

Lab #12

Chapter 12 — Monopoly

- 1) If a firm has no rival competitors that produce a close substitute, then
- A) the firm must earn only zero profit in the long run.
 - B) the product must be an inferior good.
 - C) the firm enjoys a degree of market power.
 - D) the firm should exit the industry after the depreciation of its capital.
 - E) the market probably cannot support any firms, and the firm will eventually go broke.

Answer: C

- 2) Market power refers to
- A) the production of a high-quality product that few buyers will be able to resist.
 - B) the incentive to maximize the profit.
 - C) the ability to set market price.
 - D) the ability to meet production quotas.
 - E) the ability to control a market.

Answer: C

- 3) The ability to maximize profit by setting the price is
- A) an essential characteristic of monopoly.
 - B) an essential characteristic of competitive markets.
 - C) reserved exclusively for government franchises.
 - D) possible only if the firm holds a patent on the product it sells.
 - E) possible only if the firm has a natural monopoly.

Answer: A

- 4) Which one of the following is an example of a possible natural barrier to entry of new firms into an industry?
- A) licensing of professions
 - B) economies of scale
 - C) issuing a patent
 - D) a public franchise
 - E) all of the above

Answer: B

- 5) In order for a monopolist to be able to practise price discrimination,
- A) the monopolist must be able to segment the market according to the different prices the consumers are willing to pay.
 - B) the monopolist must be a price taker.
 - C) the monopolist must have different marginal costs of production for different output levels.
 - D) the monopolist must have declining average variables costs of production.
 - E) the monopolist must be able to shrink output.

Answer: A

Use the figure below to answer the following question(s).

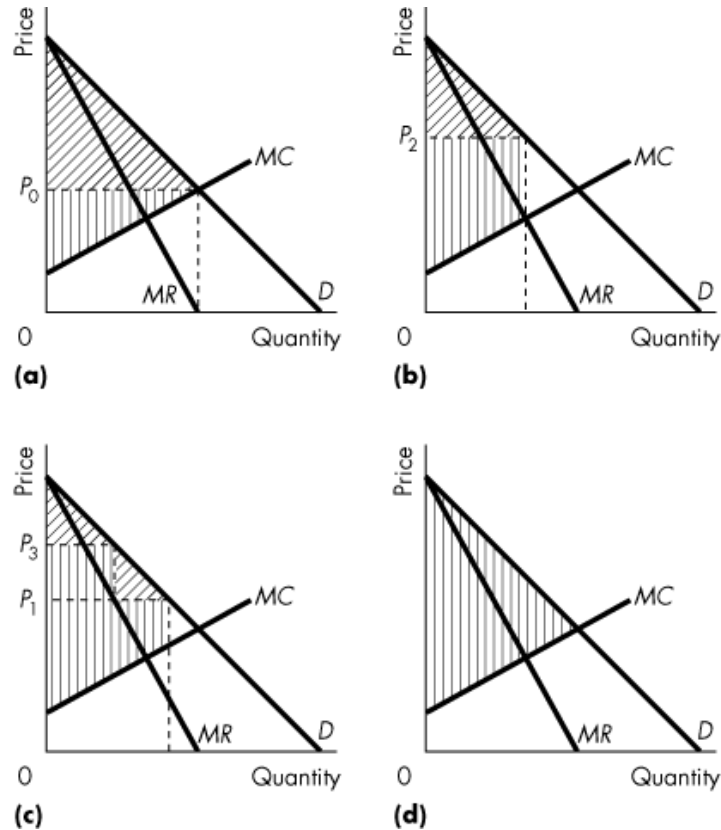


Figure 12.6

- 6) Consider Figure 12.6. Suppose we have a market with perfect competition. If the slanted-barred area shows the consumer surplus, and the vertical-barred area shows the producer surplus, which graph(s) correctly represents this market?
- A) (a)
 - B) (b)
 - C) (c)
 - D) (d)
 - E) (b) and (d)

Answer: A

7) Consider Figure 12.6. Suppose we have a market with a single-price monopolist. If the slanted-barred area shows the consumer surplus, and the vertical-barred area shows the producer surplus, which graph(s) correctly represents this market?

- A) (a)
- B) (b)
- C) (c)
- D) (d)
- E) (b) and (c)

Answer: B

8) Consider Figure 12.6. Suppose we have a market with a two-price monopolist. If the slanted-barred area shows the consumer surplus and the vertical-barred area shows the producer surplus, which graph(s) correctly represents this market?

- A) (a)
- B) (b)
- C) (c)
- D) (d)
- E) (b) and (d)

Answer: C

Use the figure below to answer the following question(s).

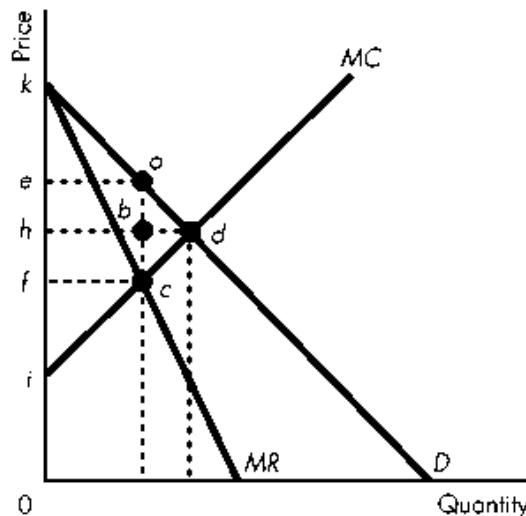


Figure 12.7

9) Consider the industry demand curve in Figure 12.7. If the industry operates under perfect competition, which area indicates the deadweight loss?

- A) abd
- B) bcd
- C) kdi
- D) adc
- E) none of the above

Answer: E

10) Consider the industry demand curve in Figure 12.7. If this is a single-price monopoly, what is consumer surplus?

- A) *eadh*.
- B) *eabh*.
- C) *abd*.
- D) *acd*.
- E) *kea*.

Answer: E

11) Consider Figure 12.7. If the industry is operated by a single-price monopolist, what area is producer surplus?

- A) *ihd*
- B) *khd*
- C) *kea*
- D) *ieac*
- E) none of the above

Answer: D

12) Consider Figure 12.7. What is the redistribution of surplus from consumers to the producer under single-price monopoly, as compared to perfect competition?

- A) *eadh*
- B) *eabh*
- C) *abd*
- D) *acd*
- E) *eabh - bcd*

Answer: B

13) Consider the industry demand curve in Figure 12.7. Which area in the diagram indicates the deadweight loss from a single-price monopoly?

- A) *ecf*
- B) *acd*
- C) *abd*
- D) *bcd*
- E) none of the above

Answer: B

14) Consider the industry demand curve in Figure 12.7. If this is a perfect price-discriminating monopoly, what is consumer surplus?

- A) *eadh*
- B) *eabh*
- C) *abd*
- D) *kea*
- E) none of the above

Answer: E

15) Consider Figure 12.7. If the industry is operated by a perfect price-discriminating monopolist, what area is producer surplus?

- A) *ihd*
- B) *khd*
- C) *kea*
- D) *ieac*
- E) *kid*

Answer: E

16) Consider Figure 12.7. What is the redistribution of surplus from consumers to the producer under perfect price-discriminating monopoly, as compared to perfect competition?

- A) *eadh*
- B) *eabh*
- C) *abd*
- D) *acd*
- E) none of the above

Answer: E

Use the figure below to answer the following question(s).

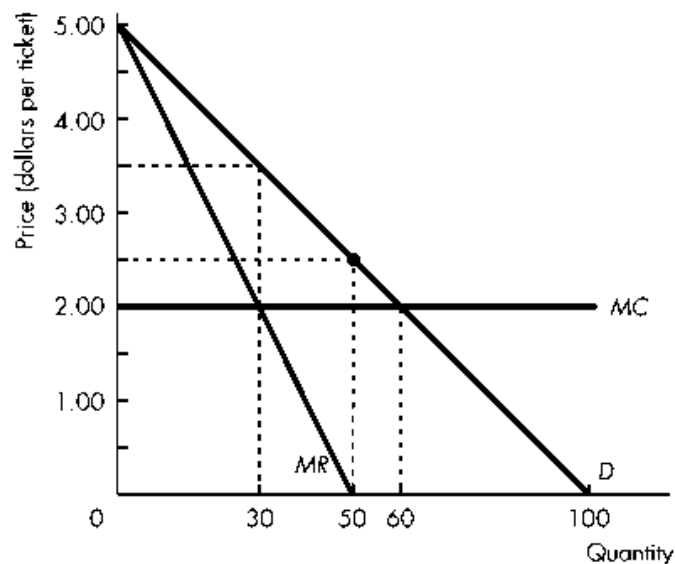


Figure 12.8

17) Refer to Figure 12.8. Assume this firm is a monopolist that charges a single price. What is the profit-maximizing price to charge for the tickets?

- A) \$2
- B) \$2.5
- C) \$3
- D) \$3.5
- E) none of the above

Answer: D

- 18) Refer to Figure 12.8. If there is no price discrimination, how many tickets should this monopolist sell in order to maximize total profit?
- A) 20 tickets
 - B) 30 tickets
 - C) 50 tickets
 - D) 60 tickets
 - E) 100 tickets

Answer: B

- 19) Refer to Figure 12.8. Assume there are fixed costs of \$20. At the profit-maximizing point, the total cost for the single-price monopolist is
- A) \$140.
 - B) \$30.
 - C) \$40.
 - D) \$80.
 - E) impossible to determine without more information.

Answer: D

- 20) Refer to Figure 12.8. Assume this monopolist can practise perfect price discrimination. What is the lowest price that will be charged for tickets in order to maximize profit?
- A) \$0
 - B) \$1
 - C) \$3.50
 - D) \$3
 - E) \$2

Answer: E

- 21) A perfect price-discriminating monopoly will produce
- A) less than a single-price monopoly.
 - B) more than a single-price monopoly but less than a perfectly competitive industry.
 - C) less than a (not perfectly) discriminating monopolist.
 - D) more than a perfectly competitive industry.
 - E) the same amount as a perfectly competitive industry.

Answer: E

- 22) Which one of the following is a possible advantage of monopoly behaviour?
- A) Monopolies create deadweight loss.
 - B) Monopolies capture consumer surplus.
 - C) Monopolies have large fixed costs.
 - D) Monopolies may have economies of scale and scope that reduce costs.
 - E) Monopolies price discriminate and achieve the optimal equilibrium.

Answer: D

- 23) A monopoly has economies of scale if
- A) average total cost declines as output increases.
 - B) total profit declines as output increases.
 - C) average total cost declines as the number of different goods produced increases.
 - D) total profit declines as the number of different goods produced increases.
 - E) average total cost declines as the firm's scale decreases.

Answer: A

- 24) One potential advantage that a monopoly might have over perfect competition is
- A) almost always a lower price.
 - B) almost always a higher output.
 - C) diseconomies of scale.
 - D) possibly an increased incentive to innovate.
 - E) none of the above.

Answer: D

- 25) A way that regulators can reduce the deadweight loss from a natural monopoly is to
- A) have the firm produce less output.
 - B) allow the firm to set the price.
 - C) use average cost pricing.
 - D) increase demand for the output.
 - E) buy up all the output and give it to the final consumers.

Answer: C