# QUIZ 9 ANSWERS

1) A characteristic of a monopolistic competitive markets is
A) few firms in the industry.
B) economic profits in the long run.
C) barriers to entry into the market.
D) a downward-sloping demand curve facing each firm.

2) Economic profits (if any) can be competed away in a monopolistically competitive industry by
A) introduction of brand name products by existing firms.
B) manipulating the demand curve.
C) increasing advertising budgets by existing firms.
D) entry of new firms.

3) Monopolistic competition is similar to perfect competition in that
A) neither has significant barriers to entry.
B) non-price competition is a characteristic of both market structures.
C) each firm faces a horizontal demand curve.
D) firms in both types of market structures produce a standardized product.

4) If entry into a monopolistically competitive industry occurs, the
A) demand curves for the existing firms will remain unchanged.
B) industry demand curve will shift to the left.
C) demand curve for each existing firm will shift to the right.
D) demand curve for each existing firm will shift to the left.

5) Long-run equilibrium for a monopolistically competitive industry results in
A) price equal to *MC* at the minimum level of the firm's *ATC* curve.
B) the firm's demand curve cutting its *MC* curve at the minimum level of the *ATC* curve.
C) each firm's demand curve tangent to its *ATC* curve.
D) each firm's *MC* curve intersecting *MR* at the minimum level of its *ATC* curve.

6) The excess-capacity theorem predicts that in long-run equilibrium
A) profit-maximizing firms choose to operate with some degree of excess capacity.
B) monopolys restrict output below the level where average total costs are minimized.
C) perfectly competitive firms operate with some excess capacity.
D) monopolistically competitive firms produce where average total costs exceed the minimum.

7) One characteristic of oligopolistic markets is
A) ease of entry and exit.
B) mutual interdependence between firms.
C) zero profits in the long run.
D) a horizontal demand curve facing each individual firm.

8) Consider an example of the prisoner's dilemma where 2 firms are making sealed bids on a contract and each firm is allowed to bid either $100 or $180. If both firms bid the same price, the job is shared equally and each firm earns half the value of its bid. Otherwise the lowest bidder wins the contract and receives the full value of its bid. The strategic (non-cooperative) outcome in this situation is
A) both firms bid $100.
B) both firms refuse to bid but share the contract.
C) both firms bid $180.
D) one firm bids $100, the other bids $180.

9) A Nash equilibrium
A) is an example of a cooperative equilibrium.
B) where all players are better off than they would be with any other combination of strategies.
C) is an unstable equilibrium.
D) occurs where all players are maximizing their payoffs given the current behaviour of the other players.

10) Oligopolistic firms can maximize their joint profits
A) by increasing set-up costs.
B) by product differentiation and brand-image advertising.
C) if they cooperate to produce the monopoly output.
D) by advertising and raising the overall minimum scale of operation.

11) Which of the following industries in Canada are best thought of as oligopolies?
1. breweries
2. women's clothing retailers
3. automobile manufacturers

A) 1 only B) 2 only
C) 1, 2, and 3 D) 1 and 3 only

12) A monopolistically competitive firm and a monopoly are similar because
A) both firms always operate at their point of minimum average total cost.
B) both firms will earn zero profits in the long run.
C) both firms must behave strategically toward other firms in the industry.
D) each firm can raise its price without losing all of its sales.

13) In the long run a monopolistically competitive firm will
A) earn zero economic profits.
B) produce where $P >$ min $ATC$.
C) both of the above.
D) none of the above.

14) The view that monopolistic competition is necessarily bad for consumers is not valid because consumers benefit from
A) products becoming more homogeneous.
B) lower prices.
C) an increase in quantity available.
D) an increased variety of products.

15) The kinked demand model tries to explain
A) why prices are slow to change in an oligopoly.
B) why MR = MC is not always the profit-maximizing criterion.
C) why oligopolistic firms are tempted to cheat on collusive agreements.
D) why collusion leads to profit maximization.

**QUIZ 9 VERSION 1 KEY**

1) D
2) D
3) A
4) D
5) C
6) D
7) B
8) A
9) D
10) C
11) D
12) D
13) C
14) D
15) A