

## Old Exam Questions Which Cover Chapter 13 Topics

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

- 1) Which of the following is a true of perfect competition, but not true of monopolistic competition? 1) \_\_\_\_\_
- A) many firms
  - B) productive efficiency is achieved in the long run
  - C) firms earn zero economic profits in the long run
  - D) firms produce where  $P > MC$
  - E) firms produce differentiated products
- 2) The key characteristics of a monopolistically competitive market structure include 2) \_\_\_\_\_
- A) high barriers to entry.
  - B) sellers selling similar but differentiated products.
  - C) sellers acting to maximize revenue.
  - D) few sellers.

*Table 12-1*

Quantity	Price (dollars)	Total Revenue (dollars)
1	\$7.50	\$7.50
2	7.00	14.00
3	6.50	19.50
4	6.00	24.00
5	5.50	27.50
6	5.00	30.00

- 3) *Refer to Table 12-1.* What portion of the marginal revenue of the 4th unit is due to the output effect and what portion is due to the price effect? 3) \_\_\_\_\_
- A) output effect =  $-\$0.50$ ; price effect =  $\$5.00$
  - B) output effect =  $\$6.00$ ; price effect =  $-\$1.50$
  - C) output effect =  $\$6.50$ ; price effect =  $\$2.00$
  - D) output effect =  $\$24.00$ ; price effect =  $\$19.50$
- 4) Which of the following statements is true about marginal revenue? 4) \_\_\_\_\_
- A) If marginal revenue is positive, the additional revenue received from selling 1 more unit of the good is smaller than the revenue lost from receiving a lower price on all the units that could have been sold at the original price.
  - B) Marginal revenue increases as price falls and quantity sold increases.
  - C) If marginal revenue is zero, it means that quantity demanded falls to zero when a firm changes its price.
  - D) If marginal revenue is negative, the additional revenue received from selling 1 more unit of the good is smaller than the revenue lost from receiving a lower price on all the units that could have been sold at the original price.

Figure 12-3

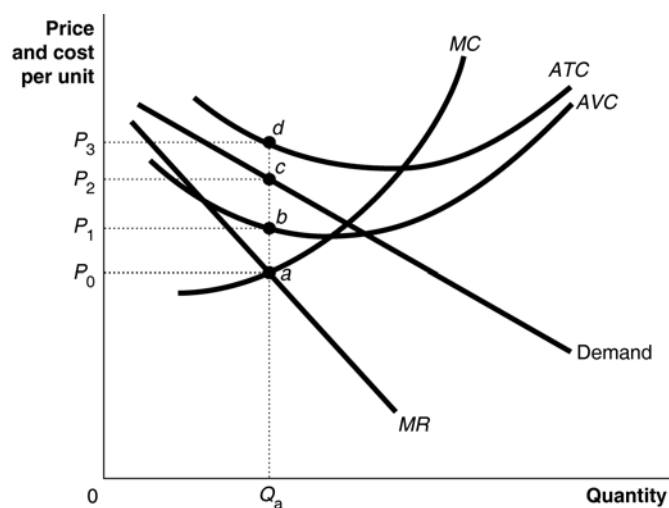
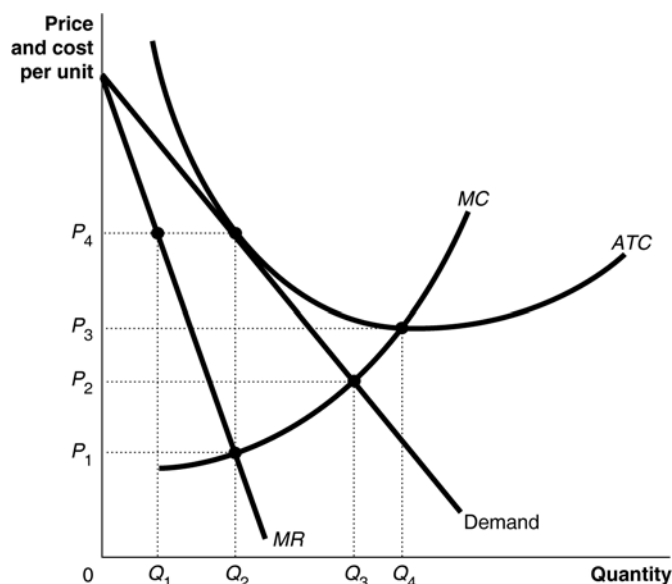


Figure 12-3 shows short-run cost and demand curves for a monopolistically competitive firm in the market for designer watches.

- 5) Refer to Figure 12-3. If the firm represented in the diagram is currently producing and selling  $Q_a$  units, what is the price charged? 5) \_\_\_\_\_  
 A)  $P_0$                       B)  $P_1$                       C)  $P_2$                       D)  $P_3$
- 6) Refer to Figure 12-3. What is the area that represents the total revenue made by the firm? 6) \_\_\_\_\_  
 A)  $0P_3dQ_a$                       B)  $0P_2cQ_a$                       C)  $0P_0aQ_a$                       D)  $0P_1bQ_a$
- 7) Refer to Figure 12-3. What is the area that represents the loss made by the firm? 7) \_\_\_\_\_  
 A) the area  $P_0adP_3$                       B) the area  $P_0acP_2$                       C) the area  $P_1bcP_2$                       D) the area  $P_2cdP_3$
- 8) In the long run, what happens to the demand curve facing a monopolistically competitive firm that is earning short-run profits? 8) \_\_\_\_\_  
 A) The demand curve will shift to the left and become more elastic.  
 B) The demand curve will shift to the left and become less elastic.  
 C) The demand curve will shift to the right and become less elastic.  
 D) The demand curve will shift to the right and become more elastic.

Figure 12-6



- 9) Refer to Figure 12-6. What is the productively efficient output for the firm represented in the diagram? 9) \_\_\_\_\_
- A)  $Q_1$  units                      B)  $Q_2$  units                      C)  $Q_3$  units                      D)  $Q_4$  units
- 10) Refer to Figure 12-6. The firm represented in the diagram 10) \_\_\_\_\_
- A) makes zero accounting profit.  
 B) should expand its output to take advantage of economies of scale.  
 C) makes zero economic profit.  
 D) should exit the industry.
- 11) When we say a monopolistically competitive firm breaks even, the firm 11) \_\_\_\_\_
- A) is earning an accounting profit.  
 B) should expand production.  
 C) is earning zero accounting and zero economic profit.  
 D) is likely to exit the industry in the long run
- 12) In theory, in the long run, monopolistically competitive firms earns zero profits. However, in reality there are some ways by which a firm can avoid losing profits. Which of the following is one such way? 12) \_\_\_\_\_
- A) lower the price of its products to expand its market share  
 B) find a market niche and keep it as narrow as possible so as to prevent other producers from entering this market segment  
 C) identify new markets and develop products precisely for those markets  
 D) gradually increase the mark up on the goods produced

Figure 12-7

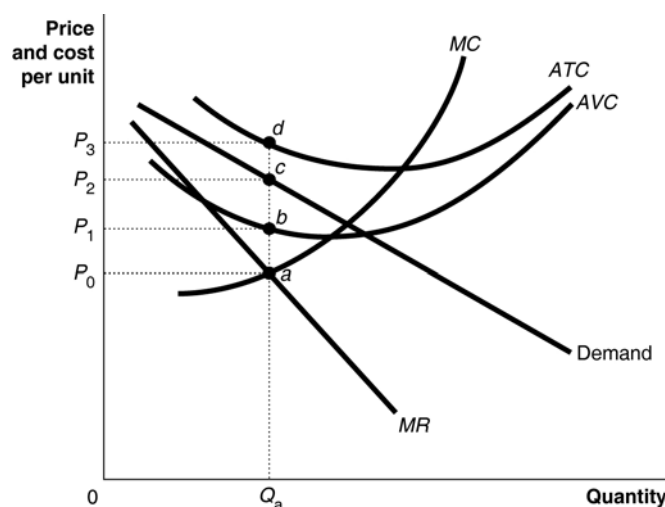


Figure 12-7 shows short-run cost and demand curves for a monopolistically competitive firm in the market for designer watches.

- 13) Refer to Figure 12-7. If the diagram represents a typical firm in the designer watch market, what is likely to happen in the long run? 13) \_\_\_\_\_
- A) Inefficient firms will exit the market and new cost efficient firms will enter the market.
  - B) The firms that are making losses will be purchased by their more successful rivals.
  - C) Firms will have to raise their prices to cover costs of production.
  - D) Some firms will exit the market causing the demand to increase for firms remaining in the market.
- 14) How does the long run equilibrium of a monopolistically competitive industry differ from that of a perfectly competitive industry? 14) \_\_\_\_\_
- A) A firm in monopolistic competition does not take full advantage of its economies of scale but a firm in perfect competition produces at the lowest average cost possible.
  - B) A firm in monopolistic competition will charge a price higher than the average cost of production but a firm in perfect competition charges a price equal to the average cost of production.
  - C) A firm in monopolistic competition produces an allocatively efficient output level while a firm in perfect competition produces a productively efficient output level.
  - D) A firm in monopolistic competition will earn economic profits but a firm in perfect competition earns zero profit.
- 15) For productive efficiency to hold, 15) \_\_\_\_\_
- A) average variable cost is minimized in production.
  - B) price must equal marginal revenue of the last unit sold.
  - C) price must equal the marginal cost of the last unit produced.
  - D) average total cost is minimized in production.

- 16) Which of the following is a true of perfect competition, but not true of monopolistic competition? 16) \_\_\_\_\_
- A) firms produce differentiated products
  - B) firms produce where  $P = MC$
  - C) many firms
  - D) firms have *excess capacity* in the long run.
  - E) firms earn zero economic profits in the long run

- 17) In monopolistic competition there is/are 17) \_\_\_\_\_
- A) a few sellers who each face a downward-sloping demand curve.
  - B) many sellers who each face a perfectly elastic demand curve.
  - C) only one seller who faces a downward-sloping demand curve.
  - D) many sellers who each face a downward-sloping demand curve.

**Table 12-1**

Quantity	Price (dollars)	Total Revenue (dollars)
1	\$7.50	\$7.50
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- 18) **Refer to Table 12-1.** The marginal revenue of selling the 5th unit is comprised of the "price effect" and the "output effect". The price effect is \_\_\_\_\_ and the output effect is \_\_\_\_\_. 18) \_\_\_\_\_
- A) -\$2 ; \$5.50
  - B) -\$0.50 ; \$5.50
  - C) -\$3.50 ; \$5.50
  - D) \$5.50 ; -\$3.50
  - E) -\$5.50 ; \$2

Figure 12-3

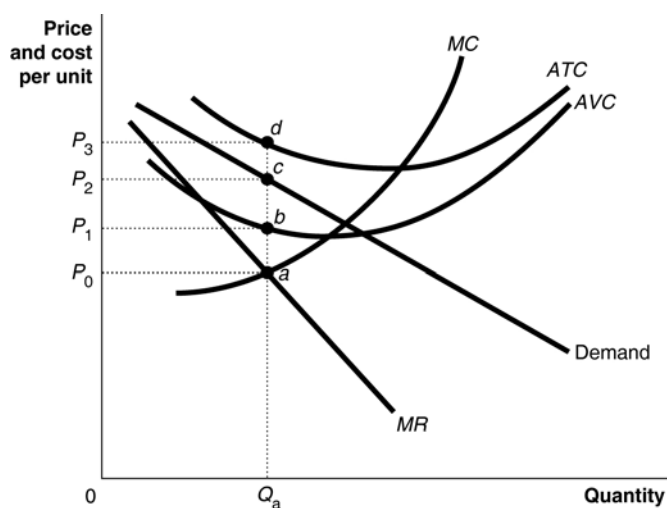
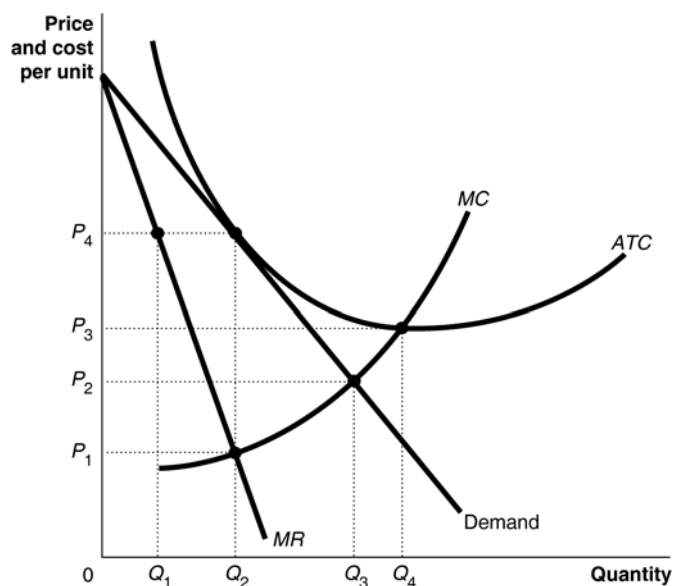


Figure 12-3 shows short-run cost and demand curves for a monopolistically competitive firm in the market for designer watches.

- 19) Refer to Figure 12-3. If the firm represented in the diagram is currently producing and selling  $Q_a$  units, what is the price charged? 19) \_\_\_\_\_  
 A)  $P_3$  B)  $P_0$  C)  $P_1$  D)  $P_2$
- 20) Refer to Figure 12-3. What is the area that represents the total costs of the firm? 20) \_\_\_\_\_  
 A)  $0P_2cQ_a$  B)  $0P_3dQ_a$  C)  $0P_1bQ_a$  D)  $0P_0aQ_a$
- 21) If a typical monopolistically competitive firm is making short-run losses, then 21) \_\_\_\_\_  
 A) other more competitive firms will enter the market.  
 B) as some firms leave, the remaining firms will experience an increase in the demand for their products.  
 C) the industry will eventually cease to exist.  
 D) as some firms leave, the demand for the products of the remaining firms will become more elastic.  
 E) both B and D are correct

Figure 12-6



- 22) Refer to Figure 12-6. The diagram depicts a monopolistically competitive firm 22) \_\_\_\_\_
- A) in long run equilibrium.
  - B) earning economic profits
  - C) producing where  $P < ATC$
  - D) suffering short run losses.
  - E) More than one of the above is correct
- 23) Refer to Figure 12-6. The diagram depicts a monopolistically competitive firm. This firm has 23) \_\_\_\_\_
- "excess capacity" of \_\_\_\_\_
- A) Q2
  - B)  $Q4 - Q3$
  - C)  $Q4 - Q1$
  - D)  $Q4 - Q2$
  - E)  $Q3 - Q2$
- 24) The long-run equilibrium in both perfect competition and monopolistic competition results in 24) \_\_\_\_\_
- firms "breaking even" economically. What does this mean?
- A) Their revenues are equal to their explicit costs. Their accounting profits are zero.
  - B) Firms are earning a "normal rate of return" on their inputs. They are earning positive accounting profits.
  - C) Their revenues are equal to the sum of their implicit and explicit costs, which means that their accounting profits are zero.
  - D) Their revenues are equal to their implicit costs. Their accounting profits are zero.

## Answer Key

Testname: 201 CHAPTER 13 OLD EXAM QUESTIONS

- 1) B
- 2) B
- 3) B
- 4) D
- 5) C
- 6) B
- 7) D
- 8) A
- 9) D
- 10) C
- 11) A
- 12) C
- 13) D
- 14) A
- 15) D
- 16) B
- 17) D
- 18) A
- 19) D
- 20) B
- 21) B
- 22) A
- 23) D
- 24) B