2.01 Firms and Market Structures

Question 1
The current market share information for the top 10 firms in an industry is shown in the image below:

Company	Market Share
A	30%
B	25%
C	20%
D	10%
E	5%
F through J	2% each

The industry's four-firm Herfindahl-Hirschman Index is *closest* to:
A. 0.2025
B. 0.7225
C. 0.8500

Question 2
Kinked demand curves are *most likely* associated with which type of market structure?
A. Oligopoly
B. Monopoly
C. Pure competition

Question 3
Two firms, A and B, are the only manufacturers of Product X. Each firm can choose whether to charge a high or low price for X; currently both charge a low price. Each firm controls 50% of the market. The table shows the expected profit (in USD) for both companies at both prices:

		Firm A	
		Low Price	High Price
Firm B	Low Price	200 400	350 390
	High Price	175 375	425 380

Based on this information, the Nash equilibrium for these firms:

A. does not exist.
B. exists when A charges a high price and B charges a low price.
C. exists when A charges a high price and B charges a high price.

Question 4
An analyst gathers current price and cost information about a firm operating in a perfectly competitive market:

Selected Financial Data

(INR)	
Unit Price	1,750
Average Total Cost	1,960
Average Variable Cost	1,540

Based only on this information, which of the following is the firm's optimal course of action in the long run?
A. Increase price
B. Exit the market
C. Continue to operate as is

Question 5
For a duopoly (ie, two-firm market that is a special form of oligopoly) in equilibrium, which of the following choices *best* describes a characteristic of the Cournot assumption?
A. Firms act sequentially.
B. Firms cooperate to set output and price.
C. A firm's output is constant in the long run.

Question 6
If a firm is currently breaking even, it is *most likely* producing at the point where average revenue is equal to:
A. average total costs.
B. average fixed costs.
C. average variable costs.

Question 7
Characteristics for three oligopoly markets are as follows:

	Market A	Market B	Market C
Number of firms	Few	Few	Many
Relative market share	Unequal	Equal	Equal
Product similarity	Homogeneous	Homogeneous	Homogeneous
Cost structures	Similar	Varied	Varied

Based only on this information, which of the markets has the *highest* probability of successful collusion?
A. Market A
B. Market B
C. Market C

Question 8
A firm in a perfectly competitive industry increases production capacity, but then experiences an increase in its average total cost of production. To counteract the diseconomies of scale, the firm should *most appropriately*:
A. scale down operations.
B. diversify into a different industry.
C. increase marketing expenditures.

Question 9
In the short run, a company maximizing profit in a market with perfect competition produces at a quantity that *most likely* results in:
A. economic profits equal to zero.
B. marginal revenue equal to marginal cost.
C. market price greater than marginal revenue.

Question 10
In the short term, for a firm operating under perfect competition, the *most appropriate* point for a shutdown is when:
A. marginal cost falls below average total cost.
B. market price falls below average variable cost.
C. average total cost equals average variable cost.

Question 11
In a perfect competition market structure, the industry demand curve is *best* described as:
A. negatively sloped.
B. perfectly price-elastic.
C. perfectly price-inelastic.

Question 12
A firm operating in a perfectly competitive market has average variable costs of KRW 80,000 and average total costs of KRW 100,000. The market equilibrium price is KRW 75,000. Based only on this information, in the short run, the firm should *most likely*:
A. exit the market.
B. increase advertising.
C. continue to operate as is.

Question 13
In perfectly competitive markets, each individual firm's demand curve is:

A. unitary elastic.
B. infinitely elastic.
C. perfectly inelastic.

Question 14
If firms' supply curves can be used to determine the optimal, profit-maximizing price, those firms are *most likely* operating in:
A. a monopoly.
B. perfect competition.
C. monopolistic competition.

Question 15
For a firm operating under perfect competition, the short-run supply function is *best* described as the:
A. variable cost curve.
B. marginal cost curve.
C. average total cost curve.

Question 16
A cheese producer competes by creating a differentiated, high-quality cheese that sells for a premium price in the very crowded local retail cheese market. The market structure that this cheese producer operates in is *best* described as:
A. oligopoly.
B. perfect competition.
C. monopolistic competition.

Question 17
As a firm expands production capacity for a product, the average cost per unit produced declines. The firm is *most likely* experiencing:
A. economies of scale.
B. diseconomies of scale.
C. constant returns to scale.

Question 18
Profit-maximizing monopolists *most likely* attempt to produce a level of output at which marginal cost equals:
A. average revenue.
B. marginal revenue.
C. average total cost.

Question 19
The following data is for a firm operating under perfect competition:

Quantity produced	Total economic cost (€)
100	510
101	511
102	513
103	516
104	520
105	525
106	531

If the price per unit is €5, economic profits are maximized when the firm produces:
A. 104 units.
B. 105 units.
C. 106 units.

Question 20
For a firm operating in a monopolistic competition market structure, which of the following statements is *most* accurate?
A. In the long run, the firm's economic profit equals zero.
B. In the long run, the optimal quantity produced is that at which average cost is lowest.
C. In the short run, the firm should produce the quantity at which marginal cost is lowest.

Question 21
A firm is facing market prices that are below average total cost but above average variable cost. The optimal action for the firm in the short run is *most likely* to:
A. exit the market.
B. continue to operate.
C. shut down temporarily.

Question 22
The income statement of a firm that earns a small economic profit would *mostly likely* show an accounting:
A. profit that is less than the economic profit.
B. loss equal to the opportunity cost of capital.
C. profit that is greater than the economic profit.

Question 23
Characteristics of three market structures are shown in the image below:

Characteristic	Structure A	Structure B	Structure C
Barriers to entry	High	High	Low
Nonprice competition	Advertising	Advertising/product differentiation	Advertising/product differentiation
Product differentiation	Unique	Homogeneous	Differentiated

Based only on the information provided, which market structure is *most likely* an oligopoly?
A. Structure A
B. Structure B
C. Structure C

Question 24
For a firm operating in perfect competition, which of the following statements is *most* accurate with respect to long-run equilibrium?
A. The firm can expect to earn zero economic profit.
B. Zero economic profit means that the firm generated an accounting loss.
C. The firm should produce goods at a level at which marginal revenue exceeds average total cost.

Question 25
A producer in a monopolistic competition industry sells 375 units of a product when its price is $20 per unit. Demand for the product at that price is own-price elastic. Based only on the information provided, if the producer raises the price to $25 per unit, this will *most likely*:
A. maximize revenue.
B. increase producer surplus.
C. decrease consumer surplus.

Question 26
A pharmaceutical company has developed a new drug to cure a previously incurable and widespread disease. The company has received regulatory approval to begin selling the drug and has 15 years of patent protection and no competitors. The marginal cost to produce the drug is INR 80, its average total cost is INR 150, and the projected price elasticity of demand is 1.2. The profit maximizing price (in INR) is *closest* to:
A. 180
B. 480
C. 900

Question 27
Which of the following is *most likely* characteristic of monopolistic competition?

A. Low barriers to entry
B. Undifferentiated product
C. Small number of competitors

Question 28
An oligopolist's pricing strategy includes anticipating competitor reactions and acting in the firm's self-interest. This firm is *most likely* pursuing which of the following pricing strategies?
A. Collusion
B. Nash equilibrium
C. Cournot assumption

Question 29
The Herfindahl-Hirschman Index (HHI) is *most likely* considered an improvement on the concentration ratio since the HHI better reflects the:
A. effect of mergers.
B. elasticity of demand.
C. threat of new entrants.

Question 30
If a market has low barriers to entry and numerous competitors selling differentiated products, the market's structure is *best* described as:
A. oligopoly.
B. perfect competition.
C. monopolistic competition.