Week #10 Worksheet – Monopolistic Competition ~ Oligopoly

____ 1. A monopolistically competitive market is characterized by:
   a. many small sellers selling a differentiated product.
   b. a single seller of a unique product that has few or no substitutes.
   c. very high barriers to entry.
   d. many small sellers selling an identical product.
   e. a few firms producing either differentiated or identical products.

____ 2. Which of the following is the best example of a monopolistically competitive market?
   a. corn
   b. automobiles
   c. electric utilities
   d. retail clothing stores
   e. wheat

____ 3. Which is the best example of a firm operating in a monopolistically competitive market?
   a. a Nebraska corn farmer
   b. Applebee's, a casual dining restaurant
   c. the U.S. Postal Service
   d. Ford, an automotive manufacturer
   e. electric companies prior to deregulation

____ 4. Which of the following is always associated with monopolistic competition?
   a. identical products
   b. economic profits in the short run
   c. demand curve that lies below the marginal revenue curve
   d. demand curves that become more inelastic as new entry occurs
   e. product differentiation

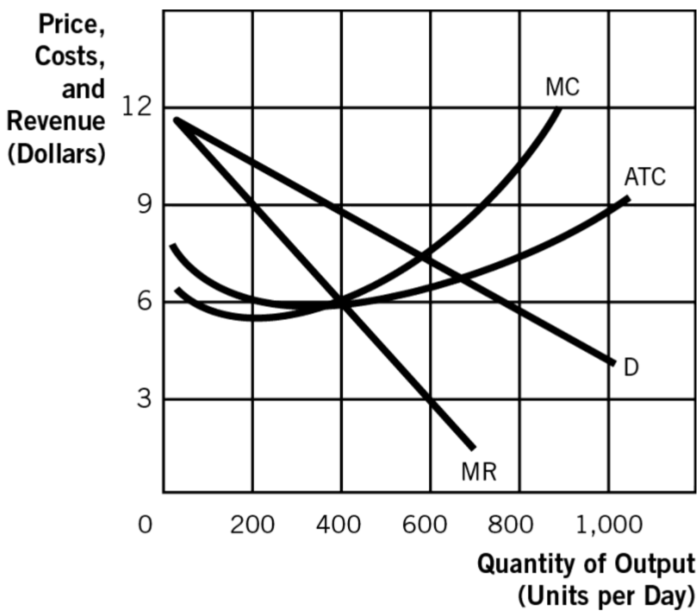
____ 5. A convenience store is generally able to charge and obtain a higher price for its candy bars than is Wal-Mart because the convenience store:
   a. differentiates based on style.
   b. differentiates based on location.
   c. differentiates based on quality.
   d. advertises that its candy bars are identical to those sold at Wal-Mart.
   e. differentiates based on high barriers to entry, such as patents.

____ 6. Which of the following statements best describes the price, output, and profit conditions of monopolistic competition?
   a. Price will equal marginal cost at the profit-maximizing level of output, and profits will be positive in the long run.
   b. Price will always equal average variable cost in the short run, and either profits or losses may result in the long run.
   c. Marginal revenue will equal marginal cost in the short run at a profit-maximizing level of output; in the long run, economic profit will be zero.
   d. Marginal revenue will equal average total cost in the short run, and long-run economic profits are generally positive but could be zero.
   e. Output is equal to the amount for which marginal revenue equals price.

____ 7. The descriptor "monopolistic" in the term "monopolistic competition" best describes:

a. high barriers to entry.
b. product differentiation resulting in a downward-sloping demand curve for the firm's product.
c. production of a unique product.
d. a single producer.
e. a few small firms.

____ 8. Refer to the accompanying graph. The short-run profit-maximizing output for the monopolistic competitive firm is:



a. 0 (zero) units per day.
b. 200 units per day.
c. 400 units per day.
d. 600 units per day.
e. 800 units per day.

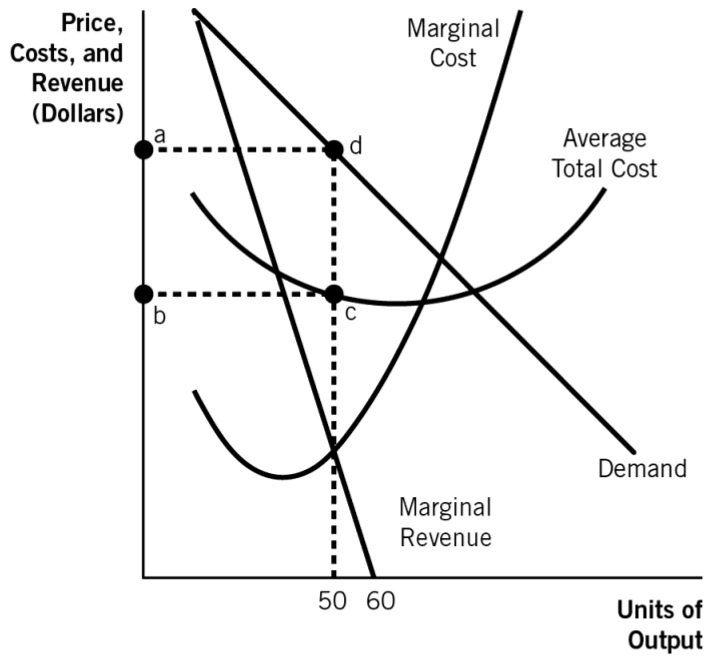
____ 9. Which of the following is true in long-run equilibrium for both a competitive market and monopolistic competition?
a. Accounting profit is zero.
b. Price equals marginal revenue.
c. Long-run average cost is minimized.
d. Economic profit is zero.
e. Productive efficiency is achieved.

____ 10. If monopolistically competitive firms are incurring losses, existing firms would:
a. reduce their costs.
b. charge higher prices.
c. make demand more inelastic.
d. leave the industry.
e. begin to collude illegally.

____ 11. If monopolistically competitive firms are making zero economic profit, then these firms would:

a. leave the industry.
b. charge higher prices.
c. make demand more inelastic.
d. remain in the industry.
e. begin to collude illegally.

____ 12. Refer to the accompanying graph. The maximum long-run economic profit earned by this monopolistically competitive firm is:



a. 0 (zero).
b. represented by the rectangle abcd.
c. represented by the rectangle enclosed by the points 50, 0, c, and d.
d. represented by the area below the demand curve and above marginal cost.
e. greater than 0 but can't be shown in the diagram because it is an indefinable area.

____ 13. If a monopolistically competitive firm is incurring losses, then at the profit-maximizing output amount:
a. price is above the average total cost curve.
b. price is below the average total cost curve.
c. price is equal to marginal revenue.
d. price is less than marginal revenue.
e. average total costs equals marginal cost.

____ 14. Firms in a monopolistically competitive market structure maximize their profit by producing an output where:
a. price equals average total cost.
b. marginal cost equals average variable cost.
c. average revenue equals marginal revenue.
d. marginal revenue equals marginal cost.
e. total revenue equals total cost.

____ 15. Profit-maximizing, monopolistically competitive firms:

a. consider the actions of their competitors when determining price.
b. do not consider the actions of their competitors when determining price.
c. consider only marginal cost and marginal revenue, which determine the level of output—and the level of output determines price.
d. consider only average total cost and average variable cost, which determine the level of output—and the level of output determines price.
e. take their price from the industry price, as do perfectly competitive firms.

____ 16. As new firms enter a monopolistically competitive industry, it can be expected that:
a. market price will rise.
b. the output of existing firms will rise.
c. profits of existing firms will fall.
d. market demand will rise.
e. the profits of existing firms will rise.

____ 17. We can represent the entry of new firms into a monopolistically competitive market by shifting the existing firms':
a. demand curves downward.
b. demand curves upward.
c. marginal revenue curves upward.
d. cost curves upward.
e. cost curves downward.

____ 18. Market power is best described as when the firm's demand curve is:
a. positively sloped.
b. a horizontal line.
c. a vertical line.
d. downward-sloping.
e. above the industry demand curve.

____ 19. Excess capacity best describes the fact that:
a. monopolistically competitive firms produce less than the cost-minimizing level of output.
b. monopolistically competitive firms produce more than the cost-minimizing level of output.
c. monopolistically competitive firms produce exactly the cost-minimizing level of output, but the monopolistically competitive industry produces more than that amount.
d. monopolistically competitive firms could produce less if they wanted to, so they produce over the optimal capacity.
e. perfectly competitive firms produce less than the cost-minimizing level of output, so they have excess capacity but monopolistically competitive firms do not.

____ 20. The concept of markup under monopolistic competition would best be described as the:
a. attempt of firms to make their products look like those of other firms in the

industry, thus “marking them up” in a similar style.
b. attempt of firms to mark up their prices above those of their rivals.
c. difference between total revenue and total cost of the monopolistic competitor.
d. difference between the average total cost and the price of the monopolistic competitor.
e. difference between the marginal cost and the price of the monopolistic competitor.

____ 21. One source of economic inefficiency from monopolistic competition is:
a. markup.
b. less variety for consumers.
c. more variety for consumers.
d. higher costs because firms can enter the industry.
e. lower marginal costs but higher average costs than with perfect competition.

____ 22. Markup would generally be lowest under:
a. a monopoly.
b. a cartel.
c. an oligopoly.
d. monopolistic competition.
e. a collusive industry.

____ 23. Bob watches advertising that makes him want to consume Bugles, a corn snack, after he hears that, for Bugles, “more is better.” Most people consider that all corn snack foods are not the same and that Doritos and other corn snacks are not perfect substitutes for Bugles. Based on this information, we would most accurately say that advertising probably caused:
a. Bob’s demand to be more elastic, and the corn-snack industry is likely to be a monopolistically competitive industry.
b. Bob’s demand to be less elastic, and the corn-snack industry is likely to be a monopoly industry.
c. the corn-snack industry demand to be less elastic, and Bob’s demand was unaffected.
d. the corn-snack industry to become a monopoly, whereas prior to advertising, it was probably perfectly competitive.
e. Bob’s demand to be less elastic, and the corn-snack industry is likely to be a monopolistically competitive industry.

____ 24. Like a pure monopoly, an oligopoly is characterized by:
a. free entry and exit in the long run.
b. free entry and exit in the short run.
c. significant barriers to entry.
d. all firms in the market producing the socially efficient level of output in the long run.
e. a single firm selling a product with no close substitutes.

____ 25. A monopolistically competitive market consists of many sellers, an oligopoly consists of __________ seller(s), and a monopoly consists of __________ seller(s).
a. one; one
b. one; two

c. a few; many
d. a few; one
e. many; one

____ 26. A firm operating in an oligopolistic market has __________ market power compared to a __________.
a. less; firm operating in a perfectly competitive market
b. the same amount of; firm operating in a perfectly competitive market
c. less; monopolist
d. the same amount of; monopolist
e. more; monopolist

____ 27. Economists measure oligopoly power present in an industry by using:
a. capital ratios.
b. concentration ratios.
c. reserve ratios.
d. inequality ratios.
e. competition ratios.

____ 28. *The accompanying table shows the four-firm concentration ratios for five separate industries. Use this table to answer the questions that follow.*

Industry	Four-Firm Concentration Ratio
Beer brewing	91%
Breakfast cereals	78%
Chocolate confections	69%
Adhesive manufacturing	24.7%
Plastics product manufacturing	5.6%

In which industry do the four largest firms collectively have the most market power?
a. beer brewing
b. breakfast cereals
c. chocolate confections
d. adhesive manufacturing
e. plastics product manufacturing

____ 29. Oligopolistic markets are __________ because price is __________ marginal cost.
a. socially efficient; equal to
b. socially efficient; less than
c. socially efficient; greater than
d. socially inefficient; less than
e. socially inefficient; greater than

____ 30. In the United States, __________ prohibit collusion between rivals.
a. competitive arbitration laws
b. immigration laws
c. anticompetition laws

d. union laws
e. antitrust laws

____ 31. When two or more firms form a __________ agreement and set price and quantity in unison, economists refer to them as __________.
a. competitive; a cartel
b. collusive; social benefactors
c. collusive; a cartel
d. monopolistically competitive; social benefactors
e. monopolistically competitive; a cartel

____ 32. When a market is characterized by mutual interdependence:
a. one firm's pricing decision does not affect the market share of any other firm.
b. one firm's quantity decision does not affect the market share of any other firm.
c. all firms always act in unison to produce the monopoly quantity.
d. the actions of one firm have an impact on the price and output of its competitors.
e. the actions of one firm have no impact on the price and output decisions of its competitors.

____ 32. An agreement between Nike and Adidas to raise prices of the track shoes that each company produces by 50% is an example of a collusive agreement, and economists generally agree that:
a. this agreement is in the best interest of society because the price of track shoes is significantly above marginal cost.
b. this agreement is in the best interest of society because the quantity of track shoes bought and sold is significantly less than the quantity that would be bought and sold in a perfectly competitive market.
c. this agreement is not in the best interest of society because the price of track shoes is significantly below marginal cost.
d. this agreement is not in the best interest of society because the price of track shoes is significantly above marginal cost.
e. the price of track shoes does not affect societal welfare.

____ 33. When a third firm enters a market that was previously categorized as a duopoly, the equilibrium price:
a. will be lower and the equilibrium quantity will be lower.
b. will be higher and the equilibrium quantity will be lower.
c. will be lower and the equilibrium quantity will be higher.
d. will be higher and the equilibrium quantity will be higher.
e. and the equilibrium quantity will not change.

____ 34. In 2011, three firms were selling cellular phone service for a price of $40 per month in Pittsburgh, Pennsylvania. In 2012, five firms were selling cellular phone service for a price of $30 per month. Which effect best describes the likely decrease in profits experienced by each of the three original firms due only to the lower market price?
a. competitive effect
b. price effect
c. output effect

d. market effect
e. oligopoly effect

____ 35. In 2011, three firms were selling cellular phone service for a price of $40 per month in Erie, Pennsylvania. Each firm serviced 100 cellphone customers; thus, all firms together serviced a total of 300 customers. In 2012, five firms were selling cellular phone service for a price of $30 per month. Each firm serviced 70 cellphone customers; thus, all firms together serviced a total of 350 customers. Assume marginal cost is 0 (zero) for all firms and thus total revenue is equal to total profit.

Due to the entrance of two firms in 2012, total monthly profits for all firms in the market decreased by $3,000 due to the __________ effect and increased by $1,500 due to the __________ effect.

a. price; output
b. output; price
c. price; price
d. output; output
e. competitive; noncompetitive