1

1/1
points awarded

Scored

The only market structure in which there is significant interdependence among firms with regard to their pricing and output decisions is

Multiple Choice

- Monopoly.
- Perfect competition.
- Monopolistic competition.
- Oligopoly.

**Explanation**

Because an oligopoly is a market that includes only a few firms, strategy is very important.

2

1/1
points awarded

Scored

Market power is the ability of a firm to

Multiple Choice

- Control the price and quantity supplied.
- Advertise.
- Act as a price taker.
- Increase the number of substitute goods.

**Explanation**

Firms in an oligopoly have market power because they can influence the price of their products; in perfectly competitive markets sellers have no control over price.

3

1/1
points awarded

Scored

The demand curve facing an oligopoly firm is kinked because

Multiple Choice

- It is most likely that competitors will match price hikes as they practice price leadership.
- It is most likely that rivals will match price cuts but not price increases.
- The demand curve that is most inelastic is the most probable situation facing the company.
- Its competitors will match only price hikes.

**Explanation**

If an oligopoly firm raises price, it is not likely that rivals will match, so it will lose market share. This result is on the more elastic portion of the demand curve. If an oligopoly company lowers price, rivals will tend to match. This result is on the more inelastic portion of the demand curve. Hence the shape of the demand curve is kinked.

4

1/1
points awarded

Scored

What is the most likely response by rivals when an oligopolist cuts its price to increase its sales?

Multiple Choice

- Reduce their costs.
- Ignore the change.
- Cut their prices.
- Raise their prices.

**Explanation**

The demand curve will be kinked if rival oligopolists match price reductions but not price increases.

5

Game theory is

1/1
points awarded
Scored

Multiple Choice

- Practiced by perfectly competitive firms.
- The study of price-fixing and collusion.
- An explanation of how oligopolists become monopolists.
- The study of decision making in situations where strategic interaction occurs between rivals.

**Explanation**

Game theory attempts to explain behavior in strategic situations, in which a business's success depends on the choices of others.

6

If an oligopolist is going to change its price or output, its initial concern is

1/1
points awarded
Scored

Multiple Choice

- The concentration ratio.
- A change in its cost structure.
- The response of its competitors.
- The response of the Federal Trade Commission.

**Explanation**

The initial concern of firm when it decreases its price is how responsive consumers will be to the change; however, how much an oligopolist's sales increase depends on the response of rival oligopolists.

7

The concentration ratio for an oligopoly is considered

1/1
points awarded
Scored

Multiple Choice

- Under 40 percent.
- 100 percent.
- 90 percent.
- Over 60 percent.

**Explanation**

The sum of the top four firms' market shares in a typical oligopoly is over 60 percent.

8

If there are many firms in an industry producing goods that are similar but slightly different, this is an example of

0/1
points awarded
Scored

Multiple Choice

- Perfect competition.
- Monopolistic competition.
- Monopoly.
- Oligopoly.

**Explanation**

Monopolistic competition is a market in which many firms produce similar but somewhat differentiated goods or services, and therefore each maintains some independent control of its own price.

9

1/1
points awarded

Scored

Which of the following is *not* characteristic of monopolistic competition?

Multiple Choice

- Low concentration ratios.
- Some market power.
- Firms have zero control over price.
- Many firms in an industry.

**Explanation**

Monopolistic competition is a market in which many firms produce similar but somewhat differentiated goods or services, and therefore each maintains some independent control of its own price. Firms in perfect competition have zero control over price; they must accept the going equilibrium price.

10

0/1
points awarded

Scored

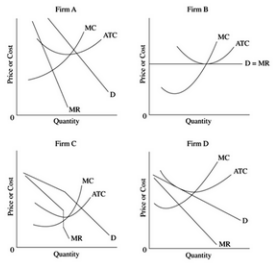


Figure 26.5

Which firm in Figure 26.5 is most likely a monopolistically competitive firm in the long run?

Multiple Choice

- Firm D.
- Firm A.
- Firm B.
- Firm C.

**Explanation**

Firm D is most likely a monopolistically competitive firm because it has a relatively elastic demand curve and is earning zero economic profits.

11

1/1
points awarded

Scored

Which of the following is true about a monopolistically competitive industry?

Multiple Choice

- There is excess capacity.
- Resources are allocated efficiently.
- Marginal cost pricing occurs.
- It produces at the minimum of ATC.

**Explanation**

The typical firm in a monopolistically competitive market produces at a rate of output that is less than its minimum-ATC output rate. This implies that the same level of industry output could be produced at lower cost with fewer firms.

12

1/1
points awarded

Scored

If new firms enter a monopolistically competitive market, the demand curves for the existing firms will

Multiple Choice

- Remain unchanged, but the market demand curve will shift to the right.
- Shift to the right.
- Shift to the left.
- Remain unchanged.

**Explanation**

When more firms enter the market, the firm's demand curve shifts to the left and becomes more elastic because more close substitutes (from other firms) are available.

13

1/1
points awarded

Scored

Which of the following characterizes monopolistic competition?

Multiple Choice

- Retaliation.
- Marginal cost pricing.
- Zero long-run profit.
- Price leadership.

**Explanation**

Given the ease of entry and exit, as long as firms are making a profit (loss), firms will enter (exit) the market, and the disappearance of economic profits (losses) is inevitable.

14

1/1
points awarded

Scored

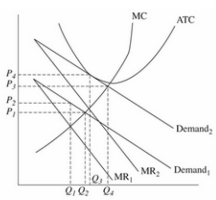


Figure 26.4

Refer to Figure 26.4 for a monopolistically competitive firm. If the firm currently faces Demand$_1$ and MR$_1$, then it will earn

Multiple Choice

- Zero economic profit, and neither entry nor exit will occur.
- A negative economic profit, and firms will exit the industry.
- A positive economic profit, and firms will enter the industry.
- A negative economic profit, and firms will enter the industry.

**Explanation**

If the firm currently faces Demand1 and MR1, then its price is less than ATC, profits are negative, and firms will exit the market.

15

1/1
points awarded

Scored

A natural monopoly is a desirable market structure because

Multiple Choice

- It allows the producer to deliver a higher-quality product to the market.
- It allows the producer to deliver products to the market at the lowest possible cost.
- The jobs it creates pay higher wages than those in a competitive industry.
- It allows the producer to earn greater profit than is possible under competition.

**Explanation**

A natural monopoly is a desirable market structure because it generates pervasive economies of scale. Because of these scale economies, a natural monopoly can produce some products for consumers more efficiently than if more than one firm existed.

16

1/1
points awarded

Scored

Compared with the profit-maximizing choice of a natural monopolist, output regulation will result in a

Multiple Choice

- Higher level of output and a higher price.
- Lower level of output and a lower price.
- Higher level of output and a lower price.
- Lower level of output and a higher price.

**Explanation**

Requiring a higher output than the profit-maximizing output could be beneficial to consumers because of lower average total costs.

17

1/1
points awarded

Scored

Government failure occurs when

Multiple Choice

- Public goods are present.
- There is market power.
- Government intervention fails to improve economic outcomes.
- Dealing with a natural monopoly.

**Explanation**

Government failure occurs when government intervention worsens market outcomes.

18

1/1
points awarded

Scored

In cost-benefit analysis, regulatory intervention can be justified if the

Multiple Choice

- Economic cost of regulation exceeds the value of the improvements in government intervention.
- Intervention improves market outcomes, regardless of costs.
- Value of government failure exceeds the value of market failure.
- Marginal benefit of regulation exceeds its marginal cost.

**Explanation**

Assuming regulation improves market outcomes, its use is appropriate only if the anticipated improvements in market outcomes outweigh the economic cost of regulation.

19

1/1
points awarded

Scored

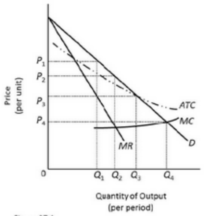


Figure 27.1

To maximize profits, an unregulated natural monopolist would choose which combination of price and output in Figure 27.1?

Multiple Choice

- $P_3$, $Q_3$.
- $P_2$, $Q_2$.
- $P_1$, $Q_1$.
- $P_4$, $Q_4$.

**Explanation**

A profit-motivated firm will produce where MR = MC and charge a price that consumers are willing and able to pay based on the demand curve.

20

1/1
points awarded

Scored

Which of the following markets has *not* been subject to substantial deregulation?

Multiple Choice

- Airlines.
- Computers.
- Cable TV.
- Telecommunications.

**Explanation**

Deregulation of the railroad, telephone, airline, and electricity industries has yielded substantial benefits: more competition, lower prices, and improved services. The cable TV market has been deregulated and reregulated.

21

1/1
points awarded

Scored

External costs are

Multiple Choice

- Domestic economic impacts of foreign events.
- Effects of government on the private sector.
- The difference between social and private costs of a market activity.
- Outside costs that producers absorb.

**Explanation**

Social costs include both private and external costs; therefore the difference between social costs and private costs is equal to external costs.

22

1/1
points awarded

Scored

A power plant in Illinois produces electricity by burning coal. This results in acid rain that kills trees and wildlife in New York. This is an example of

Multiple Choice

- A public bad.
- Inequity.
- A private cost.
- An external cost.

**Explanation**

An external cost is a cost of a market activity borne by a third party, such as death of trees and wildlife in New York.

23

1/1
points awarded

Scored

Economists widely agree that

Multiple Choice

- The market mechanism can handle pollution without any government intervention.
- All pollution should be eliminated.
- Central planning is the most efficient way to eliminate pollution.
- The optimal amount of pollution is greater than zero.

**Explanation**

Although pollution abatement has been an economic success, eliminating all pollution is not always desirable. The marginal benefit of achieving zero pollution is small. But the marginal cost of eliminating that last particle of pollution will be high. As we weigh the marginal benefits and costs, we may conclude that allowing some pollution is cost-effective.

24

1/1
points awarded

Scored

Which of the following is *not* a market incentive to discourage pollution?

Multiple Choice

- Higher user fees.
- Green taxes.
- Emission charges.
- Regulatory intervention.

**Explanation**

Market incentives to discourage pollution include emission charges and user charges, green taxes, expectations of fines, and tradable pollution permits.

25

0/1
points awarded

Scored

Table 28.1

| Reduction in Emissions (in tons) | MC to Reduce Emissions by Steel Plant | MC to Reduce Emissions by Paper Plant |
|---|---|---|
| 1 | $400 | $200 |
| 2 | 500 | 280 |
| 3 | 600 | 320 |

Refer to Table 28.1. Suppose the government allows these two firms to trade pollution permits. The total cost to reduce emissions by a total of two tons could be as low as

Multiple Choice

- $0.
- $900.
- $480.
- $600.

**Explanation**

The total cost of reducing emissions will be $480. Because the paper plant can reduce its first and second tons at a lower cost than the steel plant can its first ton, the paper plant will reduce its pollution by two tons, and the steel plant will pay the paper plant for assuming the added abatement responsibility.

26

1/1
points awarded

Scored

Because the income elasticity of food demand is low, we expect an increase in income to result in

Multiple Choice

- A very slight increase in the quantity of food demanded.
- A very slight decrease in the quantity of food demanded.
- A significant increase in the quantity of food demanded.
- A significant decrease in the quantity of food demanded.

**Explanation**

The income elasticity of demand for food refers to the responsiveness of food demand to changes in income. Because the income elasticity of food is low, a change in income will have only a small impact on the quantity of food demanded.

27

1/1
points awarded

Scored

Time lags between the production decision and the resultant harvest contribute to

Multiple Choice

- Loss.
- Price stability.
- Profit.
- Price instability.

**Explanation**

Time lags between the production decision and the resultant harvest contribute to price instability along with technology advances and inelastic demand.

28

1/1
points awarded

Scored

Supply restrictions in the farming industry occur in the form of

Multiple Choice

- Government stockpiles.
- Price supports.
- Production subsidies.
- Import quotas.

**Explanation**

Supply restrictions in the farming industry occur in the form of acreage set-asides, marketing orders, and import quotas.

29

1/1
points awarded

Scored

Irrigation water delivered by federally funded reclamation projects is classified as

Multiple Choice

- A farm cost subsidy.
- An income support program.
- Parity prices.
- A price support policy.

**Explanation**

Irrigation water is delivered to many farmers by federally funded reclamation projects. The price farmers pay for the water is substantially below the cost of delivering it; the difference amounts to a subsidy.

30

1/1
points awarded

Scored

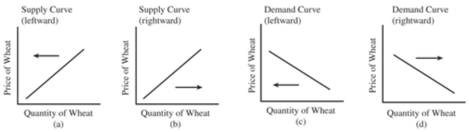


**Figure 29.4**

Select the letter of the diagram in Figure 28.1 that best represents the effect of each event on the United States wheat market, *ceteris paribus*: A bumper wheat crop in the midwest. (See Figure 29.4.)

Multiple Choice

- a.
- c.
- d.
- b.

**Explanation**

The supply of wheat increases when a there is a bumper crop, causing the supply curve to shift to the right.