Chap 13 Monopolistic Competition and Oligopoly
These questions may include topics that were not covered in class and may not be on the exam.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) A monopolistically competitive firm has ________ power to set the price of its product because ________. 1) ________

A) no; there are no barriers to entry
B) some; there are barriers to entry
C) some; of product differentiation
D) no; of product differentiation

2) One difference between perfect competition and monopolistic competition is that 2) ________

A) a perfectly competitive industry has fewer firms.
B) monopolistic competition has barriers to entry.
C) firms in monopolistic competition face a downward-sloping demand curve.
D) in perfect competition, firms produce slightly differentiated products.

3) In monopolistically competitive industries, 3) ________

A) firms are not sensitive to changes in consumer demand.
B) the amount of variety in products is the same as in perfectly competitive industries.
C) non-price competition through product differentiation is vigorous.
D) firms produce where marginal cost exceeds the marginal benefit to consumers.

4) Firms in monopolistic competition make products that are 4) ________

A) close but not perfect substitutes.
B) perfect substitutes.
C) close but not perfect complements.
D) perfect complements.

5) A characteristic of monopolistic competition is 5) ________

A) a low ratio of fixed to variable costs.
B) a high capital-output ratio.
C) product differentiation.
D) the absence of advertising.

6) Product differentiation is a defining characteristic of 6) ________

A) perfectly elastic demand.
B) perfect competition.
C) oligopoly.
D) monopolistic competition.

7) A monopolistically competitive industry has 7) ________

A) a small number of large firms.
B) differentiated products.
C) significant barriers to entry.
D) mutually dependent firms.

8) Firms in monopolistic competition can achieve product differentiation by 8) ________

A) exploiting economies of scale in production.
B) advertising special characteristics.
C) expanding plant size.
D) setting the price equal to average revenue.

9) An example of a monopolistically competitive industry is 9) ________

A) phone service.
B) the restaurant industry.
C) wheat farming.
D) the automobile industry.

10) A characteristic of monopolistic competition is that each firm 10) _______

A) faces perfectly elastic demand.
B) faces a downward–sloping demand curve.
C) has a perfectly inelastic supply.
D) has a perfectly elastic supply.

11) In monopolistic competition, each firm has a demand curve with 11) _______

A) a slope equal to zero, and there are barriers to entry into the market.
B) a negative slope, and there are no barriers to entry into the market.
C) negative slope, and there are barriers to entry into the market.
D) a slope equal to zero, and there is are no barriers to entry into the market.

12) If an industry lacks barriers to entry and each of the many firm faces a demand curve with a negative slope, the industry is 12) _______

A) monopolistically competitive.
B) a monopoly.
C) an oligopoly.
D) perfectly competitive.

13) One important difference between monopoly and monopolistic competition is the 13) _______

A) greater restriction of output in monopolistic competition.
B) point there are no barriers to entry in monopolistic competition.
C) point that the marginal revenue and demand curves are the same for a monopoly.
D) slope of the demand curve that the firms faces.

14) In monopolistic competition, each firm's marginal revenue curve lies ________ its demand curve because of ________. 14) _______

A) above; barriers to entry
B) below; product differentiation
C) below ; barriers to entry
D) above; product differentiation

15) In monopolistic competition, each firm's marginal revenue curve has 15) _______

A) a negative slope, and so does its demand curve.
B) a slope equal to zero, but its demand curve has a negative slope.
C) a slope equal to zero, and so does its demand curve.
D) a negative slope, but its demand curve has zero slope.

16) A firm in monopolistic competition has some degree of price–setting power because 16) _______

A) in the long run it earns a normal profit.
B) it must lower its price in order to sell a greater quantity.
C) the price it charges is never more than its marginal cost.
D) it can never earn less than normal profit.

17) For a firm in monopolistic competition, the marginal cost curve intersects the average total cost curve 17) _______

A) at no point.
B) at the minimum average total cost.
C) to the left of the minimum average total cost.
D) to the right of the minimum average total cost.

18) Firms in monopolistic competition always will 18) _______

A) produce at the minimum average total cost.

B) set their price equal to their marginal cost.

C) earn an economic profit.

D) set their price above their marginal cost.

19) Firms in monopolistic competition have rivals that 19) _______

A) set their prices according to the demand curves they face.

B) match their price decreases.

C) agree on a common price.

D) match their price increases.

20) In the short run, a monopolistically competitive firm chooses 20) _______

A) its quantity but not its price.

B) neither its price nor its quantity.

C) its price but not its quantity.

D) both its price and its quantity.

21) In monopolistic competition, in the short run a firm maximizes its profit by selecting an output at which marginal cost equals 21) _______

A) price.

B) marginal revenue.

C) zero.

D) average total cost.

22) If a monopolistically competitive firm's marginal cost curve shifts upward, then its level of output 22) _______

A) will decrease.

B) could increase, decrease, or stay the same but more information is needed.

C) will increase.

D) will stay the same.

23) When firms in monopolistic competition incur an economic loss, some firms will 23) _______

A) enter the industry, and demand will become more elastic for the original firms.

B) exit the industry, and demand will decrease for the firms that remain.

C) enter the industry and produce more products.

D) exit the industry, and demand will increase for the firms that remain.

24) When firms in monopolistic competition are earning an economic profit, firms will 24) _______

A) enter the industry, and demand will decrease for the original firms.

B) enter the industry, and demand will increase for the original firms.

C) exit the industry, and demand will increase for the firms that remain.

D) exit the industry, and demand will decrease for the firms that remain.

25) If firms in a monopolistically competitive industry are earning an economic profit, then 25) _______

A) some workers will leave the industry's labor force.

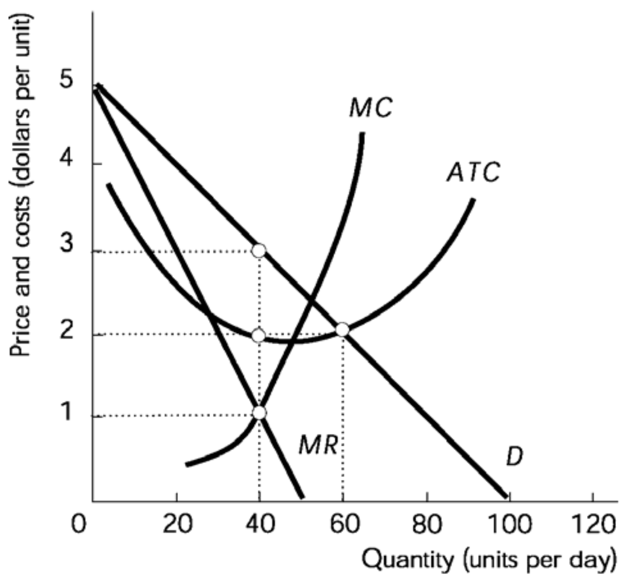
B) new firms will enter the industry.

C) some firms will leave the industry.

D) some customers will exit the market.

26) In monopolistic competition, firms can earn an economic profit in 26) _______

A) the short run but not in the long run.
B) the short run and in the long run.
C) the long run but not in the short run.
D) neither the long run nor the short run.



27) In the above figure, if the firm is in monopolistic competition, it will produce 27) _______

A) 100 units.
B) 40 units.
C) 60 units.
D) between 60 and 80 units.

28) In the above figure, if the firm is in monopolistic competition, its price will be 28) _______

A) $2.
B) $4.
C) $3.
D) $1.

29) In the above figure, the monopolistically competitive firm earns an economic profit of 29) _______

A) between $50.01 and $100 per day.
B) greater than $100.01 per day.
C) $0.
D) between $0 and $50 per day.

30) The above figure is for a firm in monopolistic competition. The diagram represents the short run rather than the long run because 30) _______

A) the *MR* curve cuts the *ATC* curve from below.
B) the firm is earning an economic profit.
C) the *MR* curve and the *D* curve do not coincide.
D) the firm is incurring an economic loss.

31) The figure above shows a monopolistically competitive firm in the short run. During the transition to the long run, the demand curve will shift ________ and the *MR* curve will shift ________. 31) _______

A) rightward; leftward
B) rightward; rightward
C) leftward; leftward
D) leftward; rightward

32) If all firms in a monopolistically competitive industry faced the same demand and cost curves pictured in the above figure, 32) _______

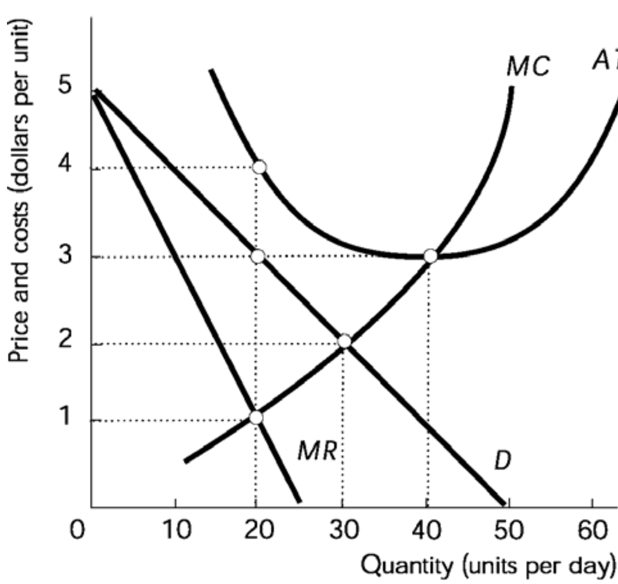
A) new firms will enter the industry.
B) they would produce 60 units in total.
C) their economic profit would be zero.
D) some firms will exit the industry.

33) In the above figure, the firm is a monopolistically competitive firm. In the long run, its economic profit will be 33) _______

A) between zero and $50 per day.
B) greater than $50.0 per day.
C) zero.
D) some amount that cannot be determined without more information.

34) The figure above could represent the long-run equilibrium for a 34) _______

A) firm facing inelastic demand at all outputs.
B) monopolistically competitive firm.
C) perfectly competitive firm.
D) monopoly.



35) In the figure above, assuming that the firm does not shut down, the firm will produce 35) _______

A) 40 units.
B) 30 units.
C) fewer than 20 units.
D) 20 units.

36) In the figure above, assuming that the firm does not shut down, it will charge a price of 36) _______

A) $4.
B) $3.
C) $2.
D) $1.

37) In the figure above, the firm's economic 37) _______

A) profit will be between $0 and $30 per day.
B) loss will be greater than $30 per day.
C) profit will be greater than $30.01 per day.
D) loss will be $30 or less per day.

38) The figure above shows a firm in monopolistic competition. If all firms in the industry have the demand and cost curves illustrated in the figure, 38) _______

A) some firms will enter the industry in the long run.

B) some firms will exit the industry in the long run.

C) firms will neither enter nor exit the industry in the long run.

D) we cannot tell if firms will enter or exit the industry in the long run.

39) If the market served by a monopolistically competitive industry expands, a likely result in the long run will be 39) _______

A) a higher ratio of price to average cost.

B) a larger number of firms producing a similar product.

C) less elastic demand curves facing each firm.

D) a transition from monopolistic competition to oligopoly.

40) In the long run, a firm in a monopolistically competitive industry produces where its marginal cost 40) _______

A) equals its price.

B) is less than its average cost.

C) equals its average cost.

D) exceeds its average cost.

41) In the long run, a firm in monopolistic competition produces where the slope of the average total cost curve is 41) _______

A) zero.

B) equal to the marginal cost.

C) positive.

D) negative.

42) In the long run, a monopolistically competitive firm can earn 42) _______

A) no economic profit, and neither can a monopoly.

B) an economic profit, but a monopoly cannot.

C) no economic profit, but a monopoly might.

D) an economic profit, and so can a monopoly.

43) In monopolistically competitive industries, 43) _______

A) firms are not sensitive to changes in consumer demand.

B) entry and exit push economic profits toward zero.

C) firms produce where marginal cost equals the marginal benefit to the consumers.

D) there is no diversity of products.

44) In long-run equilibrium, a firm in monopolistic competition earns 44) _______

A) a normal profit.

B) an economic profit but the economic profit is less than it would be if the firm was a monopoly.

C) an economic profit that is higher than what it would be if the firm was a monopoly.

D) an economic profit that is the same amount as it would be if the firm was a monopoly.

45) In the long run, a firm in monopolistic competition will 45) ________

A) earn a positive economic profit.
B) earn a negative economic profit, that is, an economic loss.
C) earn zero economic profit, that is, a normal profit.
D) None of the above answers is necessarily correct because the amount of the profit or loss depends on the slope of the demand curve.

46) In the long run, all firms in a monopolistically competitive industry earn 46) ________

A) zero accounting profit. B) an economic profit.
C) negative accounting profit. D) zero economic profit.

47) In monopolistic competition, in the long run customers pay a price that is 47) ________

A) equal to both the minimum *ATC* and the minimum *AVC*.
B) less than the minimum *ATC*.
C) equal to the minimum *ATC*, but not equal to the minimum *AVC*.
D) more than the minimum *ATC*.

48) In the long run, a monopolistically competitive firm's price equals its 48) ________

A) marginal cost but not its average total cost.
B) average total cost and its marginal cost.
C) average total cost but not its marginal cost.
D) neither marginal cost nor its average total cost.

49) In long-run equilibrium, a firm's price definitely equals its average total cost in both 49) ________

A) perfect competition and monopolistic competition.
B) oligopoly and monopoly.
C) perfect competition and monopoly.
D) oligopoly and monopolistic competition.

50) In the long run, a firm in a monopolistically competitive industry has its price equal to its 50) ________

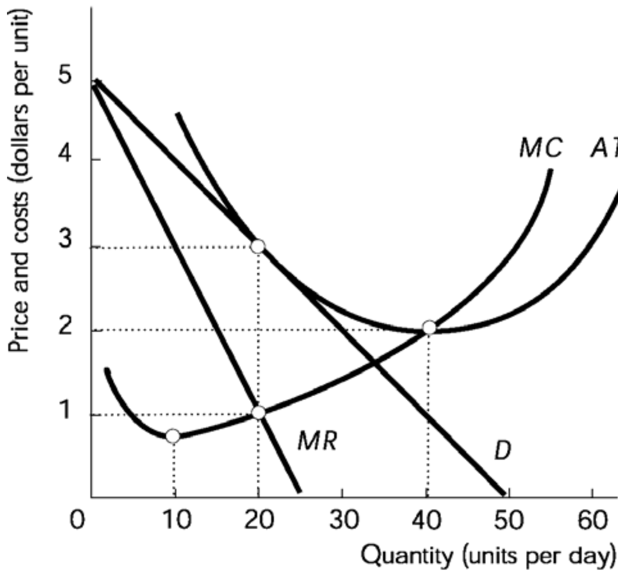
A) marginal cost. B) marginal revenue.
C) elasticity of demand. D) average total cost.

51) In the long-run, a firm in monopolistic competition has 51) ________

A) a price that exceeds its average total cost. B) a marginal cost that exceeds its price.
C) a price that exceeds its marginal cost. D) an average total cost that exceeds its price.

52) In the long-run equilibrium, a firm's price definitely equals its average total cost in 52) ________

A) neither monopoly nor monopolistic competition.
B) monopolistic competition but not monopoly.
C) monopoly but not monopolistic competition.
D) both monopoly and monopolistic competition.



53) The firm in the figure above is in monopolistic competition. It will set a price equal to 53) _______

A) more than $3. B) $1. C) $3. D) $2.

54) The firm in the figure above is in monopolistic competition. It will produce 54) _______

A) 30 units. B) 40 units. C) 20 units. D) 10 units.

55) The firm in the figure above is in monopolistic competition. The firm has 55) _______

A) no excess capacity.
B) excess capacity of 20 units.
C) excess capacity of 30 units.
D) excess capacity of 10 units.

56) In monopolistic competition, in the long run firms have 56) _______

A) a capacity shortage.
B) excess capacity.
C) an economic loss.
D) an economic profit.

57) In monopolistic competition, in the long run firms produce 57) _______

A) the level of output that minimizes their *ATC* and their *AVC*.
B) less output than that which minimizes their *ATC*.
C) more than that which minimizes their *ATC*.
D) the level of output that minimizes their *ATC* but not their *AVC*.

58) Selling costs, such as advertising, are likely to be a large share of total cost in an industry that is 58) _______

A) monopolistically competitive.
B) perfectly competitive.
C) non–profit.
D) a monopoly.

59) Excess capacity and high advertising expenditures are encountered in 59) _______

A) monopolistic competition.
B) perfect competition.
C) monopoly.
D) non–profit competition.

60) Advertising by firms in monopolistic competition 60) _______

A) does not occur.

B) provides consumers with no useful information.

C) wastes resources because the entry of rivals forces firms to be price takers.

D) can persuade customers that product differentiation exists.

61) Product variety and information for consumers are gains from 61) _______

A) oligopoly.
B) perfect competition.
C) monopolistic competition.
D) monopoly.

62) The loss of efficiency that occurs in monopolistic competition has to be weighed against the gain of 62) _______

A) an increase in employment.
B) higher wages for employees.
C) greater product variety.
D) reduced environmental damage.

63) In oligopolistic markets, 63) _______

A) there are many firms.
B) there are only a few firms.
C) there are no barriers to entry.
D) all firms are price takers.

64) One difference between oligopoly and monopolistic competition is that 64) _______

A) a monopolistically competitive industry has fewer firms.

B) fewer firms compete in oligopoly than in monopolistic competition.

C) in monopolistic competition, the products are identical.

D) monopolistic competition has barriers to entry.

65) When only a small number of producers compete with each other is a defining characteristic of 65) _______

A) monopolistic competition.
B) oligopoly.
C) efficient competition.
D) inelastic supply.

66) An example of oligopoly is 66) _______

A) long-distance telephone service.
B) wheat farming.
C) the clothing industry.
D) the restaurant industry.

67) According to the kinked demand curve theory of oligopoly, each firm thinks that the demand curve just below the existing price is 67) _______

A) has the same slope as the curve just above the existing price.

B) steeper than the curve just above the existing price.

C) flatter than the curve just above the existing price.

D) None of the above, because in the kinked demand curve theory, the firms are concerned with how the kink in their supply curve affects their consumers' demands.

68) According to the kinked demand curve theory of oligopoly, each firm believes that if it raises its price, 68) ________

A) other firms will not raise their prices.

B) the overall price level will rise by the same percentage.

C) the government will impose price controls.

D) its profits will rise by the same percentage.

69) According to the kinked demand curve theory of oligopoly, each firm believes that if it lowers its price, 69) ________

A) the government will impose price ceilings.
B) other firms will not lower theirs.

C) the government will impose price floors.
D) other firms will also lower theirs.

70) In the kinked–demand curve model of oligopoly, the firm's marginal revenue curve 70) ________

A) is kinked at the output level at which the demand curve is kinked.

B) has a gap at an output level that is greater than that at which the demand curve is kinked.

C) is kinked at an output level that is greater than that at which the demand curve is kinked.

D) has a gap at the output level at which the demand curve is kinked.

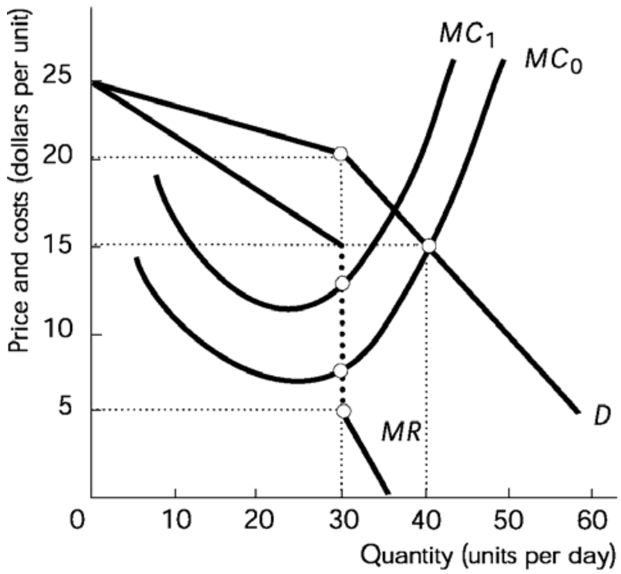
71) The kinked demand curve model of oligopoly predicts that 71) ________

A) the price the firm sets does not change if there are small changes in the firm's marginal costs.

B) price wars in the industry are common.

C) the prices charged by any of the firms in the industry never change.

D) the price the firm sets does not change if there are large changes in the firm's marginal costs.



72) In the figure above, if the firm's marginal cost is MC_0, then the firm will produce 72) _______

A) 30 units per day.
B) more than 30 but less than 40 units per day.
C) 40 units per day.
D) less than 30 units per day.

73) In the figure above, if the firm's marginal cost curve is MC_0 then it will charge a price of 73) _______

A) $5.
B) more than $5 and less than $15 dollars.
C) $20.
D) $15.

74) In the figure above, if the firm's marginal cost curve is MC_0 then its economic profit 74) _______

A) is 0.
B) cannot be determined.
C) is $600 per day.
D) is $150 per day.

75) The figure above illustrates the kinked demand curve model of oligopoly. In this figure, if the firm's marginal cost curve shifts from MC_0 to MC_1, then the firm's output level 75) _______

A) will not change.
B) will increase.
C) could increase, decrease, or stay the same.
D) will decrease.

76) The figure above illustrates the kinked demand curve model of oligopoly. In this figure, if the firm's marginal cost curve shifts from MC_0 to MC_1, then the price the firm charges 76) _______

A) will not change.
B) will rise.
C) could rise, fall, or stay the same depending on other factors not illustrated.
D) will fall.

77) In the kinked demand curve model of oligopoly, if the marginal cost curve shifts upward, then output 77) _______

A) will always decrease.

B) will stay the same if the shift is small, but decrease if the shift is large.

C) will always stay the same.

D) will decrease if the shift is small, but stay the same if the shift is large.

78) A problem with the kinked demand curve model of oligopoly is that 78) _______

A) it assumes that the largest firm has a lower average cost than the other firms.

B) it assumes that oligopolists can price discriminate.

C) it implies that firms ignore the actions of each other.

D) firms' beliefs about the demand curve are not always correct and firms can figure out that these beliefs are not correct.

79) In the dominant firm model of oligopoly 79) _______

A) the marginal revenue curve has a gap.

B) the demand curve facing the dominant firm is the same as the demand curve of the entire market.

C) the demand curve facing the dominant firm equals the demand curve of the entire market minus the supply of the smaller firms.

D) the marginal revenue curve is kinked.

Price (dollars)	Supply of each small firm (cases)	Market demand (cases)
50	100	0
40	80	300
30	60	600
20	40	900
10	20	1200

80) The table above outlines the market demand and small firm supply in the situation of a dominant firm oligopoly. If there are ten identical small firms, then when the price is $30 per case, the quantity demanded from the dominant firm at this price is 80) _______

A) 0 cases. B) 60 cases. C) 600 cases. D) 540 cases.

81) The table above outlines the market demand and small firm supply in the situation of a dominant firm oligopoly. If there are ten identical small firms, then when the price is $20 per case, the quantity demanded from the dominant firm at this price is 81) _______

A) 860 cases. B) 40 cases. C) 500 cases. D) 900 cases.

82) In the dominant firm model of oligopoly, the dominant firm charges 82) _______

A) a lower price than the smaller firms. B) a higher price than the smaller firms.

C) the same price as the smaller firms. D) a price equal to its marginal revenue.

83) In the dominant firm model of oligopoly, the dominant firm 83) _______

A) has higher costs than the smaller firms.

B) charges a higher price than the smaller firms.

C) charges a lower price than the smaller firms.

D) has lower costs than the smaller firms.

84) In the dominant firm model of oligopoly, the dominant firm faces a 84) _______

A) horizontal non-kinked demand curve.

B) horizontal kinked demand curve.

C) kinked demand curve with negative slope.

D) non-kinked demand curve with negative slope.

85) In the dominant firm model of oligopoly, the smaller firms act as if they were 85) _______

A) oligopolists.

B) monopolistic competitors.

C) perfect competitors.

D) monopolists.

86) In the dominant firm model of oligopoly, the dominant firm produces the quantity at which its marginal revenue equals 86) _______

A) the price of the product.

B) zero.

C) its marginal cost.

D) its average total cost.

87) Game theory proves most useful for analyzing 87) _______

A) monopoly.

B) perfect competition.

C) oligopoly.

D) monopolistic competition.

88) Game theory is distinctive in that its elements are 88) _______

A) rules, strategies, payoffs, and outcomes.

B) costs, prices, and profits.

C) revenues, elasticity, and profits.

D) patents, copyrights, and barriers to entry.

89) The prisoners' dilemma describes a single-play game that features 89) _______

A) a large number of rivals cooperating with each other.

B) an outcome in which the participants collude.

C) two players who are unable to communicate with each other.

D) a situation in which one player has better odds than the other.

90) In the prisoners' dilemma game, each player 90) _______

A) can choose from four strategies.

B) can choose from three strategies.

C) has only one possible strategy.

D) can choose from two strategies.

91) The simplest prisoners' dilemma is a game that, in part, requires 91) _______

A) two players who are unable to communicate with each other.

B) monopolistic competition.

C) an oligopoly with a dominant firm.

D) two players who are able to communicate with each other.

		Bob Confess	Bob Don't confess
Joe	Confess	B: 10 years J: 10 years	B: 20 years J: 1 year
	Don't confess	B: 1 year J: 20 years	B: 2 years J: 2 years

92) The table above displays the possible outcomes for Bob and Joe, who have been arrested for armed robbery and car theft. Which of the following is true? 92) _______

A) If Joe does not confess, Bob should not confess.

B) The dominant equilibrium is that Joe and Bob both serve 2 years.

C) If Bob confesses, Joe should confess.

D) If Joe confesses, Bob should not confess.

93) The prisoners' dilemma has an equilibrium in which 93) _______

A) the player who denies wins.
B) both players confess.
C) both players deny.
D) the player who confesses wins.

94) The prisoners' dilemma has an equilibrium that is 94) _______

A) not a Nash equilibrium and both players confess.

B) not a Nash equilibrium and both players deny.

C) a Nash equilibrium and both players deny.

D) a Nash equilibrium and both players confess.

95) In an oligopoly price–fixing game, each player tries to 95) _______

A) maximize its own profit.

B) maximize its own market share.

C) minimize the profits of its opponents.

D) minimize the market shares of its opponents.

96) In the oligopoly price–fixing game, the payoffs are the 96) _______

A) reputations of the firms.
B) sales of the firms.
C) profits of the firms.
D) market shares of the firms.

97) A duopoly is a form of 97) _______

A) oligopoly.
B) monopolistic competition.
C) perfect competition.
D) monopoly.

98) A cartel usually has a collusive agreement to 98) _______

A) lower the price.

B) boost output.

C) restrict output.

D) increase the number of firms in the industry.

99) A cartel is a group of firms that 99) ______
A) produce differentiated products.
B) agree to restrict output to boost their profit.
C) produce products that are complements.
D) agree to boost output to boost their profit.

100) If there is a collusive agreement in a duopoly to maximize profit, then the price will 100) ______
A) be the same as the price set by a monopoly.
B) equal the marginal cost of production.
C) equal the average total cost of production.
D) be the same as the price set by a competitive industry.

101) The maximum *total* economic profit that can be made by colluding duopolists 101) ______
A) bears no necessary relation to the economic profit made by a monopolist.
B) equals the economic profit made by a monopolist.
C) exceeds the economic profit made by a monopolist.
D) is less than the economic profit made by a monopolist.

102) Once a cartel determines the profit-maximizing price, 102) ______
A) each firm faces the temptation to cheat by lowering its price.
B) changes in the output of any member firm will not affect the market price.
C) each firm faces the temptation to cheat by raising its price.
D) entry into the industry by rival firms will not affect the profit of the cartel.

103) In a cartel, 103) ______
A) each firm has an incentive to raise its price above the level set by the cartel.
B) each firm has an incentive to decrease its own output below the level set by the cartel.
C) each firm has an incentive to lower its price below the level set by the cartel.
D) the firms' marginal cost equals the price set by the cartel.

104) In a cartel, the incentive to cheat is significant because 104) ______
A) each firm has an incentive to decrease its own output.
B) each firm has an incentive to raise its price.
C) each firm has an incentive to expand its output.
D) each firm's marginal cost exceeds the price that the cartel sets.

105) If a duopoly has a collusive agreement that maximizes joint profit, then each duopolist has 105) ______
A) an incentive to cheat by raising its price.
B) no incentive to cheat.
C) an incentive to cheat by lowering its price.
D) an incentive to cheat by decreasing its output.

106) A firm might be tempted to cheat on a collusive price-fixing agreement by setting a 106) ______

A) higher price and quantity than agreed.

B) lower price and higher quantity than agreed.

C) higher price and lower quantity than agreed.

D) lower price and quantity than agreed.

		Sears: Lower prices	Sears: Don't lower prices
Walmart	Lower Prices	S: $5 million W: $5 million	S: $1 million W: $30 million
	Don't lower prices	S: $30 million W: $1 million	S: $20 million W: $20 million

107) Sears and WalMart must decide whether to lower their prices, based on the potential economic profits shown in the table above. Which of the following is true? 107) ______

A) This situation is not a prisoners' dilemma.

B) If WalMart lowers its prices, Sears should keep its prices high.

C) If Sears lowers its prices and WalMart does not, Sears will earn a $20 million economic profit.

D) Both Sears and WalMart would jointly be better off if they could each keep their prices high.

108) Refer to the payoffs in the table above. Sears and WalMart must decide whether to lower their prices based on the potential profits shown in the table. This game has 108) ______

A) a Nash equilibrium: both Sears and WalMart keep prices high.

B) a Nash equilibrium: both Sears and WalMart lower prices.

C) a Nash equilibrium: Sears keeps its prices high and Walmart lowers its prices.

D) no Nash equilibrium.

109) A tit-for-tat strategy can be used in 109) ______

A) a single-play game or a repeated game.

B) a repeated game but not a single-play game.

C) a single-play game but not a repeated game.

D) neither a repeated game nor a single-play game.

110) A trigger strategy can be used in 110) ______

A) a single-play game but not a repeated game.

B) a single-play game or a repeated game.

C) a repeated game but not a single-play game.

D) neither a single-play game nor a repeated game.

111) A strategy in which a player cooperates in the current period if the other player cooperated in the previous period, but the player cheats in the current period if the other player cheated in the previous period is called a 111) ______

A) tit-for-tat strategy.

B) duopoly strategy.

C) trigger strategy.

D) dominant firm strategy.

112) A trigger strategy is one in which 112) ______

A) a player cheats in the current period if the other player cooperated in the previous period, but cooperates in the current period if the other player cheated in the previous period.

B) a player cooperates in the current period if the other player cooperated in the previous period, but cheats in the current period *only* if the other player cheated in the previous period.

C) a player cooperates in the current period if the other player has always cooperated, but cheats forever if the other player ever cheats.

D) a player cheats in the current period if the other player has always cheated, but cooperates forever if the other player has ever cooperated.

113) In a repeated game, 113) ______

A) a tit-for-tat strategy is mild and a trigger strategy is severe.

B) a tit-for-tat strategy is severe and a trigger strategy is mild.

C) tit-for-tat and trigger strategies are both mild.

D) tit-for-tat and trigger strategies are both severe.

114) A cooperative equilibrium is most likely to arise in 114) ______

A) a repeated game with a small number of players.

B) a single-play game with a large number of players.

C) a repeated game with a large number of players.

D) a single-play game without communication.

115) With barriers to the entry of new firms, 115) ______

A) the cartel *might* earn an economic profit.

B) industry supply will expand.

C) a cartel is *guaranteed* to earn an economic profit.

D) a cartel's members have no incentive to cheat.

116) Price wars are 116) ______

A) most likely when there is a monopoly.

B) most likely when there is perfect competition.

C) most likely when there is oligopoly.

D) equally likely in the cases of monopoly, oligopoly, and perfect competition.

117) An example of someone who could operate in a contestable market is 117) ______

A) a private college operating in a state with many public colleges.

B) a cable TV company.

C) a ship owner operating on a major waterway.

D) a wheat farmer.

118) In a contestable market the Herfindahl-Hirschman Index is 118) ______

A) high but the market behaves as if it is perfectly competitive.

B) high and the market behaves as if it is a monopoly.

C) low but the market behaves as if it is a monopoly.

D) low and the market behaves as if it is perfectly competitive.

119) A contestable market is one in which 119) ______

A) there are one or a few firms and entry into the market is costly.

B) there are many firms and entry into the market is costly.

C) there are many firms and entry into the market is not costly.

D) there are one or a few firms and entry into the market is not costly.

120) In a contestable market 120) ______

A) two or more firms are competing.

B) the four-firm concentration ratio exceeds 50 percent.

C) potential entry holds down prices.

D) the Herfindahl-Hirschman Index exceeds 1,800.

121) Adkins Air is the only seller offering service directly from Milwaukee to Greensboro. The market is contestable. Thus the Nash Equilibrium for a game between Adkins Air and a potential entrant is when 121) ______

A) the potential entrant does not enter and Adkins earns an economic profit.

B) the potential entrant does not enter and Adkins earns a normal profit.

C) the potential entrant enters and Adkins earns an economic profit.

D) the potential entrant enters and Adkins earns a normal profit.

122) The practice of the only seller in a market charging a price less than the monopoly price in order to scare away potential entrants is called 122) ______

A) trigger pricing.

B) agile pricing.

C) limit pricing.

D) collusive pricing.

123) The type of industry structure that has many firms, each producing a differentiated product, with no barriers to entry or exit is called 123) ______

A) perfect competition.

B) monopolistic competition.

C) monopoly.

D) oligopoly.

124) A monopolistically competitive firm has excess capacity because in the 124) ______

A) long run it earns an economic profit.

B) short run its *ATC* is less than its *AVC*.

C) short run its *MR* exceeds its *MC*.

D) long run its *ATC* exceeds its minimum *ATC*.

125) A monopolistically competitive firm is like a perfectly competitive firm insofar as both 125) ______

A) have horizontal *MR* curves.

B) can earn no economic profit in the long run.

C) are protected by high barriers to entry.

D) have negatively sloping demand curves.

126) Which of the following is characteristic of oligopoly, but NOT of monopolistic competition? 126) ______

A) Each firm faces a downward-sloping demand curve.

B) Firms are profit-maximizers.

C) The choices made by one firm have a significant effect on other firms.

D) There is more than one firm in the industry.

127) A monopolistically competitive firm is like an oligopolistic firm insofar as 127) ______

A) both face perfectly elastic demand.

B) both have *MR* curves that lie beneath their demand curves.

C) both can earn an economic profit in the long run.

D) neither is protected by high barriers to entry.

128) In the dominant firm model of oligopoly, the dominant firm acts like 128) ______

A) a monopolistic competitor. B) a monopolist.

C) a duopolist. D) a perfect competitor.

129) When a cartel maximizes its profit, 129) ______

A) total output is greater than it would be without collusion.

B) industry marginal revenue equals industry marginal cost at the level of total output.

C) each firm necessarily produces the same amount.

D) the industry level of output is efficient.

130) In an oligopoly with a collusive agreement, the total industry profits will be smallest when 130) ______

A) the firms act as a monopoly.

B) all firms comply with the agreement.

C) all firms cheat on the agreement.

D) one firm cheats on the agreement and the other firms do not cheat.

131) Price wars can be the result of 131) ______

A) a cooperative equilibrium.

B) new firms entering the industry and immediately agreeing to abide by a collusive agreement.

C) new firms entering the industry and all firms then finding themselves in a prisoners' dilemma.

D) a firm playing a tit-for-tat strategy in which last period the competitors complied with a collusive agreement.

132) In a contestable market, 132) ______

A) there are high barriers to entry.

B) the firm in the market may play an entry-deterrence game.

C) the firm in the market usually earns a large economic profit.

D) the HHI is usually quite low.

Answer Key
Testname: UNTITLED5.TST

1) C
2) C
3) C
4) A
5) C
6) D
7) B
8) B
9) B
10) B
11) B
12) A
13) B
14) B
15) A
16) B
17) B
18) D
19) A
20) D
21) B
22) A
23) D
24) A
25) B
26) A
27) B
28) C
29) D
30) B
31) C
32) A
33) C
34) D
35) D
36) B
37) D
38) B
39) B
40) B
41) D
42) C
43) B
44) A
45) C
46) D
47) D
48) C
49) A
50) D

51) C
52) B
53) C
54) C
55) B
56) B
57) B
58) A
59) A
60) D
61) C
62) C
63) B
64) B
65) B
66) A
67) B
68) A
69) D
70) D
71) A
72) A
73) C
74) B
75) A
76) A
77) B
78) D
79) C
80) A
81) C
82) C
83) D
84) D
85) C
86) C
87) C
88) A
89) C
90) D
91) A
92) C
93) B
94) D
95) A
96) C
97) A
98) C
99) B
100) A

101) B
102) A
103) C
104) C
105) C
106) B
107) D
108) B
109) B
110) C
111) A
112) C
113) A
114) A
115) A
116) C
117) C
118) A
119) D
120) C
121) B
122) C
123) B
124) D
125) B
126) C
127) B
128) B
129) B
130) C
131) C
132) B