoly profits

Answer: B

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Previous Edition



- 76) In the above figure, a regulation requiring average cost pricing would force the firm to produce at output level
- A) Q_1 . B) Q_2 . C) Q_3 . D) Q_4 .

Answer: D

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Revised

- 77) In the above figure, an unregulated natural monopolist will produce output level
- A) Q_1 . B) Q_2 . C) Q_3 . D) Q_4 .

Answer: B

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Revised

- 78) Cost-of-service regulation allows regulated companies to charge prices that
- A) reflect the cost of regulating the industry, plus the marginal cost of the product.
- B) allow monopoly profits to the producer.
- C) reflect the actual average cost of providing the services to the customer.
- D) are determined by competition in other geographic markets.

Answer: C

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

Question Status: Revised

- 79) The difference between cost-of-service regulation and rate-of-return regulation is that
- A) the former sets prices based on actual costs, and the latter focuses on setting prices such that the firm earns a normal rate of return.
 - B) the latter sets prices first, and then the firm must keep costs in line if it wants to earn a profit, and the former sets price high enough to cover costs.
 - C) the former uses marginal cost pricing and the latter uses average cost pricing.
 - D) the former uses average cost pricing and the latter uses marginal cost pricing.

Answer: A

Diff: 3

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Revised

- 80) One type of economic regulation often used in the United States by various public utility commissions allows prices to reflect only the actual cost of production and no monopoly profits. This type of economic regulation is known as
- A) rate-of-return regulation.
 - B) cost-of-service regulation.
 - C) price per constant-quality-unit regulation.
 - D) creative response regulation.

Answer: B

Diff: 1

Topic: 27.2 Regulating Natural Monopolies

Question Status: Revised

- 81) What is the problem with marginal cost pricing in the natural monopoly situation? How do regulatory agencies in the United States usually handle the problem?

Answer: If the firm is a natural monopoly, then long-run average costs are downward sloping over the entire range of demand, which implies marginal cost lies below average cost. If price equals marginal cost, price will be below average cost and the firm will earn economic losses. In the long run, it will go out of business, so marginal cost pricing is not feasible. Most regulatory agencies strive for average cost pricing so that the owners receive a normal rate of return on investment.

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Revised

- 82) Why do government regulators not enforce marginal cost pricing for natural monopolies? What are the common regulatory solutions?

Answer: If government regulators enforce marginal cost pricing for natural monopolies, then the firms will face losses and eventually go out of business. Instead, the common regulatory solutions include allowing firms to charge a price that covers the average cost of production or to set a price that ensure a normal return on investment.

Diff: 2

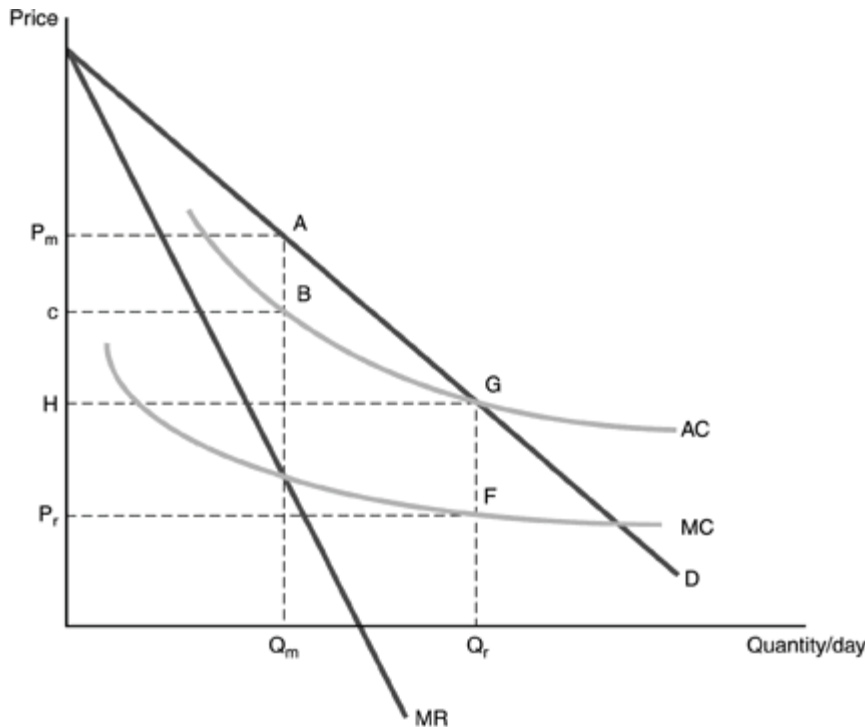
Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 83) Using a graph, show the price–output combination of a natural monopoly without regulation and the price–output combination if the government requires the monopoly to earn a normal rate of return. What are economic profits in each situation?

Answer:



In the above figure, the profit-maximizing price is P_m and the output is Q_m . Profits are P_mABC . Under rate-of-return regulation, price is equal to average total cost, H , and Q_r is the output at this price. The firm earns zero economic profits.

Diff: 3

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 84) Distinguish between cost-of-service regulation and rate-of return regulation. What problem is inherent in both types of regulation?

Answer: Cost-of-service regulation allows the regulated companies to charge only prices that reflect the actual average cost of providing the services to the customers. Rate-of-return regulation allows regulated companies to set prices that ensure a normal rate of return on investment. A problem with both types is quality of service. Firms charge a regulated price but if quality deteriorates the price per constant-quality increases. Quality is hard to measure so it is hard for the regulators to control.

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Analytic skills

Question Status: Previous Edition

- 85) "Today the U.S. telecommunications industry remains heavily regulated by the government as it was some 30 years ago." Do you agree or disagree? Why?

Answer: Disagree. The telecommunications industry today is far from a natural monopoly as it was some 30 years ago, because consumers have increasingly substituted cellular and Web-based phone services for the traditional wired phone services. In addition, multiple wired-service operators compete today in many locales. All these factors make the U.S. telecommunications industry more competitive today.

Diff: 2

Topic: 27.2 Regulating Natural Monopolies

AACSB: Reflective thinking skills

Question Status: Previous Edition

27.3 Regulating Nonmonopolistic Industries

- 1) Which of the following is a possible market solution to the lemons problem?
- A) Producers might offer product guarantees and warranties.
 - B) Producers might be required to meet certain legal standards to obtain licenses granting the right to sell their products.
 - C) Government agencies might be charged with directly overseeing production and distribution of certain products.
 - D) Liability laws might be established to ensure that firms selling certain products must face penalties in the event the products function poorly.

Answer: A

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Revised

- 2) One problem that might occur as a result of economic regulation is
- A) the firm may be earning more than a normal rate of return on investment.
 - B) the quality of service might be lowered.
 - C) that social regulation may follow.
 - D) the demand for the good may be greater than the supply.

Answer: B

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

Question Status: Revised

- 3) The potential for asymmetric information to bring about a general decline in product quality in an industry is known as the _____ problem.
- A) moral hazard
 - B) liability
 - C) capture
 - D) lemons

Answer: D

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

Question Status: Previous Edition

- 4) When consumers have less information about a product than do sellers, then this is the situation of
- A) asymmetric information. B) symmetric information.
C) caveat emptor. D) a market failure.

Answer: A

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

Question Status: Previous Edition

- 5) Which of the following is the outcome of the lemons problem in the used-car market?
- A) Only low-quality cars will be traded in the market.
 - B) Only high-quality cars will be traded in the market.
 - C) Both low-quality and high-quality cars will be traded in the market.
 - D) No cars will be traded in the market.

Answer: A

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Previous Edition

- 6) The lemons problem is a situation of
- A) perfect competition. B) asymmetric information.
- C) creative response. D) a natural monopoly.

Answer: B

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

Question Status: Previous Edition

- 7) Which of the following is NOT a likely market solution to the lemons problem?
- A) average cost pricing B) product warranty
C) industry standard D) product certification

Answer: A

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Credence goods are particularly susceptible to the lemons problem because
- A) they have qualities that are difficult for producers to fully assess.
 - B) they have qualities that are difficult for consumers to fully assess.
 - C) creative responses among producers create volatility in market supply.
 - D) creative responses among consumers create volatility in market demand.

Answer: B

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The main rationale for government regulatory functions is
- A) to regulate for-profit institutions.
 - B) to make sure that firms are maximizing profits.
 - C) to expand the scope of the government.
 - D) to protect consumer interests.

Answer: D

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

Question Status: Previous Edition

- 10) Which of the following is NOT a reason for the government to regulate a nonmonopolistic industry?
- A) To allow firms to achieve the profit maximizing output.
 - B) Asymmetric information.
 - C) To protect consumer interests.
 - D) Market failures.

Answer: A

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

Question Status: Previous Edition

- 11) During the production process Ajax Corporation releases pollution into the air. Ajax Corporation operates in a monopolistic competitive industry. Which of the following statements addresses the pollution situation?
- A) Ajax is taking advantage of asymmetric information.
 - B) This is an example of a market failure and is a reason for the government to regulate the industry.
 - C) The quality of the product could be improved if the amount of pollution can be reduced.
 - D) This is known as the lemons problem.

Answer: B

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Asymmetric information is
- A) when a market failure occurs.
 - B) an externality.
 - C) when the producer has information on the product that the consumer lacks.
 - D) the regulatory price for a natural monopoly.

Answer: C

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

Question Status: Previous Edition

13) The lemons problem occurs mainly because of

- | | |
|----------------------------|----------------------|
| A) asymmetric information. | B) a market failure. |
| C) negative externality. | D) a monopoly. |

Answer: A

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Previous Edition

14) The problem of excess pollution mainly occurs because of

- | | |
|----------------------------|----------------------------|
| A) asymmetric information. | B) a positive externality. |
| C) a negative externality. | D) a monopoly. |

Answer: C

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: New

15) The problem of asymmetric information that brings about a general decline in product quality in an industry is

- | | |
|-----------------------|---|
| A) a market failure. | B) the result of government regulation. |
| C) creative response. | D) the lemons problem. |

Answer: D

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

Question Status: Previous Edition

16) A possible market solution that a reputable firm can engage in when faced with the lemons problem is

- | | |
|--------------------------------------|---------------------------------|
| A) to offer a warranty. | B) to engage in externalities. |
| C) to create asymmetric information. | D) to use average cost pricing. |

Answer: A

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Previous Edition

17) Which of the following is NOT a government response to asymmetric information?

- | | |
|------------------------------|-------------------------|
| A) Liability laws | B) Social regulation |
| C) Manufacturer's warranties | D) Government licensing |

Answer: C

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Which of the following is a government response to asymmetric information?
- A) Product guarantees
 - B) External product certification
 - C) Manufacturer's warranties
 - D) Government licensing

Answer: D

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: New

- 19) Which of the following is most subject to the lemons problem?
- A) credence goods
 - B) homogeneous goods
 - C) search goods
 - D) inferior goods

Answer: A

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Previous Edition

- 20) The two most important rationales for government intervention in non-monopolistic markets are
- A) market failure and asymmetric information.
 - B) substandard products and job creation for public employees.
 - C) job creation and income maintenance.
 - D) unfair pricing and usury.

Answer: A

Diff: 1

Topic: 27.3 Regulating Nonmonopolistic Industries

Question Status: Previous Edition

- 21) The potential for a decline in product quality due to asymmetric information is commonly referred to as
- A) the lemons problem.
 - B) planned obsolescence.
 - C) diminishing marginal product.
 - D) the externality problem.

Answer: A

Diff: 2

Topic: 27.3 Regulating Nonmonopolistic Industries

Question Status: Previous Edition

- 22) What are the major rationales for consumer protection in nonmonopolistic industries?

Answer: The main rationales for consumer protection in nonmonopolistic industries are: (1) the presence of market failures, which induce governments to correct the externalities ; and (2) the presence of asymmetric information for certain products so that the government can ensure consumers are protected.

Diff: 2

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Previous Edition

23) What is the lemons problem? How do firms try to address this problem?

Answer: The lemons problem occurs when asymmetric information leads to a general decline in product quality in an industry. Firms try to address this problem by offering product guarantees and warranties, providing industry standards and offering product certification, all of which help consumers separate high-quality products from low-quality products.

Diff: 2

Topic: 27.3 Regulating Nonmonopolistic Industries

AACSB: Analytic skills

Question Status: Previous Edition

27.4 Incentives and Costs of Regulation

1) The benefits of social regulation usually are

- A) small.
- B) obvious to people while the costs are hidden.
- C) less than the costs of social regulation, reducing overall welfare.
- D) difficult to measure.

Answer: D

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Revised

2) All of the following are possible criticisms of social regulation EXCEPT

- A) that the costs may outweigh the benefits.
- B) that social regulation may create anticompetitive effects.
- C) that the regulations have not resulted in safer working conditions.
- D) that the regulations lead to higher production costs.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Revised

3) A firm that responds to a regulatory rule in a way that permits technical compliance while allowing the firm to violate the spirit of the regulation has.

- A) reduced the scope of the lemons problem.
- B) shared the gains and pains of regulation.
- C) engaged in a creative response to regulation.
- D) become a captured regulator.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 4) According to the text, the federal government spends the most taxpayer-provided funds regulating which area of the economy?

A) The environment
B) Finance and banking
C) Consumer safety and health
D) Transportation

Answer: D

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 5) A potential benefit that comes from social regulations would be

A) higher costs.
B) a cleaner environment.
C) higher tax collections.
D) more layoffs.

Answer: B

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 6) According to the text, critics point out that the costs incurred by firms due to regulations

A) increase production costs.
B) lower production costs to the shutdown point.
C) reduce taxes too far.
D) none of the above.

Answer: A

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 7) The benefits of social regulation are

A) easy to measure by the marginal value method.
B) often difficult to measure.
C) obvious to almost everyone, but the costs are usually hidden.
D) greater than the costs of social regulation in every example in the country today.

Answer: B

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Regulation focused on the impact of production on the environment and society, the working conditions under which production occurs, or the physical attributes of goods, is known as

A) cost-of-service regulation.
B) rate-of-return regulation.
C) social regulation.
D) monopoly regulation.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 9) Which of the following is an example of an agency concerned with social regulation?
- A) Federal Communications Commission
 - B) Securities and Exchange Commission
 - C) Consumer Product Safety Commission
 - D) Federal Energy Regulatory Commission

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Which of the following statements can correctly be made about social regulation?
- I. Extensive social regulation may have an anticompetitive effect.
 - II. The benefits of social regulation are easier to measure than are the costs of social regulation.
- A) I only
 - B) II only
 - C) Both I and II
 - D) Neither I nor II

Answer: A

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 11) A creative response to regulations can be described as
- A) conforming to the letter of the law but undermining its spirit.
 - B) totally conforming to the law.
 - C) completely ignoring the law.
 - D) none of the above.

Answer: A

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 12) In some cases, social regulation may alter individuals' behavior. For example, there is evidence to indicate that as more automobile safety regulations have been introduced, more individuals have begun to drive recklessly. This phenomenon is known as
- A) the feedback effect.
 - B) the share-the-gains effect.
 - C) the share-the-pains effect.
 - D) the capture effect.

Answer: A

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 13) Which of the following refers to the capture hypothesis of regulation?
- A) The ability of the government to capture monopoly profits
 - B) The control of regulatory agencies by firms in an industry
 - C) Consumer cost savings captured through regulation
 - D) Horizontal mergers

Answer: B

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 14) The notion that regulated industry members themselves, sooner or later, are able to control regulatory bodies is referred to as
- A) consumerism.
 - B) cartelization.
 - C) the capture theory.
 - D) the control theory.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 15) The capture hypothesis suggests that
- A) marginal cost regulation is superior to average cost regulation.
 - B) the well-focused interests of consumers will lead to the over-regulation of most industries.
 - C) the firms being regulated will unduly influence the regulators.
 - D) regulation will lead to over-entry and eventual losses for firms in the industry.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 16) The "capture" in the capture hypothesis occurs because
- A) regulators try to promote everyone's best interest.
 - B) society doesn't care for regulatory agencies.
 - C) regulators always know what is in society's best interest.
 - D) regulators usually have been or will be associated with the industries they regulate.

Answer: D

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 17) According to the capture hypothesis,
- A) regulators eventually support the views of consumers instead of the firms or the taxpayers, regardless of the reasons why the regulatory agency was established.
 - B) regulators support the view of the regulated firms all along because that is the reason the regulatory agency was established.
 - C) regulators eventually support the views of the regulated firms instead of the consumers or taxpayers, regardless of why the regulatory agency was established.
 - D) regulators eventually support the views of either the firms or the consumers, but at the expense of the taxpayers, regardless of the reasons why the regulatory agency was established.

Answer: C

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 18) According to the capture hypothesis, it appears that regulators eventually end up
- A) adopting policies that benefit the firms being regulated.
 - B) adopting policies that benefit consumers at the expense of the regulated firms.
 - C) adopting policies that benefit no one.
 - D) satisfying neither producers nor consumers, but striving to control as much as possible.

Answer: A

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 19) The hypothesis that regulators eventually are controlled by the regulated firms and their special interests is the
- A) share-the-gains, share-the-pains hypothesis.
 - B) capture hypothesis.
 - C) public interest theory.
 - D) control-group hypothesis.

Answer: B

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 20) The behavior of regulators when trying to win approval for their actions from their entire constituency is best described by the
- A) capture hypothesis.
 - B) law of increasing social well-being.
 - C) share-the-gains, share-the-pains hypothesis.
 - D) marginal benefit pricing hypothesis.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 21) The argument that suggests that regulators balance the interests of firms, consumers, and legislators is called
- A) the capture hypothesis.
 - B) the creative response theory.
 - C) the share-the-gains, share-the-pains theory.
 - D) the theory of optimal regulation.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 22) A theory of regulatory behavior, which states that regulators must take into account the preferences of legislators, producers, and consumers, is the
- A) capture theory.
 - B) share-the-gains, share-the-pains theory.
 - C) public interest theory.
 - D) general interests theory.

Answer: B

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 23) According to your text, the annual cost of regulation (federal, state and local) in the United States is estimated to exceed _____ per year.
- A) \$500 million
 - B) \$900 million
 - C) \$50 billion
 - D) \$1 trillion

Answer: D

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 24) The feedback effect can be thought of as a type of
- A) social regulation.
 - B) economic regulation.
 - C) creative response, which reduces the law's effectiveness.
 - D) regulatory lag.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 25) Suppose a dangerous workplace is made safer through the installation of guards and other equipment that reduce the physical hazards of the work environment. If we observe no reduction in injuries, we might conclude that
- A) the safety equipment isn't adequate and better equipment should be installed.
 - B) the firm has responded by lowering wages and hiring less capable people who are more likely to be injured.
 - C) the injury rate before installation of the safety equipment had been underreported.
 - D) workers responded to the safer environment by not exercising as much care themselves, generating more injuries than if they had not changed their behavior.

Answer: D

Diff: 3

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Regulators often adopt policies that benefit
- A) consumers and injure producers.
 - B) the firms regulated rather than consumers.
 - C) only the government.
 - D) no one.

Answer: B

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 27) The hypothesis that regulators eventually adopt policies that benefit the producers in the industry is known as the
- A) capture hypothesis.
 - B) producers' hypothesis.
 - C) share-the-gains, share-the-pains hypothesis.
 - D) it's-a-rip-off hypothesis.

Answer: A

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 28) Under the U.S. system of regulation, most regulars are selected from
- A) politicians and their friends.
 - B) the industry that is to be regulated.
 - C) consumer advocacy groups.
 - D) university professors who understand the nature of the industry and who understand the true interests of consumers.

Answer: B

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 29) According to the capture hypothesis of regulation,
- A) regulation favors producers over consumers because the producers were able to pay off the regulators.
 - B) regulation eventually favors producers over consumers because the producers have more at stake than individual consumers.
 - C) regulation benefits the regulators and the legislators who support the regulation by enabling them to obtain favors from both producers and consumers.
 - D) regulation benefits the consumers over producers because the number of consumers is greater than the number of producers, giving the consumers more political clout.

Answer: B

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Economists who think the capture theory explains regulatory behavior will support their claims by noting that
- A) regulation as carried out in this country generates larger profits for the firms and does not generate lower prices for consumers.
 - B) consumers actually dominate regulatory hearings through the influence of consumer advocacy groups.
 - C) Congress ensured that consumers have more influence on the decisions of regulators by setting up the agencies in ways that insulated the regulators from the regulated firms.
 - D) the firms that are regulated have greater incentive to try to influence regulators than do consumers.

Answer: D

Diff: 3

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 31) According to the _____ theory of regulation, regulators must take into account the preferences of legislators, consumers, and producers.
- A) capture
 - B) general interest
 - C) public interest
 - D) share-the-gains, share-the-pains

Answer: D

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 32) The "primary motive" of regulators, according to the share-the-gains, share-the-pains theory, is to
- A) maximize their income through accepting monetary payoffs from groups.
 - B) ensure that every group gets what it wants.
 - C) ensure that all customers share the benefits of regulation, and not just the wealthiest consumers.
 - D) keep their jobs.

Answer: D

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Suppose technical change makes it cheaper for cable television suppliers to supply their service. The capture theory would predict that the regulators would
- A) allow the firms to capture the savings and would lower price only if the firms asked them to.
 - B) force the firms to pass the savings on to consumers in the form of lower prices.
 - C) force the firms to pass the savings on to consumers in the form of better service.
 - D) force the firms to pass some of the savings on to consumers and permit them to keep some of the savings for themselves.

Answer: A

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 34) Suppose technical change permits cable television companies to provide their services at lower rates. The share-the-gains, share-the-pains theory would predict that the regulators would
- A) permit the firms to keep the savings and would lower prices only if the firms were pressured to do so.
 - B) force the firms to pass all the savings on to consumers in the form of lower prices.
 - C) force the firms to pass the savings on to consumers in the form of better service.
 - D) force the firms to pass some of the savings on to consumers and to permit the firms to keep some of the savings themselves.

Answer: D

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Suppose that a regulated industry experiences an increase in the price of inputs used to produce the good. According to the capture theory, we would expect
- A) prices to increase by a little immediately and profits to decrease by a lot.
 - B) there will be some increase in price but not immediately.
 - C) no increase in price.
 - D) a quick increase in price maintains profits in the industry.

Answer: D

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 36) An automobile manufacturer voluntarily recalls certain models to fix a defective part at no cost to the owners. This action has the effect of
- A) the lemon problem.
 - B) a manufacturer's warranty.
 - C) a market failure.
 - D) none of the above

Answer: B

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 37) Suppose that a regulated industry experiences an increase in the price of inputs used to produce the good. According to the share-the-gains, share-the-pain theory, we would expect
- A) prices to increase by a little immediately and profits to decrease by a lot.
 - B) there will be some increase in price but not immediately.
 - C) no increase in price.
 - D) a quick increase in price maintains profits in the industry.

Answer: B

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 38) Suppose that a regulated industry experiences an increase in the price of inputs used to produce the good. Which of the following statements is true?
- A) Under both the capture theory and the share-the-gains, share-the-pain theory profits will decrease.
 - B) An increase in price will occur quicker in the share-the-gains, share-the-pain theory than the capture theory.
 - C) An increase in price will occur quicker in the capture theory than the share-the-gains, share-the-pain theory.
 - D) In the capture theory there will be an increase in price but not in the share-the-gains, share-the-pain theory.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 39) The costs of regulation
- A) include increased taxes and increased prices of the products being regulated.
 - B) are paid entirely by the regulated industries.
 - C) are more than covered by the benefits gained from the regulation.
 - D) are relatively small.

Answer: A

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 40) The *total* costs of regulation
- A) include increased taxes and increased prices of the products being regulated.
 - B) are paid entirely by the regulated industries.
 - C) much higher than just the explicit government outlays to fund the administration of various regulations.
 - D) are paid entirely by the consumers of regulated industries.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: New

- 41) The *total* costs of federal regulation
- A) encompasses only explicit costs of satisfying regulatory demands.
 - B) also includes the explicit costs associated with regulations issued by 50 different state governments.
 - C) encompasses only opportunity costs of satisfying regulatory demands.
 - D) encompasses both explicit and opportunity costs of satisfying regulatory demands..

Answer: D

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: New

- 42) One undesirable effect of social regulation is that it
- A) affects smaller firms disproportionately, creating anticompetitive effects.
 - B) destroys incentives for firms to engage in marginal cost pricing.
 - C) raises prices of goods to consumers, while lowering prices to business and special interest groups.
 - D) reduces the effectiveness of economic regulation.

Answer: A

Diff: 3

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 43) The Interstate Commerce Commission (ICC) regulates railroads, barges and trucks. Suppose technical change lowers the costs of railroads. As a result, the ICC permits railroads to lower prices some but also alters the rates of barges and trucks so they get additional business. The ICC would be acting consistently with
- A) the capture theory of regulation.
 - B) the public interest theory of regulation.
 - C) the share-the-gains, share-the-pains theory of regulation.
 - D) None of the theories presented in the text since economic regulation is specific to a single industry and not to agencies that cover more than one industry. That is the province of social regulation.

Answer: C

Diff: 3

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Behavior on the part of the firm that allows it to comply with the letter of the law but violate the spirit reducing the law's effect is
- A) asymmetric information.
 - B) creative response.
 - C) the lemons problem.
 - D) only a problem in a monopoly.

Answer: B

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

- 45) Which of the following is FALSE with respect to regulation?
- A) Regulated firms commonly try to avoid the effects of regulation whenever they can.
 - B) Firms engage in creative responses which conform to the letter of the law but undermine its spirit.
 - C) Regulation has resulted in state laws that have made creative response illegal in many states.
 - D) Recent regulations have generated feedback effects that undermined the key aim of the rules.

Answer: C

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 46) The theory of regulatory behavior that predicts that the "regulators" eventually will become controlled by the "regulated" is called
- A) the capture hypothesis.
 - B) the the share-the-gains, share-the-pains hypothesis.
 - C) the asymmetric information hypothesis.
 - D) the market failure hypothesis.

Answer: A

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Revised

- 47) U.S. securities firms recently agreed to pay a record amount of \$1.4 billion in settlement charges brought by government regulators. Regulators claimed that firms had abused investors during the market boom of the 1990s. Abuses included analysts tailoring their research reports and ratings on the stocks they covered in order to win more business for their firm. If this settlement causes Wall Street firms to comply with the letter of the law but they violate the spirit of the law, the firms are engaging in
- A) elimination of conflicts of interest.
 - B) creative response.
 - C) the capture hypothesis.
 - D) deregulation.

Answer: B

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Reflective thinking skills

Question Status: Previous Edition

- 48) Acme Inc. found a tricky way to conform to the letter of the law with respect to new EPA regulations, even though they violated the spirit of the law. This is called
- A) the capture theory.
 - B) collusive response.
 - C) share-the-gains, share-the-pains theory.
 - D) creative response.

Answer: D

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Revised

- 49) The theory of regulatory behavior that suggests that regulators must consider the demands of legislators, consumers, and members of the regulated agency is called
- A) the capture theory.
 - B) share-the-gains, share-the-pains theory.
 - C) the natural theory.
 - D) the creative theory.

Answer: B

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

50) When regulators identify with the special interests of the industry they regulate, this behavior conforms with the

- A) share-the-gains, share-the-pains hypothesis.
- B) rate-of-return hypothesis.
- C) lemon market hypothesis.
- D) capture hypothesis.

Answer: D

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Revised

51) The theory that regulators' behavior will eventually be compromised by the special interests they regulate is known as the

- A) capitulation hypothesis.
- B) creative hypothesis.
- C) captive hypothesis.
- D) capture hypothesis.

Answer: D

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Previous Edition

52) When the fox is guarding the henhouse, that is an example of the

- A) share-the-gains, share-the-pains theory.
- B) regulatory hypothesis.
- C) capture hypothesis.
- D) creative theory.

Answer: C

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Revised

53) When a regulator is concerned about pleasing different groups in order to keep employed, this is known as the

- A) share-the-gains, share-the-pains theory.
- B) regulatory hypothesis.
- C) capture hypothesis.
- D) creative theory.

Answer: A

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

Question Status: Revised

- 54) The cost of complying with regulation
- A) shifts the ATC curve upward.
 - B) shifts the MC curve downward.
 - C) shifts the demand curve to the right.
 - D) increases the products' price elasticity of demand.

Answer: A

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 55) Regarding the costs of regulation, which is a FALSE statement?
- A) Airline safety standards have increased the price of air travel.
 - B) Automobile safety standards raise the price of cars.
 - C) Regulatory spending by federal agencies has decreased since 1970.
 - D) Pharmaceutical manufacturing safety standards raise the price of drugs.

Answer: C

Diff: 1

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 56) The total cost of federal regulation includes
- A) the funding of government agencies overseeing compliance, the compliance cost for the regulated firms, and the opportunity cost of regulation for the firms.
 - B) the funding of government agencies overseeing compliance **less** the compliance cost for the regulated firms and the opportunity cost of regulation for the firms.
 - C) only the cost of compliance by the regulated firms.
 - D) only the funding of the regulatory agencies.

Answer: A

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 57) How does social regulation differ from economic regulation?

Answer: Social regulation focuses on the impact of production on the environment, working conditions, and the safety of goods. Economic regulation is concerned with the prices and outputs of specific goods or services. Social regulation covers firms in all industries while economic regulation usually involves particular industries. Social regulation can have a much broader impact on the economy as a whole than economic regulation.

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 58) Suppose OSHA requires a factory to install specific safety equipment to reduce the number of injuries in the factory. Would the number of accidents necessarily decline? Why or why not?

Answer: No. If the feedback effect is that workers who feel safer take fewer precautions or are more careless, the number of injuries could stay the same or even increase.

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 59) Explain the share-the-gains, share-the-pains theory. How does it differ from the capture hypothesis?

Answer: The share-the-gains, share-the-pains theory differs from the capture hypothesis in that it argues consumers are taken into consideration, at least to some extent, by the regulators. If their actions harm consumers too much, regulators know they will complain to legislators, and the regulators may be out of a job. So, they try to balance the interests of the producers and the consumers, and not give all the benefits to one group or make one group bear all the costs. The regulatory agency is not completely captured by the industry, but also takes into account consumers and legislators.

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 60) Explain the capture hypothesis.

Answer: The capture hypothesis is a theory of regulatory behavior that predicts that the regulators eventually will be captured by the special interests of the industry being regulated. It is observed that many times regulators come from the regulated industry. Further, the firms have more at stake than consumers and are more likely to organize and lobby for favors than are the consumers. Hence, over time, the regulators will tend to do what the regulated firms want rather than what the consumers want.

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

- 61) A common feature of regulated industries is cross-subsidization, which is a situation when one group of customers pays prices above costs while another group of customers pays prices below costs. The one group is subsidizing the other group. Is this practice more consistent with the capture hypothesis or the share-the-gains, share-the-pains theory? Explain.

Answer: Cross-subsidization is more consistent with the share-the-gains, share-the-pains theory. The capture hypothesis can explain why the firms would be able to charge prices above costs to the one group but not why they have to charge prices below costs to another group. But the share-the-gains, share-the-pains theory explains this by saying the subsidized group of customers has been able to influence the regulators so that their costs are not so great to themselves.

Diff: 3

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

62) "Regulations do not always have the intended result." Do you agree or disagree? Why?

Answer: Agree. Firms often try to avoid the effects of regulation. Firms engage in creative response, which is a response to a regulation that conforms to the letter of the law but undermines its spirit. Further, individuals may alter their behavior in ways that run counter to the goals of the regulation. For example, people may drive less carefully in safer cars, causing as many injuries as when the cars were less safe.

Diff: 3

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

63) "As compared to the benefits of economic and social regulation, the costs are minimal." Do you agree or disagree? Why?

Answer: Disagree. The total costs of regulation are substantial. First, the direct costs of regulation, which are ultimately paid for by taxpayers, include the costs to staff regulatory agencies and to fund their various activities. Second, there are social costs, which include the explicit costs and the opportunity costs of complying with the regulations.

Diff: 2

Topic: 27.4 Incentives and Costs of Regulation

AACSB: Analytic skills

Question Status: Previous Edition

27.5 Antitrust Policy

1) Government policy that attempts to prevent collusion among the sellers of a product and attempts to prevent restraint of trade is known as

- | | |
|---------------------|----------------------|
| A) social policy. | B) antitrust policy. |
| C) inherent policy. | D) goodwill policy. |

Answer: B

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

2) The first major law created to control the growth of monopoly power was the

- | | |
|-----------------|-------------------------|
| A) Sherman Act. | B) Clayton Act. |
| C) FTC Act. | D) Robinson-Patman Act. |

Answer: A

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

3) Which of the following is NOT an antitrust law?

- | | |
|----------------------------|-------------------------|
| A) The Robinson-Patman Act | B) The Smoot-Hawley Act |
| C) The FTC Act | D) The Sherman Act |

Answer: B

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 4) One weakness of the Sherman Act is that
- A) it fails to clearly define restraint of trade.
 - B) it applies only to foreign monopolies.
 - C) it applies only to the steel and railroad industries.
 - D) none of the above

Answer: A

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 5) The U.S. Justice Department prosecuted Microsoft under the terms of
- A) the Sherman Act.
 - B) the Kefauver amendment.
 - C) the 1933 amendment to the Federal Trade Commission Act.
 - D) none of the above.

Answer: A

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Use of information technology

Question Status: Previous Edition

- 6) A major shortcoming of the Sherman Act was that
- A) when it was passed, there were no violations, so the Supreme Court ruled it unnecessary.
 - B) it failed to explicitly state which specific activities were illegal.
 - C) violators of the Act were forced out of business.
 - D) it was not enforced by the courts.

Answer: B

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 7) The first antitrust law in the United States was the
- A) FTC Act.
 - B) Clayton Act.
 - C) Sherman Act.
 - D) Robinson-Patman Act.

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The primary antitrust statute in the United States is the
- A) NLRA of 1935.
 - B) SEC Act of 1933.
 - C) Sherman Antitrust Act of 1890.
 - D) Federal Reserve Act of 1913.

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

9) Which of the following would most likely promote competitive pricing of products?

- A) Robinson–Patman Act
- B) Wheeler–Lea Act
- C) Federal Trade Commission Act
- D) Clayton Act

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

10) The Federal Trade Commission regulates which of the following?

- A) Unfair trade practices by businesses
- B) Financial markets
- C) Trade with third world countries
- D) The banking industry

Answer: A

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

11) The Federal Trade Commission Act was designed to

- A) prohibit bundling.
- B) increase foreign trade.
- C) prohibit cutthroat pricing.
- D) limit company profits from foreign sales.

Answer: C

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

12) The Federal Trade Commission Act, as amended, prohibits

- A) horizontal mergers.
- B) price-fixing agreements.
- C) unfair competitive practices and deceptive acts.
- D) price discrimination.

Answer: C

Diff: 2

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

13) The Federal Trade Commission was established in 1914 to

- A) regulate trade of public goods.
- B) promote competition in interstate commerce.
- C) investigate unfair competitive practices.
- D) prevent non-price competition.

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

- 14) The regulatory agency most concerned with false advertising is the
- A) Antitrust Division of the Justice Department.
 - B) National Labor Relations Board.
 - C) Federal Deposit Insurance Corp.
 - D) Federal Trade Commission.

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Which antitrust act was passed to protect independent retailers from "unfair discrimination" by chain stores?
- A) Federal Trade Commission Act
 - B) Robinson-Patman Act
 - C) Sherman Act
 - D) Wheeler-Lea Act

Answer: B

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Which antitrust law is sometimes called the "Chain Store Act"?
- A) Sherman Act
 - B) Clayton Act
 - C) Robinson-Patman Act
 - D) Federal Trade Act

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

- 17) All of the following are exempt from antitrust laws EXCEPT
- A) labor unions.
 - B) professional baseball.
 - C) oil companies.
 - D) public utilities.

Answer: C

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Which of the following is NOT exempt from antitrust laws?
- A) Professional baseball
 - B) Labor unions
 - C) Airlines
 - D) Public transit systems

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

19) Which of the following is exempt from antitrust laws?

- A) Professional football
- B) Petroleum companies
- C) Airlines
- D) Hospitals

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: New

20) Which of the following is exempt from antitrust laws?

- A) Professional basketball
- B) Suppliers of military equipment
- C) Telephone companies
- D) Automobile companies

Answer: B

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: New

21) The first antitrust law in the United States was the

- A) Clayton Act.
- B) Contestable Markets Act.
- C) the Federal Trade Commission Act.
- D) Sherman Antitrust Act.

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

22) The idea behind antitrust legislation is to

- A) promote competition in the market.
- B) justify deregulation of industries.
- C) implement contestable markets.
- D) create larger firms.

Answer: A

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

23) If antitrust legislation is successful, then

- A) firms will produce the quantity at which marginal cost equals marginal revenue.
- B) most firms will be earning a positive economic profit.
- C) the price of each item will equal its marginal social opportunity costs.
- D) natural monopoly will be eliminated.

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 24) If antitrust legislation is successful, then the monopolistic firm will
- A) decrease output and charge a lower price than before.
 - B) increase output and charge a higher price than before.
 - C) increase output and charge a lower price than before.
 - D) decrease output and charge a higher price than before.

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: New

- 25) Why is antitrust legislation necessary?
- A) Monopolies tend to misallocate resources.
 - B) All monopolies are unlawful in the United States.
 - C) Monopolies tend to allocate resources in a socially optimal manner.
 - D) Monopolies will always make a profit in the long run.

Answer: A

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: New

- 26) Which of the following will NOT be true if the antitrust laws are successful?
- A) Producers will earn zero economic profits in the long-run.
 - B) Firms will not restrict output.
 - C) Firms will produce the competitive output.
 - D) Firms will produce the quantity at which marginal cost equals marginal revenue and charge a price that is greater than marginal cost.

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 27) The Sherman Antitrust Act was passed to
- A) protect companies from foreign competition.
 - B) protect the monopoly profits of firms.
 - C) control the growth of monopolies in the U.S.
 - D) prevent market price from equaling marginal cost.

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

28) Section 1 of the Sherman Antitrust Act makes it illegal to

- A) form a monopolistically competitive firm.
- B) restrain trade.
- C) price discriminate.
- D) have an oligopoly.

Answer: B

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

29) As a result of a conviction under the Sherman Antitrust Act, Standard Oil of New Jersey

- A) was fined for its extensive price discriminating activity.
- B) was restrained from oil exploration for twenty-five years, which enabled other oil firms to assume leadership in the industry.
- C) was broken up into many smaller companies.
- D) went bankrupt and no longer is in existence.

Answer: C

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

30) What is the relationship between the Sherman Antitrust Act and the Clayton Act?

- A) The Clayton Act was the first act passed and the Sherman Antitrust Act was the second.
- B) The Sherman Antitrust Act encouraged competition among firms in the U.S. while the Clayton Act encouraged competition among foreign firms.
- C) The Clayton Act strengthened the Sherman Antitrust Act by limiting some very specific business practices.
- D) Both Acts deal with issues of setting price and quantity for regulated industries.

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

31) It is illegal to price discriminate except in cases in which the price differences are due to actual cost differences. This situation is due to which antitrust act?

- A) Clayton Act
- B) Contestable Market Act
- C) Federal Trade Commission Act
- D) Sherman Antitrust Act

Answer: A

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

32) The "Chain Store Act" is a name given to the

- A) Clayton Act.
- B) Federal Trade Commission Act.
- C) Robinson–Patman Act.
- D) Sherman Antitrust Act.

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

33) "Unfair or deceptive acts or practices in commerce" were prohibited by the

- A) Clayton Act.
- B) Clayton Act as amended by the Robinson–Patman Act.
- C) Federal Trade Commission Act.
- D) 1938 amendment to the Federal Trade Commission Act.

Answer: D

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

34) The FTC is

- A) the act that prevents producers from driving out smaller competitors by means of selected discriminatory price cuts.
- B) the commission that investigates unfair competitive practices such as misleading advertising.
- C) an agency which has been set up to regulate the federal government.
- D) the agency set up to regulate hospitals.

Answer: B

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

35) Ajax Corporation has just started advertising that there are 16 ounces in every package. In reality the packages contain only 14 ounces. This misleading advertising

- A) is in violation of the Robinson–Patman Act.
- B) is exempt from the antitrust laws.
- C) could be subject to an investigation by the Federal Trade Commission.
- D) could be subject to an investigation by the Sherman Commission.

Answer: C

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

36) Which of the following are exempt from the antitrust laws?

- A) Colleges and universities
- B) All professional athletes
- C) Labor unions
- D) Deregulated industries

Answer: C

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

37) All of the following are exempt from antitrust enforcement EXCEPT

- A) professional baseball.
- B) labor unions.
- C) hospitals.
- D) television and radio stations.

Answer: D

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

38) The first antitrust law in the United States was the

- A) Glass-Steagall Act.
- B) Robinson-Patman Act.
- C) Clayton Act.
- D) Sherman Act.

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

39) There are many exemptions from antitrust laws. Which of the following is NOT one of them?

- A) labor unions
- B) public utilities
- C) hospitals
- D) publishers

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

40) The statement "Every contract, combination in the form of a trust or otherwise, or conspiracy, in restraint of trade or commerce . . ." is found in the

- A) Sherman Antitrust Act.
- B) Clayton Antitrust Act.
- C) Robinson-Patman Act.
- D) Interstate Commerce Commission Act.

Answer: A

Diff: 2

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

- 41) In a court decision in June 2001, the Federal District Court of Appeals in Washington, D.C. found that Microsoft had violated the

A) Clayton Act.	B) Robinson-Patman Act.
C) Sherman Act.	D) Celler-Kefauver Act.

Answer: C

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Use of information technology

Question Status: Previous Edition

- 42) The antitrust legislation that forbids a company from selling goods on the condition that the purchaser must deal exclusively with that company is the

A) Sherman Act.	B) Robinson-Patman Act.
C) Fair Trade Commission Act.	D) Clayton Act.

Answer: D

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 43) The agency that deals with issues of "unfair and deceptive acts or practices in commerce" is the

A) Federal Trade Commission.	B) Federal Products Commission.
C) Federal Consumer Protection Agency.	D) Federal Advertising Commission.

Answer: A

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 44) One organization in the United States today that is exempt from antitrust laws is

A) the automobile industry.	B) professional baseball.
C) the oil industry.	D) the steel industry.

Answer: B

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 45) The Sherman Antitrust Act of 1890 prohibited

A) export tariffs.	B) attempts to restrain trade.
C) all existing monopolies.	D) interstate commerce.

Answer: B

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 46) The Sherman Antitrust Act was enforced in 1906 by a ruling of the Supreme Court regarding the monopolization of the oil industry by

A) Getty Oil of Oklahoma. B) Texaco Oil of Texas.
C) Gulf Oil of Pennsylvania. D) Standard Oil of New Jersey.

Answer: D

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 47) The law passed by Congress in 1914 that was designed to sharpen or define further the vagueness of the Sherman Act is called

A) the Robinson-Patman Act. B) the Wheeler-Lea Act.
C) the Clayton Act. D) the Federal Trade Commission Act.

Answer: C

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 48) The act of Congress which prohibited "unfair or deceptive acts or practices in commerce" is called

A) the Federal Trade Commission Act of 1914.
B) the Clayton Act.
C) the Chain Store Act.
D) the Robinson-Patman Act.

Answer: A

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

- 49) Another name for the "Chain Store Act" is

A) the Sherman Antitrust Act of 1890.
B) the Clayton Act of 1914.
C) the Federal Trade Commission Act of 1914.
D) the Robinson-Patman Act of 1936.

Answer: D

Diff: 2

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

- 50) Which of the following organizations is exempt from prosecution under the Sherman Antitrust Act (1890)?

A) retailers B) book publishers
C) labor unions D) television stations

Answer: C

Diff: 2

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

51) The Sherman Act

- A) prohibited banks from crossing states lines.
- B) prohibited railroads from transporting explosives.
- C) provided for the regulation of natural monopolies.
- D) declared that monopolization and restraint of trade were illegal.

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

52) Which of the following is illegal according to the antitrust laws?

- A) the use of coupons
- B) price discrimination based on cost differences
- C) vertical mergers
- D) price fixing

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

53) The Supreme Court's decision in the Standard Oil of New Jersey case was

- A) to force the company to send refund checks to customers.
- B) to force the company to pay \$10 billion in fines.
- C) to increase the fine imposed by a lower court.
- D) to break up the company.

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

54) Suppose that smart phone producers meet secretly and agree to issue the smart phones of their most successful models sequentially and at the same price that maximizes their profits. After hearing about the secret meeting the U.S. Justice Department is most likely to file charges under the

- | | |
|-------------------------|---------------------|
| A) Sherman Act. | B) Wheeler-Lea Act. |
| C) Robinson-Patman Act. | D) FTC Act. |

Answer: A

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

55) Which of the following acts outlawed selling products at "unreasonably low prices" with the intent of reducing competition?

- A) Sherman Act
- B) FTC Act
- C) Robinson-Patman Act
- D) Wheeler-Lea Act

Answer: C

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

56) All of the following are exempted from antitrust laws EXCEPT

- A) labor unions.
- B) Microsoft Windows.
- C) professional baseball.
- D) hospitals.

Answer: B

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

57) All of the following are exempt from antitrust lawsuits EXCEPT

- A) labor unions.
- B) professional baseball.
- C) public transportation.
- D) software developers.

Answer: D

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

58) The first antitrust law that the U.S. Congress enacted was

- A) the Clayton Antitrust Act.
- B) the Sherman Antitrust Act.
- C) the Robinson-Patman Act.
- D) the Federal Trade Commission Act.

Answer: B

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

59) A retail store cuts the prices of the products it sells to force its competitor to leave the market.

This is prohibited by the

- A) Sherman Act
- B) Robinson-Patman Act
- C) Aldrich Act.
- D) FTC Act

Answer: B

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

60) Antitrust laws in the United States

- A) are an attempt to foster competition.
- B) are not necessary in the twenty-first century.
- C) have not been used in the past twenty-five years.
- D) are the same as the laws in the European Union.

Answer: A

Diff: 1

Topic: 27.5 Antitrust Policy

Question Status: Previous Edition

61) Discuss the Clayton Act and the Federal Trade Commission Act, and relevant amendments to them.

Answer: The Clayton Act was passed to prohibit or limit a number of specific business practices that were felt to be unreasonable attempts at restraining trade. Included are price discrimination, exclusive dealing contracts, and mergers. The Robinson-Patman Act amended the Clayton Act to strengthen the prohibitions on price discrimination. The Federal Trade Commission Act established the Federal Trade Commission (FTC), and authorized the FTC to control unfair methods of commerce, including deceptive advertising.

Diff: 2

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

62) Discuss the important provisions of the Sherman Antitrust Act of 1890.

Answer: The Sherman Antitrust Act prohibits contracts and combinations in restraint of trade and prohibits monopolization. Neither restraint of trade nor monopolization are defined in the Act. The Act would appear to prohibit collusion and certain methods of obtaining a monopoly position.

Diff: 1

Topic: 27.5 Antitrust Policy

AACSB: Analytic skills

Question Status: Previous Edition

27.6 Antitrust Enforcement

1) The Supreme Court has defined the offense of monopolization as involving all of the following elements EXCEPT

- A) the possession of monopoly power in the relevant market.
- B) the willful acquisition of monopoly power.
- C) the ability to grow a business as a consequence of a superior product.
- D) the maintenance of monopoly power.

Answer: C

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Revised

2) Which of the following defines monopoly?

- A) Sherman Act
- B) Clayton Act
- C) Federal Trade Commission Act
- D) none of the above

Answer: D

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

3) Which of the following defines monopolization?

- A) The Securities and Exchange Commission
- B) The Federal Reserve
- C) U.S. Supreme Court
- D) Federal Trade Commission Act

Answer: C

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: New

4) The act of selling an item in slightly altered forms at different prices and to different groups of consumers is known as

- A) bundling.
- B) versioning.
- C) tie-in sales.
- D) lemons marketing.

Answer: B

Diff: 3

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

5) The act of offering two or more products for sale as a set is called

- A) bundling.
- B) versioning.
- C) tie-in sales.
- D) branding.

Answer: A

Diff: 3

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

6) When trying to determine if a firm has monopoly power, courts in the United States tend to examine

- A) the firm's percentage share of the "relevant market."
- B) the composition of the firm's board of directors.
- C) the way in which the firm has differentiated its product.
- D) the absolute dollar value of business the firm collects each year.

Answer: A

Diff: 1

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 7) As a general rule of thumb, a firm is considered to have monopoly power if
- A) it has fewer than 10 competitors nationwide.
 - B) its share of the relevant market is 70 percent or more.
 - C) the product it manufactures has less than five close substitutes.
 - D) its total revenues are greater than \$50 million per year.

Answer: B

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The primary measure of monopoly power is called the
- A) market share test.
 - B) litmus test.
 - C) Robinson–Patman Act ratio.
 - D) monopoly measure.

Answer: A

Diff: 1

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 9) Defining the "relevant market" involves looking at two components. They are
- A) the competitive market and the dominant market.
 - B) the local market and the national market.
 - C) the geographic market and the product market.
 - D) the goods market and the services market.

Answer: C

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 10) The Sudsy Soda Company will not sell its soft drinks to a restaurant unless that business also buys paper cups from Sudsy. This requirement is an example of
- A) product versioning.
 - B) tie-in sales.
 - C) price differentiation.
 - D) complementary pricing.

Answer: B

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 11) One of the elements of monopolization is
- A) having a monopoly.
 - B) wanting to be a monopoly and wanting to earn monopoly profits.
 - C) monopoly pricing.
 - D) the willful acquisition of monopoly power.

Answer: D

Diff: 1

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 12) One of the elements of monopolization is
- A) having a superior product or having a superior business acumen..
 - B) the possession of monopoly power in the relevant market.
 - C) when only one firm exists in an industry.
 - D) having a significant pricing power due to an accident in the relevant market.

Answer: B

Diff: 1

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 13) The possession of monopoly power and the willful acquisition of that power is
- A) defined in the Sherman Antitrust Act as monopolization.
 - B) defined by the Supreme Court as monopolization.
 - C) not defined as monopolization until a statement about profits is included.
 - D) not the definition of monopolization.

Answer: B

Diff: 3

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 14) The Supreme Court has defined the offense of monopolization to
- A) be when only one firm exists in an industry.
 - B) occur when asymmetric information exists.
 - C) include the possession of monopoly power and the willful maintenance of that power.
 - D) be unfair acts in the practice of commerce.

Answer: C

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 15) The percentage of a market that a particular firm supplies is
- A) asymmetric information.
 - B) market share.
 - C) bundling.
 - D) the capture hypothesis.

Answer: B

Diff: 1

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 16) The primary measure of monopoly power is
- A) the market share test.
 - B) the Sherman test.
 - C) creative response.
 - D) the capture hypothesis.

Answer: A

Diff: 1

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 17) The primary measure of monopoly power used by the government is the
- A) profitability of the leading firms in an industry.
 - B) percentage of a market controlled by the leading firms in the industry.
 - C) gap between price and marginal cost.
 - D) gap between price and average total cost.

Answer: B

Diff: 2

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 18) The key issue in determining the relevant product market is
- A) the degree of interchangeability between products.
 - B) the specific geographic area in which competing products overlap.
 - C) the production processes used to produce the goods.
 - D) the market share test.

Answer: A

Diff: 2

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Offering two or more products for sale as a set is known as
- A) bundling.
 - B) versioning.
 - C) monopolizing.
 - D) product sharing.

Answer: A

Diff: 2

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 20) The United States as a whole would be inappropriate as the relevant geographic market when an antitrust case involved
- A) ABC and NBC.
 - B) two auto producers.
 - C) two steel producers.
 - D) two concrete producers.

Answer: D

Diff: 3

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Courts have generally adopted the notion that a firm has monopoly power if its relevant market share is _____ or more.
- A) 20 percent
 - B) 40 percent
 - C) 70 percent
 - D) 50 percent

Answer: C

Diff: 2

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 22) The main goal of antitrust policy is to
- A) encourage firms to produce at the $MR = \text{demand}$ level.
 - B) regulate natural monopolies.
 - C) prevent the monopolization of industries.
 - D) prevent the nationalization of industries.

Answer: C

Diff: 1

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 23) The first step in enforcing any antitrust policy is to
- A) win the support of the public.
 - B) win congressional approval.
 - C) win the approval of the state senators from the state where the company is headquartered.
 - D) define the market.

Answer: D

Diff: 2

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Clarke's gas station in Podunk only sells gasoline if customers also purchase oil.
- A) This is called a tie-in sale and is in violation of antitrust laws.
 - B) This is not in violation of antitrust laws, as cars need both oil and gas.
 - C) This is not in violation of antitrust laws, as consumers get the oil below market prices.
 - D) This is in violation of the Robinson-Patman Act.

Answer: A

Diff: 2

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 25) When companies sell slightly different forms of a product to different groups of customers, this is known as
- A) market testing.
 - B) editions.
 - C) adaptations.
 - D) versioning.

Answer: D

Diff: 2

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 26) A firm is generally scrutinized as a potential monopoly when its share of sales in the relevant market reaches
- A) 60 percent of the market.
 - B) 35 percent of the market.
 - C) 70 percent of the market.
 - D) 25 percent of the market.

Answer: C

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 27) A typical measure of monopoly power that uses the percentage of a particular market that a firm supplies is known as the
- A) monopoly test.
 - B) market share test.
 - C) Sherman test.
 - D) FTC test.

Answer: B

Diff: 1

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 28) One of the agencies responsible for enforcement of antitrust policy is
- A) the Trust Division of Congress.
 - B) the Federal Trade Commission.
 - C) the World Trade Organization.
 - D) the Food and Drug Administration.

Answer: B

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Enforcement of antitrust policy is the responsibility of
- A) the Trust Division of Congress and the World Trade Organization.
 - B) the Federal Trade Commission and the Antitrust Division of the Department of Justice.
 - C) the World Trade Organization and the FDA.
 - D) the Food and Drug Administration and Congress.

Answer: B

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 30) A measure of monopoly power used by the government is the
- A) percentage share of the relevant market or market share test.
 - B) profit of the firm compared to other firms in the industry.
 - C) price charged by the firm for goods and services.
 - D) percentage difference between price and marginal cost.

Answer: A

Diff: 2

Topic: 27.6 Antitrust Enforcement

Question Status: Previous Edition

- 31) When Microsoft put together a set of products with the Windows operating system, it was practicing
- A) bundling.
 - B) tie-in sales.
 - C) versioning.
 - D) compacting.

Answer: A

Diff: 1

Topic: 27.6 Antitrust Enforcement

AACSB: Use of information technology

Question Status: Previous Edition

- 32) What is the difference between product versioning and product bundling? Which of these two business practices have antitrust authorities been more likely to regard to be the form of price discrimination called tie-in sales? Why?

Answer: Versioning entails selling a product in slightly altered forms to different groups of consumers. From one standpoint, versioning might be seen a means of engaging in price discrimination by charging different prices to different consumers for very nearly the same product. From another point of view, however, versioning can be regarded as imperfectly substitutable products sold in separate markets, in which case there is no price discrimination associated with this business practice. Product bundling entails offering two or more products for sale as a set. If a bundling arrangement limits a consumer's ability to buy one product to the simultaneous purchase of another product, then this is a form of tie-in sale that antitrust authorities sometimes regard as a means of practicing price discrimination.

Diff: 2

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition

- 33) What is the difference between holding a monopoly and monopolization? Which is illegal? Explain.

Answer: Monopolization involves having a monopoly plus showing a willful acquisition or maintenance of the power that goes beyond growth that results from superior product, business acumen, or historical accident. Monopolization is illegal while holding a monopoly is not. Not all monopolies can be stopped. For example, a small rural town may have only one gas station, giving the gas station some monopoly power. But, if the town is too small to support a second station, nothing can be done about the monopoly. Further, patents provide legal monopolies.

Diff: 3

Topic: 27.6 Antitrust Enforcement

AACSB: Analytic skills

Question Status: Previous Edition