

QUIZ 8 **ANSWERS**

- 1) The marginal revenue facing a monopolist
A) is the same as the average revenue facing the monopolist.
B) is the same as the demand facing the monopolist.
C) lies below the average revenue.
D) shows the change in the profits level of the firm.
- 2) A monopolist faces a downward-sloping demand curve because
A) its average revenue equals its marginal revenue.
B) it sells typically to only one consumer.
C) its demand curve is the market demand curve.
D) its supply curve is upward sloping.
- 3) At the profit-maximizing level of output for a monopolist, price
A) equals marginal revenue.
B) equals marginal cost.
C) exceeds marginal cost.
D) always exceeds average total cost.
- 4) The monopolistic firm does not have a supply curve because
A) the monopolist needs to know the demand in order to set price.
B) its marginal costs can not be calculated.
C) it is not constrained by the marginal costs of production.
D) the output is a fixed quantity.
- 5) A monopolist is currently producing an output level where $P = \$20$, $MR = \$13$, $AVC = \$12$, $ATC = \$15$, and $MC = \$14$. In order to maximize profits, this monopolist should
A) not change his output level, because he is currently at the profit-maximizing output level.
B) decrease production and increase price.
C) increase production and reduce price.
D) shut down.
- 6) If a monopolist's marginal revenue is $MR = 12 - 2Q$ and marginal cost is $MC = 3$, then the profit-maximizing quantity that the monopolist should produce is
A) 3 B) 4. **C) 4.5.** D) 6.5.
- 7) If a monopoly took over a viable perfectly competitive industry the firm would produce
A) a smaller output at a higher price.
B) the same output at a higher price.
C) a smaller output at the same price.
D) the same output at the same price.
- 8) Suppose that a monopolist knows the following information:

Price	Quantity	TR	MR	Fixed Cost	TC	ATC	MC
\$9.00	1500		\$4.00	\$7000		\$7.00	\$5.00

- The monopolist could maximize profits by
A) staying at the current price and output.
B) raising price and lowering output.
C) lowering price and increasing output.
D) lowering price and leaving output unchanged.

9) A likely cause of a natural monopoly is

- A) licenses.
- B) charters.
- C) large economies of scale.
- D) patents.

10) Ordinary price discrimination allows a monopolist to increase profits by

- A) charging different prices according to the willingness to pay of each consumer.
- B) shifting the cost curves facing the monopolist downward.
- C) charging different prices according to the willingness to pay of each market segment.
- D) charging different prices according to the different marginal cost on each unit produced.
- E) raising the market price above the competitive price.

11) Monopoly pricing and output behaviour

- A) increase both consumer and producer surplus.
- B) reduce producer surplus and increase consumer surplus.
- C) reduce the sum of consumer and producer surplus.
- D) reduce both consumer and producer surplus.

12) A monopoly faces market demand of $Q = 50 - .5p$. Its $MR = 100 - 4Q$. Its $MC = Q$ and $ATC = .5Q$. How many units of output will the firm produce?

- A) 22.2
- B) 20
- C) 40
- D) 33.3

13) A monopoly faces market demand of $Q = 50 - .5p$. Its $MR = 100 - 4Q$. Its $MC = Q$ and $ATC = .5Q$. What price will the firm charge?

- A) \$20.00
- B) \$60
- C) \$33.40
- D) \$55.60

14) A monopoly faces market demand of $Q = 50 - .5p$. Its $MR = 100 - 4Q$. Its $MC = Q$ and $ATC = .5Q$. What is the firm's profit?

- A) \$556.11
- B) \$1000
- C) \$987.90
- D) \$0

15) A monopoly faces market demand of $Q = 50 - .5p$. Its $MR = 100 - 4Q$. Its $MC = Q$ and $ATC = .5Q$. What is the deadweight loss due to monopoly?

- A) \$266
- B) \$278.06
- C) \$532
- D) \$556.11

QUIZ 8 VERSION 1 KEY

1) C

2) C

3) C

4) A

5) B

6) C

7) A

8) B

9) C

10) C

11) C

12) B

13) B

14) B

15) A