Question #1 of 119

Question ID: 1456856

Concentration measures are *most likely* to be used to:

A) analyze barriers to entry into an industry.

B) identify the market structure of an industry.

C) measure elasticity of demand facing an industry.

Explanation

Concentration measures are used to identify the market structure of an industry (perfect competition, monopolistic competition, oligopoly, or monopoly). Concentration measures do not directly indicate an industry's barriers to entry or elasticity of demand.

(Module 9.4, LOS 9.g)

Question #2 of 119

Question ID: 1456855

The *most* effective way to assess the impact of a potential merger on the market structure of an industry is to:

A) calculate the n-firm concentration ratio.

B) calculate the Herfindahl-Hirschman Index.

C) analyze barriers to entry.

Explanation

The Herfindahl-Hirschman Index is more sensitive to mergers than the n-firm concentration ratio. Although barriers to entry for an industry are important in assessing market structure, they are not necessarily related to the impact of a merger.

(Module 9.4, LOS 9.g)

Question #3 of 119

Question ID: 1456860

Which of the following *most accurately* describes a market with a single seller of a product that has no good substitutes?

A) Monopoly.

B) Monopolistic competition.

C) Oligopoly.

Explanation

A monopoly is characterized by one seller, a specific and well-defined product for which there is no good substitutes, and high barriers to entry.

(Module 9.2, LOS 9.h)

Question #4 of 119

Question ID: 1456753

Firms in perfectly competitive markets and firms operating in a market characterized by monopolistic competition have several things in common. Which of the following is *least likely* one of them? Both:

A) face perfectly elastic demand curves.

B) maximize economic profit.

C) operate in markets that have low or no barriers to entry.

Explanation

The only item listed in the question that monopolistic competition and pure competition do not have in common is a perfectly elastic demand curve. Under pure competition, producers face a perfectly elastic demand curve, whereas price searchers face downward sloping demand curves.

(Module 9.1, LOS 9.a)

Question #5 of 119

Question ID: 1456760

Which of the following is *least likely* to be considered a feature that is common to both monopolistic competition and perfect competition?

A) Extensive advertising to differentiate products.

B) Low or no barriers to entry.

C) Zero economic profits in the long run.

Explanation

The only item listed in the question that monopolistic competition and perfect competition do not have in common is the use of advertising to differentiate their products. Extensive advertising is a key feature of monopolistic competition.

(Module 9.1, LOS 9.a)

Question #6 of 119

Question ID: 1456814

In the dominant firm model of oligopoly, it is *least likely* that one firm:

A) is the innovation leader in product development.

B) has a significant cost advantage over its competitors.

C) effectively sets the price in the market.

Explanation

The dominant firm model of oligopoly is based on the assumption that one firm has a significant cost advantage which allows it to set the price in the market and control a relatively large share of the industry's production and sales. It does not assume that the firm will be the innovation leader in product development. In fact, being more innovative is one of the factors that allow smaller competitors that work at a cost disadvantage to survive.

(Module 9.3, LOS 9.d)

Question #7 of 119

Question ID: 1456788

When a firm operates under conditions of perfect competition, marginal revenue always equals:

A) total cost.

B) average variable cost.

C) price.

Explanation

When a firm operates under conditions of perfect competition, marginal revenue always equals price. This is because, in perfect competition, price is constant (a horizontal line) so that marginal revenue is constant.

(Module 9.1, LOS 9.b)

Question #8 of 119

Question ID: 1456819

Which of the following describes the regulatory practice of setting prices at a level where the monopoly firm's average total cost curve intersects the demand curve?

A) Average cost pricing.

B) Marginal cost pricing.

C) Cost-of-service pricing.

Explanation

Under average cost pricing, regulators attempt to force monopolies to reduce prices to where a firm's average total cost curve intersects the market demand curve. This will increase output and decrease price, increase allocative efficiency, and ensure zero economic profit.

(Module 9.4, LOS 9.b)

Question #9 of 119

Question ID: 1456839

Which of the following is *least* accurate regarding the allocative efficiency associated with price discrimination? Price discrimination:

A) results in gains to the discriminating firm by selling to consumers with relatively inelastic demand.

B) leads to a decrease in allocative efficiency.

C) leads to production where the sum of consumer surplus and producer surplus is greater than it would be otherwise.

Explanation

Allocative efficiency occurs when the quantity produced maximizes the sum of consumer and producer surplus. That is, where marginal benefit equals marginal cost. Price discrimination reduces the allocative inefficiency that exists when prices are greater than marginal cost by increasing output toward the quantity where price equals marginal cost. Firms gain by selling to customers with inelastic demand while still providing goods to customers with more elastic demand. This may even cause production to take place at a level where it would not take place otherwise.

(Module 9.4, LOS 9.d)

Question #10 of 119

Question ID: 1456823

Which of the following is *least accurate* regarding the relationship between price (P), marginal revenue (MR), average total cost (ATC), and marginal cost (MC) at the profit maximizing output under monopoly?

A) MR < ATC.

B) MR = MC.

C) P = MR.

Explanation

To maximize profit, all firms expand output until marginal revenue equals marginal cost. Price is determined from the demand curve, which is above the marginal revenue curve since a monopoly faces a downward sloping demand curve.

(Module 9.4, LOS 9.b)

Question #11 of 119

Question ID: 1462779

To benefit from price discrimination, a monopolist *least likely* needs to have:

A) a way to prevent reselling between types of consumers.

B) a higher-quality product at a premium price and a lower-quality alternative.

C) two identifiable groups of consumers with different price elasticities of demand for the product.

Explanation

Price discrimination involves a single product, not two alternatives. As long as the company faces a downward-sloping demand curve, can identify at least two groups of customers with different price elasticities of demand, and can prevent reselling between groups, the company can profit from price discrimination. (Module 9.4, LOS 9.b)

Question #12 of 119

Question ID: 1456847

The difference in production outcomes between monopolistic firms and purely competitive firms is *best* explained by the fact that:

A) monopolists maximize profits by setting output such that marginal revenue exceeds marginal cost.

B) monopolists maximize profits by setting output such that marginal revenue is maximized.

C) the profit maximizing output level for monopolists occurs at lower levels of production than for purely competitive firms.

Explanation

All firms maximize profits at the point where marginal revenue equal marginal cost. For a monopolist, this occurs at a lower output level than for a purely competitive firm, because the monopolist has a marginal revenue curve that falls below the demand curve, while the purely competitive firm has a marginal revenue curve that lies along the demand curve.

(Module 9.4, LOS 9.d)

Question #13 of 119

Question ID: 1456770

Which one of the following is *most likely* to contribute to the presence of monopoly in an industry?

A) Inefficiency attributable to bureaucratic decision-making procedures in the industry.

B) Diseconomies of scale.

C) Legal barriers to entry into the industry.

Explanation

An example of an industry with legal barriers is utility firms, which are granted exclusive rights to supply electricity in certain areas.

(Module 9.1, LOS 9.a)

Question #14 of 119

Question ID: 1456782

A profit maximizing firm will expand output as long as marginal revenue is:

A) greater than average fixed cost.

B) less than marginal cost.

C) greater than marginal cost.

Explanation

A purely competitive firm will tend to expand its output so long as the market price (marginal revenue) is greater than marginal cost. In the short term and long term, profit is maximized when P = MC.

(Module 9.1, LOS 9.b)

Question #15 of 119

Question ID: 1456775

A firm operating as a price taker will produce the quantity at which:

A) revenue is maximized.

B) it earns long-run economic profit.

C) marginal revenue equals marginal cost.

Explanation

A firm operating as a price taker will produce the quantity where MC = MR. It will maximize profit and not revenue. In the long run, it will make zero economic profit.

(Module 9.1, LOS 9.a)

Question #16 of 119

Question ID: 1456800

What is the relationship between price and marginal revenue for a price searcher?

A) Marginal revenue > price.

B) Marginal revenue = price.

C) Marginal revenue < price.

Explanation

For a price searcher, demand is downward sloping, marginal revenue is less than price since price must be reduced to sell additional units of output.

(Module 9.2, LOS 9.b)

Question #17 of 119

Question ID: 1456761

Which of the following is *most likely* to be considered a characteristic of monopolistic competition?

A) Differentiated products.

B) High barriers to entry and exit.

C) Inelastic demand curves.

Explanation

Differentiated products are a key characteristic of monopolistic competition. Although producers have downward sloping demand curves, they are typically elastic.

(Module 9.1, LOS 9.a)

Question #18 of 119

Question ID: 1456754

Which of the following is *most likely* to be a characteristic of an oligopolistic industry?

A) Low barriers to entry.

B) Interdependence among firms.

C) Many sellers.

Explanation

An oligopolistic industry exhibits a high degree of interdependence among firms. One firm's pricing decisions or advertising activities will affect the other firms' demand curves. These industries typically consist of a small number of sellers and have significant barriers to entry.

(Module 9.1, LOS 9.a)

Question #19 of 119

Question ID: 1456826

Which of the following statements about monopolies is *most* accurate?

A) A monopoly structure is characterized by a well-defined product for which there are no good complements.

B) Monopolists charge the highest possible price.

C) A monopolist's optimal production quantity is at the point where marginal revenue equals marginal cost.

Explanation

All firms maximize profits where MR = MC. Because of a downward-sloping demand curve and high barriers to entry, monopolists can charge a price higher than MC. Like other price searchers, monopolists take price from the demand curve (at the quantity where MR = MC).

Both remaining statements are false. A monopoly structure is characterized by a well-defined product for which there are no good *substitutes*. Monopolists want to maximize profits, not price.

(Module 9.4, LOS 9.b)

Question #20 of 119

Question ID: 1462774

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

A) Producer decisions are interdependent.

B) Each producer offers a differentiated product.

C) Producers face horizontal demand curves.

Explanation

Differentiated products are a feature of monopolistic competition markets. Interdependence is a characteristic of oligopoly markets. Horizontal demand curves facing producers are a feature of perfect competition. (Module 9.1, LOS 9.a)

Question #21 of 119

Question ID: 1456774

Which of the following is *most likely* a characteristic of perfect competition?

A) Different firms sell their output at different prices.

B) Barriers to entry are not a significant factor.

C) The number of firms in the market is small.

Explanation

Under perfect competition there are no significant barriers to entry into the market. An industry that can be characterized as perfect competition typically consists of a large number of firms, each of which can sell its entire output at the market price, and none of which are large enough to affect the market price.

(Module 9.1, LOS 9.a)

Question #22 of 119

Question ID: 1456821

In a natural monopoly:

A) one firm controls all natural resources.

B) the average total cost of production continually declines with increased output.

C) the price charged by a monopolist is determined by the intersection of the demand curve with the marginal cost curve.

Explanation

A monopoly situation in which the average total cost of production continually declines with increased output is called a natural monopoly.

(Module 9.4, LOS 9.b)

Question #23 of 119

Question ID: 1456802

Which of the following is *least* accurate with regard to advertising for firms operating under monopolistic competition?

A) Advertising expenses are high relative to perfect competition and monopoly.

B) Advertising may decrease average total cost.

C) The increase to average total costs associated with advertising increases as output increases.

Explanation

Advertising expenses are high for firms in monopolistic competition. Not only because firms need to inform consumers about the unique features of a firm's products, but also to create or increase a perception of differences between products that are actually quite similar. Advertising costs increase average total costs, but the increase to average total cost attributable to advertising decreases as output increases because more fixed advertising dollars are being averaged over a larger quantity. If advertising increases output (sales) significantly, it can actually decrease a firm's average total cost if there are economies of scale.

(Module 9.2, LOS 9.b)

Question #24 of 119

Question ID: 1456763

Under which type of market structure are the production and pricing alternatives of a firm *most* affected by the decisions of its competitors?

A) Monopolistic competition.

B) Oligopoly.

C) Perfect competition.

Explanation

An oligopoly market structure is characterized by a small number of firms producing similar or differentiated products, with a high degree of interdependence among competitors. Each firm's optimal price and output are strongly affected by the pricing and output decisions of its competitors.

(Module 9.1, LOS 9.a)

Question #25 of 119

Question ID: 1462775

A business believes a price discrimination strategy will increase both its output and profits. For this to occur, the firm must have:

A) customers who cannot resell the product and whose price elasticities of demand are in a limited range.

B) distinct groups of customers with different price elasticities of demand who are able to resell the product.

C) distinct groups of customers with different price elasticities of demand who cannot resell the product.

Explanation

For a price searcher firm, price discrimination can increase profits if the firm has two or more identifiable customer groups with different price elasticities of demand, and if customers who buy the product at a lower price cannot resell it to other customers.
(Module 9.1, LOS 9.d)

Question #26 of 119

Question ID: 1456846

Which of the following statements regarding monopolies is *least accurate*?

A) For price discrimination to increase economic profit, the seller must identify at least two groups of customers, each with a different price elasticity of demand.

B) If a monopolist produces the quantity of output for which marginal cost equals marginal revenue, it will earn an economic profit.

C) Monopolists are price searchers and must experiment with different prices to find the one that maximizes profit.

Explanation

Monopolists expand output until marginal revenue equals marginal cost. However, to realize an economic profit, the demand curve must lie above the firm's average total cost curve at that quantity.

(Module 9.4, LOS 9.d)

Question #27 of 119

Question ID: 1456811

If a profit maximizing firm finds that its marginal revenue exceeds its marginal cost, it should increase output:

A) if it is a price searcher, but not if it is a price taker.

B) if it is a price taker, but not if it is a price searcher.

C) regardless of whether it is a price taker or a price searcher.

Explanation

Any firm will maximize profits by producing the output where MR = MC.

(Module 9.2, LOS 9.d)

Question #28 of 119

Question ID: 1456836

Compared to a competitive market, a monopoly situation will produce:

A) less output, and the sum of the consumer surplus and the producer surplus will be increased.

B) less output, and the sum of the consumer surplus and the producer surplus will be reduced.

C) more output, and the sum of the consumer surplus and the producer surplus will be reduced.

Explanation

A monopolist, faced with the same demand curve that would exist under perfect competition, will decrease output to the point that marginal revenue equals marginal cost. This will have the effect of reducing the sum of the consumer surplus and the producer surplus, relative to what they would have been under perfect competition. However, the size of the producer surplus increases on an absolute basis at the expense of the consumer surplus.

(Module 9.4, LOS 9.d)

Question #29 of 119

Question ID: 1456829

The short-run supply curve to a firm operating under perfect competition is *most* accurately described as the segment of the:

A) average total cost (ATC) curve above the average variable cost (AVC) curve.

B) marginal cost (MC) curve above the average variable cost (AVC) curve.

C) marginal cost (MC) curve below the average total cost (ATC) curve.

Explanation

The short-run supply curve for a firm under perfect competition is the segment of its MC curve above the AVC curve.

(Module 9.4, LOS 9.c)

Question #30 of 119

Question ID: 1456780

Under perfect competition, a firm will be inclined to increase output as long as which of the following conditions exists?

A) Marginal revenue is greater than marginal cost.

B) Marginal revenue is greater than the average cost.

C) Marginal cost is less than average cost.

Explanation

A firm will continue to expand output as long as it is possible to earn an economic profit. In other words, a firm will expand output as long as marginal revenue is greater than marginal cost.

(Module 9.1, LOS 9.b)

Question #31 of 119

Question ID: 1456751

The demand curves faced by monopolistic competitors is:

A) elastic due to the availability of many close substitutes.

B) inelastic due to the availability of many complementary goods.

C) not sensitive to price due to absence of close substitutes.

Explanation

The demand for products from monopolistic competitors is elastic due to the availability of many close substitutes. If a firm increases its product price, it will lose customers to firms selling substitute products.

(Module 9.1, LOS 9.a)

Question #32 of 119

Question ID: 1456845

Monopolists will maximize profit by producing at an output level where which of the following conditions exists?

A) Price = demand = marginal revenue = marginal cost.

B) Price = marginal revenue = marginal cost.

C) Marginal revenue = marginal cost < price.

Explanation

To maximize profit, monopolists will expand output until marginal revenue equals marginal cost. Price will be greater than marginal revenue because a monopolist faces a downward sloping demand curve.

(Module 9.4, LOS 9.d)

Question #33 of 119

Question ID: 1456840

Which of the following is *least likely* to be considered a necessary condition for a monopolist to realize profits from price discrimination?

A) A product for which the demand curve is downward sloping.

B) The ability to prevent trading between customers in different price groups.

C) Two different costs of production.

Explanation

Price discrimination works when the seller (discriminator) faces a downward-sloping demand curve and has at least two customer groups each having different price elasticities for the product. It is also necessary that trading does not occur between customer groups so that the customers paying a lower price cannot resell the product to the customers paying a higher price.

(Module 9.4, LOS 9.d)

Question #34 of 119

Question ID: 1456859

The type of economic market that features a large number of competitors offering differentiated products is *best* characterized as:

A) monopolistic competition.

B) oligopoly.

C) perfect competition.

Explanation

Monopolistic competition is used to describe markets where there are a large number of competitors producing differentiated products.

In perfect competition all firms produce identical products. In an oligopoly there is a small number of firms.

(Module 9.2, LOS 9.h)

Question #35 of 119

Question ID: 1456844

In order for effective price discrimination to occur the seller must:

A) maximize revenue by selling at the highest price possible.

B) face a demand curve with a negative slope.

C) have more than one identifiable group of customers with the same price elasticities of demand for the product.

Explanation

In order for effective price discrimination to occur, the seller must have a downward sloping demand curve. The seller must also have at least two identifiable groups of customers with price elasticities of demand for the product, and the seller must be able to prevent customers from reselling the product.

(Module 9.4, LOS 9.d)

Question #36 of 119

Question ID: 1456790

A perfectly competitive firm will choose to produce the quantity for which:

A) its marginal revenue is zero.

B) the marginal cost is less than marginal revenue.

C) the market price is equal to its marginal cost.

Explanation

A perfectly competitive firm will tend to expand its output so long as the market price is greater than marginal cost. In the short term and long term, profit is maximized when P = MC.

(Module 9.1, LOS 9.b)

Question #37 of 119

Question ID: 1456816

Consider the following statements:

Statement 1: "When oligopoly firms cheat on price fixing agreements, the result increases economic efficiency."

Statement 2: "Monopolistic competition is inefficient because a large deadweight loss from advertising and marketing costs is a characteristic of this form of competition."

With respect to these statements:

A) only one is correct.

B) both are correct.

C) both are incorrect.

Explanation

With a price-fixing agreement, producers in an oligopoly market restrict output to increase price and joint profits just as a monopoly producer does. Such agreements decrease economic efficiency. When these agreements are violated, quantity produced increases, increasing economic efficiency. Therefore Statement 1 is accurate.

The efficiency of monopolistic competition is not clear. While increased opportunity cost is associated with the intensive marketing and advertising activities that are characteristic of monopolistic competition, consumers definitely benefit from these selling activities because they receive information that often enables them to make better purchasing decisions. Hence the advertising and marketing costs may be more than the efficient amount, but do not represent a deadweight loss. Therefore Statement 2 is inaccurate.

(Module 9.3, LOS 9.d)

Question #38 of 119

Question ID: 1456789

Which of the following is *most accurate* for a price-taker firm in long-run equilibrium when there are no barriers to entry?

A) P = AVC = MR.

B) P = MC = ATC = MR.

C) TC = TR = MC.

Explanation

For a price-taker firm, long-run equilibrium is where P = MC = ATC. For price taking firms, P = MC. Competition eliminates economic profits in the long run so that P = ATC.

(Module 9.1, LOS 9.b)

Question #39 of 119

Question ID: 1456799

Which of the following is the *most likely* result of a technological improvement in a perfectly competitive industry?

A) The industry supply curve shifts to the right.

B) Individual firms' supply curves shift to the left.

C) The costs for individual firms increase.

Explanation

When individual firms implement technological change, their costs decline and their supply (cost) curve shifts to the right. At the lower costs, firms are willing to supply a given quantity at a reduced price. The lower cost structure for the individual firms shifts the industry supply curve to the right.

(Module 9.1, LOS 9.f)

Question #40 of 119

Question ID: 1456749

One way in which monopolistic competition can be distinguished from perfect competition is that in monopolistic competition:

A) each firm faces a perfectly elastic demand curve.

B) marginal revenue is greater than marginal cost at the quantity produced.

C) price is greater than marginal cost.

Explanation

In monopolistic competition, price is greater than marginal cost (i.e., firms can realize a markup). In perfect competition, P = MC. Firms in monopolistic competition are price searchers, i.e., each firm faces a downward sloping demand curve. Regardless of the market structure, all firms produce the quantity at which marginal revenue equals marginal cost.

(Module 9.1, LOS 9.a)

Question #41 of 119

Question ID: 1456857

The *most likely* limitation of the N-firm and Herfindahl-Hirschman concentration measures in assessing market power is that they:

A) are both backward looking.

B) are insensitive to mergers within the industry.

C) do not explicitly include the effects of potential competition.

Explanation

Because potential competition from new entrants is not considered in the calculation of industry concentration measures, market power (pricing power) may be low even though the market shares of the top firms in the industry are quite large.

(Module 9.4, LOS 9.g)

Question #42 of 119

Question ID: 1456812

The kinked demand model assumes that at prices above the current price, the demand curve becomes:

A) less elastic because competitors will not increase their prices.

B) more elastic because competitors will increase their prices.

C) more elastic because competitors will not increase their prices.

Explanation

The kinked demand model of oligopoly behavior assumes that a firm's competitors will not match a price increase, but will match the price of a competitor that offers a lower price. The result is a demand curve that is more elastic above the current price, but less elastic below it.

(Module 9.3, LOS 9.d)

Question #43 of 119

Question ID: 1456813

The kinked demand model assumes that below the current price, the demand curve becomes:

A) less elastic because competitors will decrease their prices.

B) less elastic because competitors will not decrease their prices.

C) more elastic because competitors will decrease their prices.

Explanation

The kinked demand model of oligopoly behavior assumes that a firm's competitors will not match a price increase, but will match the price of a competitor that offers a lower price. The result is a demand curve that is more elastic above the current price, but less elastic below it.

(Module 9.3, LOS 9.d)

Question #44 of 119

Question ID: 1456822

A monopolist will continue expanding output as long as:

A) marginal revenue is positive.

B) marginal revenue is greater than marginal cost.

C) economic profit is greater than zero.

Explanation

The optimum behavior of all firms is to produce until the point where MR = MC. So, the monopolist can increase total profit by increasing production as long as marginal revenue is greater than marginal costs.

(Module 9.4, LOS 9.b)

Question #45 of 119

Question ID: 1456824

Which of the following is *least* relevant when explaining why monopoly firms can earn positive economic profits over the long term?

A) The ability to use price discrimination.

B) The existence of economies of scale.

C) Control over production input resources.

Explanation

High entry barriers due to economies of scale, government licensing, resource controls, and patents prevent new firms from entering the market to exploit positive economic profit opportunities.

(Module 9.4, LOS 9.b)

Question #46 of 119

Question ID: 1456791

Firms in a perfectly competitive industry will increase their output until which of the following conditions is met?

A) Marginal revenue equals average total cost.

B) Marginal cost equals price.

C) Total revenue equals price.

Explanation

When a firm operates under conditions of perfect competition, marginal revenue always equals price. Under perfect competition, price is constant (a horizontal line) so marginal revenue is constant. Therefore a firm will increase output until marginal cost equals price.

(Module 9.1, LOS 9.d)

Question #47 of 119

Question ID: 1456863

A market has the following characteristics:

- There is a large number of independent sellers.
- Each produces a differentiated product.
- There are low barriers to entry.
- Producers face downward-sloping demand curves.
- Demand is highly elastic.

This market is *best* characterized as:

A) a monopoly.

B) monopolistic competition.

C) an oligopoly.

Explanation

These conditions characterize monopolistic competition. By contrast, monopolies and oligopolies have high barriers to entry and involve either a single seller (monopoly) or a small number of interdependent sellers (oligopoly).

(Module 9.4, LOS 9.h)

Question #48 of 119

Question ID: 1462781

Firms in an industry characterized by perfect competition exit the market because they are experiencing economic losses. What will be the effect on the equilibrium market price and the effect on the total revenue of a firm that remains in the industry in the short run?

	Price	Revenue
A)	Decrease	Increase
B)	Increase	Increase
C)	Increase	Decrease

Explanation

If firms in an industry are experiencing losses, some will exit. This will decrease industry supply and increase equilibrium market price. The remaining firms in the industry will increase production along their individual supply curves (short-run marginal cost curves) and increase production at the higher price. The combination of a higher price and greater quantity produced will cause total revenues to increase for the remaining firms. (Module 9.4, LOS 9.f)

Question #49 of 119

Question ID: 1456820

When a regulatory agency requires a monopolist to use average cost pricing, the intent is to produce the quantity where the:

A) the market demand curve intersects the average total cost curve.

B) marginal revenue curve intersects the marginal cost curve.

C) average total cost curve intersects the marginal revenue curve.

Explanation

When a regulatory agency requires a monopolist to use average cost pricing, the intent is to price the product where the average total cost curve intersects the market demand curve. There are problems in using this method, e.g., determining exactly what the average total cost really is.

(Module 9.4, LOS 9.b)

Question #50 of 119

Question ID: 1456830

Under perfect competition, the short-run market supply curve is *most accurately* described by which of the following statements? The market short-run supply curve is the:

A) average of the quantities at each price along the marginal cost curve for all firms in a given industry.

B) sum of the quantities at each price along the average total cost curve for all firms in a given industry.

C) sum of the quantities at each price along the marginal cost curves for all firms in a given industry.

Explanation

The short-run market supply curve is the horizontal sum of the marginal cost curves for all firms in a given industry. It is the sum of all quantities from all firms at each price along each firm's marginal cost curve.

(Module 9.4, LOS 9.c)

Question #51 of 119

Question ID: 1456864

Assume that the market for paper supplies and the market for toothpicks have the following characteristics:

The *Market for Paper Supplies* is comprised of:

- A large number of independent sellers
- Differentiated products
- Low barriers to entry/exit

The *Market for Toothpicks* is comprised of:

- A large number of independent sellers
- Homogeneous products
- No barriers to entry/exit

The Papyrus Company operates in the market for paper supplies and Wudden Floss operates in the toothpick market. The sales managers for both companies want to know how a change in price will affect the quantity sold.

Which of the following choices *best* completes the following sentence? If both firms increase prices, the quantity sold by Papyrus Company will:

A) increase, and the quantity sold by Wudden Floss will decrease. ✗

B) decrease, and Wudden Floss will sell nothing. ✓

C) decrease, and so will the quantity sold by Wudden Floss. ✗

Explanation

Papyrus Company is an example of a price searcher engaged in monopolistic competition (low barriers to entry). Thus, the company faces a downward sloping demand curve and highly elastic demand. An increase in price will result in fewer units sold. Wudden Floss is an example of a price taker operating in a purely competitive market. Thus, the firm faces a horizontal demand curve and perfectly elastic demand. An increase in price will result in *no units sold*. In a purely competitive market, the firm must take the market price.

(Module 9.2, LOS 9.h)

Question #52 of 119

Question ID: 1456752

Which of the following regarding monopolistic competition is *most accurate*?

A) Each firm produces a differentiated product. ✓

B) There are very few independent sellers. ✗

C) Zero barriers to entry and exit exist. ✗

Explanation

Other characteristics of monopolistic competition (also known as competitive price searcher markets) are: a large number of independent sellers, low barriers to entry, and an elastic downward sloping demand curve.

(Module 9.1, LOS 9.a)

Question #53 of 119

Question ID: 1456835

A monopolist will expand production until:

A) P = MC and the price of the product will be determined by the MC curve.

B) MR = MC and the price of the product will be determined by the demand curve.

C) MR = MC and the price of the product will be determined by the MR curve.

Explanation

A monopolist will expand production until MR = MC. The demand curve lies above the intersection of the MR and MC curve and the price charged is the price on the demand curve for the output where MR = MC.

(Module 9.4, LOS 9.d)

Question #54 of 119

Question ID: 1456794

In a study seminar, the following comments were made:

Comment 1: "In the short run, an increase in demand in a perfectly competitive industry will result in negative economic profit for some firms in the industry."

Comment 2: "In the long run, a permanent increase in demand in a perfectly competitive industry will result in zero economic profit for the firms in the industry."

With respect to these comments:

A) only one is correct.

B) both are correct.

C) both are incorrect.

Explanation

Comment 1 is incorrect because an increase in industry demand will increase equilibrium price and output. At the higher price, firms will earn positive economic profits in the short run because the higher price will exceed average total cost. Over the long run, however, new firms will enter the market to exploit the positive economic profits, causing prices to decline until all firms are again earning zero economic profit.

(Module 9.1, LOS 9.f)

Question #55 of 119

Question ID: 1456862

A market structure characterized by a large number of firms all producing identical products is *best* described as:

A) monopoly.

B) perfect competition.

C) monopolistic competition.

Explanation

In a perfectly competitive economic market, there are many independent firms, each seller is small relative to the total market, and there are no barriers to entry or exit.

(Module 9.2, LOS 9.h)

Question #56 of 119

Question ID: 1456818

Which of the following is *least likely* to be considered a reason why regulation of monopolies is not effective?

A) Regulators do not know the firm's cost structure.

B) Regulation shifts industry demand and increases prices.

C) Regulation reduces the incentive for firms to reduce costs.

Explanation

Regulation is not associated with a shift in industry demand.

(Module 9.4, LOS 9.b)

Question #57 of 119

Question ID: 1456796

For a perfectly competitive firm in the short-run, what will be the effect of an increase in market demand on equilibrium price and quantity, respectively?

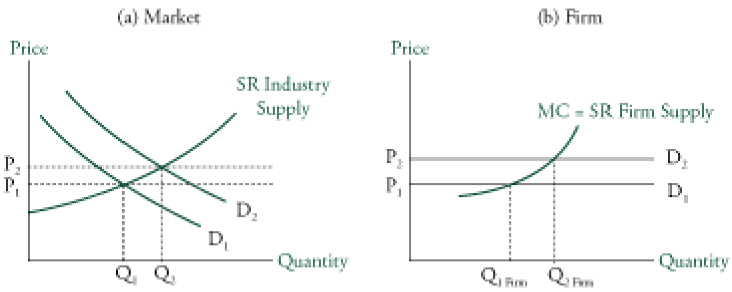
A) Increase; increase.

B) Decrease; increase.

C) Increase; decrease.

Explanation

In the short run, an increase in market demand (a shift to the right) will increase both equilibrium price and quantity.



(Module 9.1, LOS 9.f)

Question #58 of 119

Question ID: 1456838

Price discrimination is *most* accurately defined by which of the following? Price discrimination is the practice of charging different consumers different prices for:

A) the same product or service.

B) similar products that have different price elasticities of demand.

C) similar products that have identical per-unit production costs.

Explanation

Price discrimination is the practice of charging different consumers different prices for the same product or service. Examples include different prices for airline tickets based on whether a Saturday-night stay is involved and different prices for movie tickets based on age.

(Module 9.4, LOS 9.d)

Question #59 of 119

Question ID: 1456757

Which one of the following is *least likely* a characteristic of monopolistic competition?

A) A single seller.

B) Differentiated products.

C) Low barriers to entry and exit.

Explanation

There are many sellers or producers who sell differentiated products that permit firms to attract customers without reducing price; and there are low barriers to entry.

(Module 9.1, LOS 9.a)

Question #60 of 119

Question ID: 1456833

The short-run supply curve for a firm under perfect competition is the firm's:

A) average variable cost curve above marginal revenue.

B) marginal cost curve above average total cost.

C) marginal cost curve above average variable cost.

Explanation

The supply curve for a firm under perfect competition is its marginal cost curve above average variable cost. As long as price exceeds AVC, the firm will produce up to the quantity where MC = Price, which is also MR in this case. (Module 9.4, LOS 9.c)

Question #61 of 119

Question ID: 1456765

Natural monopolies exist because they can produce at lower costs with greater output, which means there are economies of scale. Which of the following industries is typically a natural monopoly?

A) Utilities.

B) Technology.

C) Oil.

Explanation

With a natural monopoly average costs of production will be lowest when a single large firm produces the entire output demanded such as a utility.

(Module 9.1, LOS 9.a)

Question #62 of 119

Question ID: 1456801

Which of the following statements is *least* accurate with regard to the efficiency of monopolistic competition?

A) Consumers benefit from brand name promotion and advertising.

B) Monopolistic competition is at least as efficient as perfect competition.

C) The expense of advertising and promotion may not be justified by their benefit to consumers.

Explanation

The efficiency of monopolistic competition is unclear. Consumers may make better purchasing decisions due to the information content of brand name promotion and advertising. However, there are those that argue that the increased cost of advertising and sales is not justified by the benefits of these activities and represent inefficient use of resources.

(Module 9.2, LOS 9.b)

Question #63 of 119

Question ID: 1456852

Which of the following is *least likely* a necessary condition for a monopolist to realize increased profits from price discrimination?

A) A product for which the demand curve is downward sloping.

B) Two different costs of production.

C) The ability to prevent trading between customers in different price groups.

Explanation

Price discrimination works when the seller (discriminator) faces a downward-sloping demand curve and has at least two customer groups each having different price elasticities of demand for the product. It is also necessary that trading does not occur between customer groups so that the customers paying a lower price cannot resell the product to the customers paying a higher price.

(Module 9.4, LOS 9.e)

Question #64 of 119

Question ID: 1456832

The short-run supply curve for a price taker firm is the portion of the marginal cost (MC) curve:

A) above the average total cost (ATC) curve.

B) above the average variable cost (AVC) curve.

C) below the average variable cost (AVC) curve.

Explanation

The short-run supply curve for a firm is its MC curve above the AVC curve. Price takers will produce where price (P) equals MC. At prices below the AVC curve the firm will not be able to remain in operation. Above the ATC curve the firm is making economic profits and will continue to expand production along the MC curve.

(Module 9.4, LOS 9.c)

Question #65 of 119

Question ID: 1456773

Which of the following is *least likely* a barrier to entry?

A) Price controls.

B) Economies of scale.

C) Resource controls.

Explanation

Often barriers to entry are government licensing and legal barriers.

(Module 9.1, LOS 9.a)

Question #66 of 119

Question ID: 1456797

Which of the following is *most likely* the long-term adjustment in a perfectly competitive industry that is characterized by firms incurring economic losses?

A) Equilibrium price will decrease.

B) Some existing firms will exit the market.

C) The industry supply curve will shift downward and to the right.

Explanation

Some of the existing firms will exit the market, leading to a decrease in industry supply and an increase in equilibrium price. Eventually, the remaining firms in the industry will increase output at the higher market price until economic profit equals zero.

(Module 9.1, LOS 9.f)

Question #67 of 119

Question ID: 1456809

Which of the following statements about the efficiency of monopolistic competition in allocating resources is *most accurate*?

A) Advertising expenditures under monopolistic competition represent a deadweight loss to society.

B) Product differentiation under monopolistic competition offers benefits that tend to offset inefficiency from the reduction in output compared to perfect competition.

C) Because economic profits in the long run are positive for firms in monopolistic competition, there are efficiency losses.

Explanation

Economic profits are zero in the long run under monopolistic competition, but since average cost includes the costs of product differentiation and advertising (branding), there is disagreement over the efficiency of long-run output. Both advertising and product differentiation can create value as consumers prefer more choices and use the advertising and branding information to make purchase decisions. Whether there is an efficient amount of product differentiation or not, the benefits of product differentiation do tend to offset its costs. Whether the benefits of differentiated products totally offset the costs compared to a competitive market with a single (undifferentiated) product is open to debate.

(Module 9.2, LOS 9.b)

Question #68 of 119

Question ID: 1456834

A monopolist will maximize profits by:

A) producing at the point where price is equal to MR.

B) producing at the output level where marginal revenue equals average variable cost and charging a price along the demand curve that corresponds to the output rate.

C) producing at the output level where marginal revenue equals marginal cost and charging a price on the demand curve that corresponds to the output rate.

Explanation

A monopolist will maximize profits by producing at the output level where marginal revenue equals marginal cost and charging a price on the demand curve that corresponds to the output rate.

(Module 9.4, LOS 9.d)

Question #69 of 119

Question ID: 1456758

Monopolistic competition differs from pure monopoly in that:

A) monopolistic competitors are price takers and monopolists are not.

B) monopolistic competitors have low barriers to entry and monopolists do not.

C) monopolists maximize profits and monopolistic competitors do not.

Explanation

Another name for monopolistic competition is a competitive price searcher market. Monopolistic competition refers to a large number of independent sellers, each produces a differentiated product, each market has a low barrier to entry, and each producer faces a downward sloping demand curve.

(Module 9.1, LOS 9.a)

Question #70 of 119

Question ID: 1456841

For price discrimination to work, the seller must face a market with all of the following characteristics EXCEPT:

A) a downward sloping demand curve.

B) high barriers to entry.

C) a way of preventing customers from purchasing the product at a lower price and reselling it at a higher price.

Explanation

Price discrimination is the practice of charging different consumers different prices for the same product or service. For price discrimination to work the seller must: 1) have a downward sloping demand curve, 2) have at least two identifiable groups of customers with different price elasticities of demand, 3) must be able to prevent customers in the lower-price group from reselling the product to customers in the higher-price group.

(Module 9.4, LOS 9.d)

Question #71 of 119

Question ID: 1456858

Which one of the following structures is characterized by free entry and exit, a differentiated product, and price searcher behavior?

A) Monopolistic competition.

B) Oligopoly.

C) Pure competition.

Explanation

Monopolistic competition is another name for competitive price-searcher markets. There are a large number of independent sellers, each produces a differentiated product, each market has a low barrier to entry, and each producer faces a downward sloping demand curve.

(Module 9.2, LOS 9.h)

Question #72 of 119

Question ID: 1456768

Which of the following is *least likely* a barrier to entry?

A) Economies of scale.

B) Few sellers.

C) Government licensing and legal barriers.

Explanation

Few sellers are a *characteristic*, not a barrier, of a price-searcher market where there are high barriers to entry. Other barriers are patents or exclusive rights of production.

(Module 9.1, LOS 9.a)

Question #73 of 119

Question ID: 1456843

The practice of charging different consumers different prices for the same product or service is called:

A) price searching.

B) price discrimination.

C) variable pricing.

Explanation

The practice of charging different consumers different prices for the same product or service is called price discrimination.

(Module 9.4, LOS 9.d)

Question #74 of 119

Question ID: 1456776

Which of the following is *least likely* a characteristic of perfect competition?

A) The products produced within a given market are homogenous.

B) The demand curve for an individual firm is a vertical line.

C) The size of each firm is small relative to the size of the overall market.

Explanation

Under perfect competition individual firms have no control over price resulting in a demand schedule that is perfectly elastic or horizontal.

(Module 9.1, LOS 9.a)

Question #75 of 119

Question ID: 1456804

In the short run, price searchers maximize profits by producing output where marginal revenue (MR):

A) is greater than marginal costs (MC) and charging a price based on the demand curve.

B) equals marginal costs (MC) and charging a price based on the average total cost (ATC) curve.

C) equals marginal costs (MC) and charging a price based on the demand curve.

Explanation

Price searchers maximize profits by producing an amount of output where MR equals MC and charging a price based on the demand curve. In the short run, profits or losses occur depending upon where the individual firm's ATC curve is in relationship to the demand curve. In the long run, economic profits are zero due to the low barriers to entry. Important note for the test: regardless of whether a firm is a price taker, price searcher, monopoly, or oligopoly, all firms will seek to maximize profits and want to produce the output where marginal revenue equals marginal cost.

(Module 9.2, LOS 9.b)

Question #76 of 119

Question ID: 1456861

A firm has the following characteristics:

- relatively small in size.
- marginal revenue is equal to the selling price.
- economic profits will not be earned for any significant period of time.

The firm is *best described* as existing in a(n):

A) monopolistic market structure.

B) price searcher market.

C) purely competitive market.

Explanation

The firm being described is a price taker firm in a purely competitive market. These firms must sell their product at the going market price, there are no barriers to entry, and there are a large number of firms that produce a homogeneous product.

(Module 9.2, LOS 9.h)

Question #77 of 119

Question ID: 1462776

Oligopolists have an incentive to cheat on collusive agreements in order to:

A) increase their individual share of the joint profit. ✓

B) restrict output and put upward pressure on price. ✗

C) avoid competitive practices. ✗

Explanation

Colluding restricts output and puts upward pressure on price, but cheating actually increases output and ultimately, if enough cheating occurs, puts downward pressure on the price. Colluders cheat to increase their share of the profits. (Module 9.3, LOS 9.d)

Question #78 of 119

Question ID: 1456750

Monopolistic competition differs from pure monopoly in that:

A) monopolists maximize profit; monopolistic competitors do not. ✗

B) monopolistic competitors are price takers, monopolists are not. ✗

C) barriers to entry are high under monopoly, but low under monopolistic competition. ✓

Explanation

Monopolistic competition is characterized by the low barriers to enter its competitive markets. In contrast, a monopoly exists only where there are high barriers to market entry.

(Module 9.1, LOS 9.a)

Question #79 of 119

Question ID: 1456759

An oligopoly is *least likely* characterized by:

A) a large number of sellers. ✓

B) economies of scale. ✗

C) barriers to entry. ✗

Explanation

Oligopolies consist of a small number of sellers. They tend to be characterized by barriers to entry such as significant economies of scale.

(Module 9.1, LOS 9.a)

Question #80 of 119

Question ID: 1456783

In the long-run, a firm operating under perfect competition will:

A) generate zero economic profit.

B) produce a quantity at which marginal revenue is less than marginal cost.

C) face a perfectly inelastic demand curve.

Explanation

A firm operating under conditions of perfect competition will generate zero economic profit in the long run. Firms may generate economic profits in the short run, but due to the lack of entry barriers, new competitors will enter the market and prices will adjust downward until economic profits become zero. Firms in the industry are price takers (i.e., each firm faces a perfectly elastic demand curve).

(Module 9.1, LOS 9.b)

Question #81 of 119

Question ID: 1456806

Under monopolistic competition, companies can earn positive economic profits in:

A) neither the short run nor the long run.

B) the short run and in the long run.

C) the short run but not in the long run.

Explanation

In a market characterized by monopolistic competition, companies can earn positive economic profits in the short run if the price of their product is greater than the average total cost of producing it. In the long run, because barriers to entry are low, economic profits will attract new entrants. Additional producers will drive the price lower until price equals average total cost, economic profit is zero, and new competitors no longer have an incentive to enter the market.

(Module 9.2, LOS 9.b)

Question #82 of 119

Question ID: 1456772

Which of the following is *least likely* a condition of a perfectly competitive market?

A) Firms face elastic demand curves.

B) Indistinguishable products.

C) Sellers make economic profits.

Explanation

The only item listed that is NOT a condition of a perfectly competitive market is that sellers make economic profits. In fact, sellers do not make economic profit after taking into account their opportunity costs.

(Module 9.1, LOS 9.a)

Question #83 of 119

Question ID: 1456795

In the long-run, after all firms in a perfectly competitive industry have adopted new technology, the:

A) individual firm supply will increase as demand decreases.

B) price will be set where average variable cost is equal to marginal revenue.

C) price will equal minimum average total cost.

Explanation

After some firms in an industry adopt a technological change, the existing firms that use the old technology will experience losses and either adopt the technology or exit the industry. Long-run equilibrium with price equal to minimum average total cost for the new technology will be established.

(Module 9.1, LOS 9.f)

Question #84 of 119

Question ID: 1456767

Which of the following situations is *least likely* to lead to high barriers to entry and monopoly supply?

A) Natural resources are spread among many firms.

B) Governmental licensing and regulations are present.

C) Economies of scale are present.

Explanation

All cases except wide distribution of a natural resource facilitate a monopoly. If natural resource ownership is concentrated in one firm a monopoly would result.

(Module 9.1, LOS 9.a)

Question #85 of 119

Question ID: 1456755

Which of the following is *least likely* a characteristic of an oligopoly?

A) Products can either be similar or differentiated.

B) Relatively small economies of scale.

C) There are few sellers.

Explanation

Oligopolies have large economies of scale and interdependence among competitors.

(Module 9.1, LOS 9.a)

Question #86 of 119

Question ID: 1456810

Which of the following statements about price takers and price searchers is *most* accurate?

A) In the long run, both price takers and price searchers will have zero economic profits.

B) Price takers maximize profits at the point price = marginal revenue = marginal cost.

C) In the long run, both price takers and price searchers maximize profits at the quantity corresponding to the minimum point on the average total cost curve.

Explanation

Because price takers face a horizontal demand curve, they must take price as given and thus maximize profits when P = MR = MC.

The other statements are false. Although firms engaged in pure competition (price takers) maximize profits at the quantity corresponding to the minimum point on the average total cost curve (ATC) (in the long run), this is not necessarily true for price searchers. Price searchers face a downward-sloping demand curve. They produce at the quantity MR = MC and take price from the demand curve. The demand curve may be above the ATC curve. The potential allocative inefficiency of a price searcher engaged in monopolistic competition includes the social cost of *not* producing where P = MC. This potential allocative inefficiency may be outweighed by the benefits of product diversity. Some price searchers, (monopolists, for example), can earn positive economic profits in the long run.

(Module 9.2, LOS 9.d)

Question #87 of 119

Question ID: 1462778

Which of the following statements about a monopolist is *least accurate*?

A) Unlike an oligopolist, a monopolist will always be able to earn economic profit. ✔

B) The monopolist faces a downward sloping demand curve. ✘

C) A profit-maximizing monopolist will expand output until marginal revenue equals marginal cost. ✘

Explanation

In some cases, a monopolist may be unable to sell for a profit. Price may be insufficient to cover the per-unit cost of the monopolist, even when operating at the MR = MC rate of output. The monopolist faces a downward-sloping demand curve.

(Module 9.1, LOS 9.a)

(Module 9.1, LOS 9.b)

(Module 9.4, LOS 9.d)

Question #88 of 119

Question ID: 1456771

A perfect competition has all of the following characteristics EXCEPT:

A) a differentiated product. ✔

B) a large number of independent firms. ✘

C) barriers to entry don't exist. ✘

Explanation

In a perfectly competitive market all the firms produce a homogeneous product.

(Module 9.1, LOS 9.a)

Question #89 of 119

Question ID: 1456748

Which of the following is *least accurate* regarding product development and marketing for firms under monopolistic competition?

A) Brand names can provide consumers with information regarding the quality of firm's products.

B) Firms that bring new and innovative products to the market face relatively more elastic demand curves than their competitors.

C) Relative to other types of competition, product innovation is critical to the pursuit of economic profits.

Explanation

Firms under monopolistic competition face less elastic demand curves when they introduce new and innovative products. This enables them to increase price and earn economic profits. However, close substitutes and imitations will eventually erode the economic profit from a new product. So, firms must constantly seek innovative product features that make their products relatively more desirable than their competitors.

(Module 9.1, LOS 9.a)

Question #90 of 119

Question ID: 1456807

If an industry features differentiated products but has low barriers to entry, in the long run the firms in the industry will experience:

A) sustainable economic profits.

B) economic losses.

C) zero economic profits.

Explanation

An industry with low barriers to entry will produce zero economic profits in the long run.

(Module 9.2, LOS 9.b)

Question #91 of 119

Question ID: 1456815

Statement 1: "The kinked demand curve model of oligopoly assumes that a decrease in price will not be followed by other firms in the industry, but a price increase will."

Statement 2: "Firms in monopolistic competition have high advertising expenses because they want to create the perception that their product is different from their competitors' products when the competing products are actually quite similar."

With respect to these statements:

A) both are correct.

B) both are incorrect.

C) only one is correct.

Explanation

Statement 1 is incorrect because the kinked demand curve model contends that each firm in oligopoly competition believes that an increase (not decrease) in its price will not be followed by the competition, but a decrease (not increase) in price will. Each firm believes that it faces a demand curve that is more elastic (flatter) above a given price, i.e., the kink, than it is below the given price.

(Module 9.3, LOS 9.d)

Question #92 of 119

Question ID: 1456803

In a market characterized by monopolistic competition, which of the following statements about advertising costs is *least* accurate?

A) Firms' advertising costs tend to be greater than those for firms in perfect competition.

B) Many firms spend a significant portion of their advertising budget on brand name promotion.

C) The average total cost attributable to advertising will increase as output increases.

Explanation

The increase in average total cost attributable to advertising decreases as output increases because a fixed cost is being averaged over a larger quantity. Advertising expenses are relatively high for firms in monopolistic competition. This is not only because firms need to inform consumers about the unique features of their products, but also to create or increase a perception of differences between products that are actually quite similar. Many firms spend a significant portion of their advertising budget on brand name promotion.

(Module 9.2, LOS 9.b)

Question #93 of 119

Question ID: 1456808

Which of the following *most* accurately describes why firms under monopolistic competition face elastic demand for their products?

A) Availability of substitutes.

B) Allocative efficiency.

C) High barriers to entry.

Explanation

The demand for products from firms competing in monopolistic competition is relatively elastic due to the availability of close substitutes. If a firm increases its product price, it will lose customers to firms selling slightly differentiated products at lower prices.

(Module 9.2, LOS 9.b)

Question #94 of 119

Question ID: 1456766

Consider the following statements:

Statement 1: "The sum of consumer and producer surpluses is maximized under both monopoly and perfect competition."

Statement 2: "All else being equal, a monopolist that practices price discrimination will be more allocatively efficient than a single-price monopolist."

With respect to these statements:

A) both of these statements are accurate.

B) only one of these statements is accurate.

C) neither of these statements is accurate.

Explanation

Statement 1 is incorrect because the sum of consumer and producer surpluses is maximized under perfect competition when marginal benefit and marginal cost are equal, or equivalently, where the marginal cost curve intersects the demand curve. Monopolies, however, produce a quantity that is less than the quantity where marginal cost equals marginal benefit, so the sum of producer and consumer surpluses is not maximized.

(Module 9.1, LOS 9.a)

Question #95 of 119

Question ID: 1456837

Even though the producer surplus increases under a monopoly scenario, relative to one of perfect competition, the consumer surplus decreases by:

A) a greater amount.

B) an equal amount.

C) a lesser amount.

Explanation

The consumer surplus decreases by a greater amount than the producer surplus increases, with the difference representing a deadweight loss.

(Module 9.4, LOS 9.d)

Question #96 of 119

Question ID: 1456769

Which of the following is *least likely* a barrier to entry?

A) Allocative Efficiency.

B) Economies of Scale.

C) Patents.

Explanation

The other barriers to entry are government licensing and legal barriers such as utilities are given the exclusive right to supply electricity in certain areas.

(Module 9.1, LOS 9.a)

Question #97 of 119

Question ID: 1456831

The short-run supply curve for a firm in a perfectly competitive market is equal to the firm's:

A) AVC curve.

B) MC curve.

C) ATC curve.

Explanation

The short-run supply curve for a firm in a perfectly competitive market is equal to the firm's MC curve. A price taker will maximize profits when it produces the output level where P = MC. As price rises, its point of intersection with the MC curve indicates optimal production.

(Module 9.4, LOS 9.c)

Question #98 of 119

Question ID: 1456805

When firms are earning positive economic profits in an industry characterized as monopolistic competition, it is *most likely* that:

A) new competitors will enter the industry.

B) price takers will lose market share to price searchers.

C) these economic profits can be sustained in the long run.

Explanation

Monopolistic competition describes a price searcher market with low barriers to entry. Because new competitors can enter the industry easily, economic profits cannot be sustained in the long run.

(Module 9.2, LOS 9.b)

Question #99 of 119

Question ID: 1456756

Characteristics of monopolistic competition include all of the following EXCEPT:

A) high barriers to entry.

B) large numbers of independent sellers.

C) differentiated products.

Explanation

Monopolistic competition has *low* barriers to entry.

(Module 9.1, LOS 9.a)

Question #100 of 119

Question ID: 1456781

In the long run, a perfectly competitive firm will earn:

A) sustainable economic profits.

B) zero economic profits.

C) incremental economic profits.

Explanation

Zero economic profits means the firm is earning a normal rate of return and a positive accounting profit. Since perfectly competitive industries have no barriers to entry, economic profits cannot be positive in the long run. If the industry produces economic profits in the short run, new competitors will enter until economic profits are reduced to zero.

(Module 9.1, LOS 9.b)

Question #101 of 119

Question ID: 1456777

The demand curve for a firm in a perfectly competitive market is:

A) downward sloping.

B) horizontal.

C) upward sloping.

Explanation

In a market of perfect competition an individual firm's demand schedule is perfectly elastic (horizontal).

(Module 9.1, LOS 9.a)

Question #102 of 119

Question ID: 1456779

A perfectly competitive firm will continue to increase output so long as which of the following conditions exists?

A) Market price is greater than marginal cost. ✓

B) Marginal revenue is positive. ✗

C) Marginal revenue is greater than price. ✗

Explanation

A perfectly competitive firm will tend to expand its output so long as the market price is greater than marginal cost since price and marginal revenue are equal. In the short term and long term, profit is maximized when marginal cost and marginal revenue are equal (i.e., MC = MR).

(Module 9.1, LOS 9.b)

Question #103 of 119

Question ID: 1456850

In which of the following market structures is price *least likely* to be greater than marginal cost?

A) Monopolistic competition. ✗

B) Monopoly. ✗

C) Perfect competition. ✓

Explanation

In a perfect competition price is equal to marginal cost and marginal revenue when a firm is producing at its profit maximizing quantity. In monopolies and markets characterized by monopolistic competition, price is greater than marginal cost and marginal revenue when producing at the profit maximizing quantity.

(Module 9.4, LOS 9.e)

Question #104 of 119

Question ID: 1456851

The market structure in which a firm's optimal pricing strategy depends on the responses of other firms is:

A) Monopolistic competition.

B) Oligopoly.

C) Perfect competition.

Explanation

Interdependence of firms is a characteristic of an oligopoly market. Optimal pricing for a firm in an oligopoly market depends on expectations of how its competitors will respond.

(Module 9.4, LOS 9.e)

Question #105 of 119

Question ID: 1456825

Which of the following statements about a monopolist is *least* accurate?

A) A profit-maximizing monopolist will expand output until marginal revenue equals marginal cost.

B) A profit-maximizing monopolist will supply less of his product than the amount consistent with the conditions of ideal static efficiency for an economy.

C) A monopolist will always be able to earn economic profit.

Explanation

Monopolists maximize profit when MR = MC. If the ATC curve lies above the demand curve, monopolists will lose money.

(Module 9.4, LOS 9.b)

Question #106 of 119

Question ID: 1456786

A competitive firm will tend to expand its output as long as marginal:

A) cost is less than average cost.

B) revenue is greater than marginal cost.

C) revenue is greater than the average cost.

Explanation

All firms will continue to expand production until marginal revenue = marginal cost.

(Module 9.1, LOS 9.b)

Question #107 of 119

Question ID: 1456787

Under perfect competition, a firm will experience zero long term economic profit when:

A) MC = ATC = MR = price.

B) MC is less than ATC.

C) price is less than average total cost.

Explanation

Under perfect competition, a firm will experience zero long term profits when P = MC = MR = ATC. It recovers all costs including opportunity costs and earns zero economic profit.

(Module 9.1, LOS 9.b)

Question #108 of 119

Question ID: 1456793

A technology that all of the firms in a perfectly competitive industry are using in their production process has been banned by new legislation. What will *most likely* be the effect if these firms stop using this technology?

A) Profit will no longer be maximized at the level of output where marginal cost is equal to the market price.

B) The quantity that the industry will supply at a given price will be reduced.

C) Firms will adopt a different technology that reduces their costs of production.

Explanation

If all the firms in a competitive industry have adopted a technology for production, it is presumably the technology that minimizes their production costs. If that technology is outlawed, firms will have to revert to the second-best technology, which will increase their costs of production. This is represented by a shift to the left in the industry supply curve. At each price level, the quantity supplied will be less than before.

Just as a technological improvement will cause firms that adopt it early to earn economic profits that attract new entrants to the industry, prohibition of the cost-minimizing technology will cause economic losses and typically force some firms to exit the industry. Under perfect competition, profit is always maximized at the level of output where marginal cost equals the market price. The state of technology is one factor that determines the level of output at which this occurs.

(Module 9.1, LOS 9.f)

Question #109 of 119

Question ID: 1456784

A competitive firm will tend to expand its output as long as:

A) its marginal revenue is greater than the market price. ✗

B) its marginal revenue is positive. ✗

C) the market price is greater than the marginal cost. ✓

Explanation

A competitive firm faces a flat demand curve. This means the price is constant and the marginal revenue line is flat. A firm will continue to produce as long as MR > MC, so the competitive firm will produce as long as P > MC. It will stop when MC = MR = P.

(Module 9.1, LOS 9.b)

Question #110 of 119

Question ID: 1456827

The short-run supply curve for a purely competitive market:

A) slopes downward to the right. ✗

B) slopes upward to the right. ✓

C) is a horizontal line. ✗

Explanation

The short-run supply curve for a purely competitive market slopes upward to the right. This reflects the fact that firms in the industry will produce more when the price rises.

(Module 9.4, LOS 9.c)

Question #111 of 119

Question ID: 1462777

Compared to a competitive market result, a single-price monopoly will *most likely*:

A) result in lower output, deadweight loss, and less producer and consumer surplus.

B) adopt a marginal cost pricing strategy, which will decrease consumer surplus.

C) result in a higher price, less consumer surplus, and more producer surplus.

Explanation

A firm in a monopoly position will reduce output to where MC = MR, which will increase price, decrease consumer surplus, and increase producer surplus. A marginal cost pricing strategy refers to regulation which requires a firm to set price equal to marginal cost. (Module 9.4, LOS 9.d)

Question #112 of 119

Question ID: 1462780

Under which market structure is the profit maximizing strategy to produce the quantity of output for which the price is equal to marginal cost?

A) Monopoly.

B) Monopolistic competition.

C) Perfect competition.

Explanation

Firms' demand curves are perfectly elastic (horizontal) in a market characterized as perfect competition, so that marginal revenue is equal to price and a firm maximizes profit by producing the output quantity at which marginal cost equals price. In monopoly markets or under monopolistic competition, firm demand curves are downward sloping so that marginal revenue is less than price. (Module 9.4, LOS 9.e)

Question #113 of 119

Question ID: 1456853

In which of the following industry structures is a firm *least likely* able to increase its total revenue by decreasing the price of its output?

A) Perfect competition.

B) Monopolistic competition.

C) Oligopoly.

Explanation

Under perfect competition each firm is selling all of its output at the market price. Therefore any firm that sells its output at less than the market price will decrease its total revenue. Under monopolistic competition or oligopoly, firms are price searchers. Decreasing the price will increase the quantity a firm sells and may increase or decrease total revenue.

(Module 9.4, LOS 9.e)

Question #114 of 119

Question ID: 1456828

In a perfectly competitive industry, the short-run supply curve for the market is the:

A) sum of the individual supply curves for all firms in the industry.

B) marginal cost curve above the average variable cost curve.

C) marginal cost curve above the average total cost curve.

Explanation

The short-run supply curve for a *firm* is its marginal cost curve above the average variable cost curve. The short-run supply curve of the *market* is the sum of the supply curves for all firms in the industry.

(Module 9.4, LOS 9.c)

Question #115 of 119

Question ID: 1456842

Which of the following statements regarding a monopolist is *most* accurate?

A) A monopolist will charge the highest price for which he can sell his product.

B) A monopolist, like any other profit-maximizing firm, will sell at the output level where marginal revenue equals marginal cost.

C) A monopolist will maximize the average profit per unit sold.

Explanation

The demand curve for monopolists slopes downward to the right reflecting the fact that a higher price results in lower demand. Monopolists maximize profits by expanding output until marginal revenue equals marginal cost.

(Module 9.4, LOS 9.d)

Question #116 of 119

Question ID: 1456798

If the market demand for a product increases in a competitive market, then price:

A) will increase and quantity will decrease.

B) will decrease and quantity will increase.

C) and quantity will increase.

Explanation

If the market demand for a product increases in a competitive market, then the equilibrium price and equilibrium quantity supplied will increase.

(Module 9.1, LOS 9.f)

Question #117 of 119

Question ID: 1456764

Characteristics of an oligopoly *least likely* include:

A) significant barriers to entry.

B) identical products.

C) interdependence among competitors.

Explanation

In an oligopoly, a small number of producers sell products that can be similar or differentiated. An oligopoly typically features significant barriers to entry including economies of scale. Pricing and output decisions by each firm directly influence the decisions of competing firms.

(Module 9.1, LOS 9.a)

Question #118 of 119

Question ID: 1456762

A market that is characterized by monopolistic competition is *least likely* to feature:

A) sellers that produce a differentiated product.

B) a small number of independent sellers.

C) low barriers to entry.

Explanation

In monopolistic competition, there is a large, not small, number of independent sellers.

(Module 9.1, LOS 9.a)

Question #119 of 119

Question ID: 1456785

A firm operating under perfect competition will experience economic losses under which of the following conditions?

A) Marginal revenue is greater than average total cost.

B) Market price is less than average total cost.

C) Marginal cost is less than average total cost.

Explanation

A firm will experience economic losses when its selling price is less than average total cost.

(Module 9.1, LOS 9.b)