Chapter 14   Monopolistic Competition

1) One factor that distinguishes a monopoly from monopolistic competition is that
A) firms in monopolistic competition practice collusion.
B) no barriers to entry exist in a monopoly.
C) barriers to exit exist in monopolistic competition.
D) close substitutes are available in monopolistic competition.
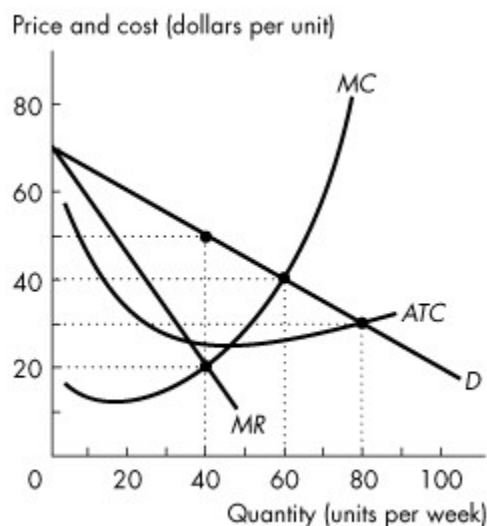E) firms are price-takers in monopolistic competition.
Answer: D

Figure 14.2.1

2) Refer to Figure 14.2.1. If this firm is in monopolistic competition, it will produce an output level
A) of 40 units.
B) of 60 units.
C) of 80 units.
D) that is impossible to determine without information concerning the rival firms.
E) that is less than 40 units.
Answer: A

3) Refer to Figure 14.2.1. If this firm is in monopolistic competition, then it will charge a price
A) of $20 a unit.
B) of $50 a unit.
C) of $40 a unit.
D) of $30 a unit.
E) that is impossible to determine without information concerning the behaviour of the rival firms.
Answer: B

4) Refer to Figure 14.2.1. If this firm in monopolistic competition is in short-run equilibrium, then
A) rival firms will enter the industry.
B) all firms will exit the industry.
C) economic profit of all firms in the industry is zero.
D) it produces 60 units of output to maximize economic profit.
E) the firm's profits can be expected to rise over time.
Answer: A

5) Because consumers value product variety,
A) society must be more efficient with monopolistic competition than with perfect competition.
B) the inefficiency of monopolistic competition is partially offset.
C) in the long run, monopolistic competition firms make economic profit.
D) monopolistically competitive industries are efficient.
E) no two goods of the same type will have equal prices.
Answer: B

6) In monopolistic competition, advertising costs
A) are fixed costs.
B) can result in the firm producing an amount of output such that its average total cost is lower than if it did not advertise.
C) shift the *ATC* curve upward.
D) all of the above answers are correct.
E) none of the above answers are correct.
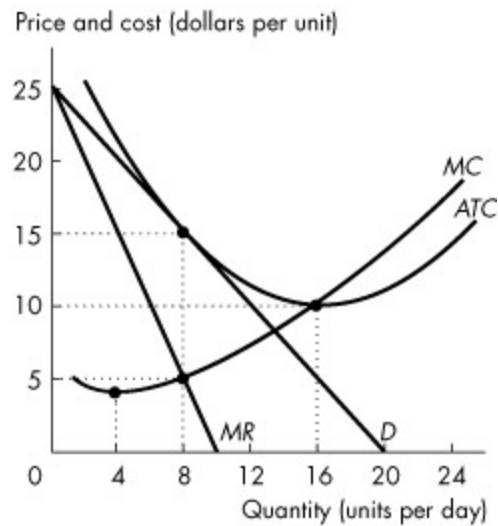Answer: D

Price and cost (dollars per unit)

Figure 14.2.7

7) Refer to Figure 14.2.7. The figure shows the demand, marginal revenue, and cost curves for a monopolistically competitive firm in the long run. The firm has excess capacity of
A) 4 units.
B) 8 units.
C) 16 units.
D) $10.
E) $5.
Answer: B

Table 14.2.1

Price (dollars per sweatshirt)	Quantity demanded (sweatshirts per week)
0	100
20	80
40	60
60	40
80	20
100	0

8) Refer to Table 14.2.1. Sara is a dot.com entrepreneur who sells sweatshirts. She pays $1,000 a week for her Web server and Internet connection. She pays the firm that makes the sweatshirts $20 a sweatshirt. Sara has no other costs. The table sets out the demand schedule for Sara's sweatshirts.
Other firms _____ enter the Web sweatshirt business and compete with Sara.
In the long run, the demand for Sara's sweatshirts _____ and her economic profit _____.
A) will; decreases; falls to zero
B) will not; decreases; falls to zero
C) will; increases; increases
D) will not; increases; increases
E) will; increases; falls to zero
Answer: A

Chapter 15   Oligopoly

1) Which is *not* a characteristic of oligopoly?
A) Each firm faces a downward-sloping demand curve.
B) Firms are profit-maximizers.
C) The sales of one firm will not have a significant effect on other firms.
D) There is more than one firm in the industry.
E) Firms set prices.
Answer: C

2) A cartel is a group of firms which agree to
A) behave competitively.
B) raise the price of their products.
C) lower the price of their products.
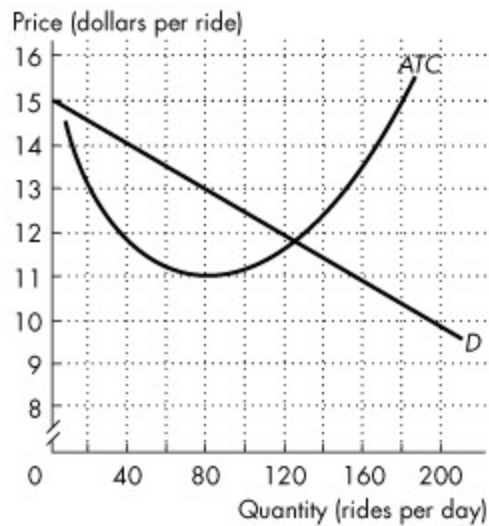D) increase the amount they produce.
E) cheat on each other.
Answer: B

Price (dollars per ride)

Figure 15.1.1

In the figure, *D* is the demand curve for taxi rides in a town, and *ATC* is the average total cost curve of a taxi company.

3) Refer to Figure 15.1.1. In the scenario above, the market is:
A) A natural duopoly
B) A natural oligopoly with three firms
C) A natural monopoly
D) Monopolistically competitive
E) perfectly competitive
Answer: A

Table 15.2.1

Joe		Bob	
		Confess	Don't Confess
	Confess	B: 10 years J: 10 years	B: 20 years J: 1 year
	Don't Confess	B: 1 year J: 20 years	B: Go free J: Go free

4) Refer to Table 15.2.1. This table includes the sentences that Bob and Joe will receive if convicted. They have been apprehended by the police under the suspicion of committing armed robbery. The two are immediately separated and questioned about the case. Which one of the following observations is correct?
A) Bob would be smart to confess no matter what Joe does.
B) Joe would be smart not to confess no matter what Bob does.
C) Both Bob and Joe would be better off not confessing if they both do not confess.
D) Both Bob and Joe would be better off "coming clean" and confessing to their crime.
E) Both Bob and Joe have a dominant strategy of not confessing.
Answer: C

		Firm B	
		Lower Prices	Higher Prices
Firm A	Lower Prices	A: $2 B: $5	A: $20 B: –$10
	Higher Prices	A: –$10 B: $25	A: $10 B: $20

5) Table 15.2.2 gives the payoff matrix in terms of economic profit for firms *A* and *B* when there are two strategies facing each firm: (1) charge a low price, or (2) charge a high price. The equilibrium in this game (played once) will be a dominant strategy equilibrium because
A) firm *B* will reduce profit by more than *A* if both charge a lower price.
B) firm *B* is the dominant firm.
C) the best strategy for each firm does not depend on the strategy chosen by the other firm.
D) there is no credible threat by either firm to "punish" the other if it breaks the agreement.
E) all of the above.
Answer: C

		Firm 1	
		Sell	Give away
Firm 2	Sell	1: $3 2: $3	1: $4 2: -$1
	Give away	1: -$1 2: $4	1: $2 2: $2

		Hare Gas Bar's Choices	
		$1.15/litre	$0.95/litre
Turtle Gas Bar's Choices	$1.15/litre	H: $500 T: $500	H: $1,000 T: $50
	$0.95/litre	H: $50 T: $1,000	H: $200 T: $200

6) Refer to Table 15.2.5. Two software firms have developed an identical new software application. They are debating whether to give the new application away free and then sell add-ons or sell the application at $30 a copy. The payoff matrix is above and the payoffs are profits in millions of dollars. What is Firm 1's best strategy?
A) Give away the application regardless of what Firm 2 does.
B) Sell the application at $30 a copy regardless of what Firm 2 does.
C) Give away the application only if Firm 2 sells the application.
D) Give away the application only if Firm 2 gives away the application.
E) Sell the application only if Firm 2 sells the application.
Answer: A

7) Refer to Table 15.2.5. Two software firms have developed an identical new software application. They are debating whether to give the new application away free and then sell add-ons or sell the application at $30 a copy. The payoff matrix is above and the payoffs are profits in millions of dollars. What is the Nash equilibrium of the game?
A) Both Firm 1 and 2 will sell the software application at $30 a copy.
B) Both Firm 1 and 2 will give the software application away free.
C) Firm 1 will give the application away free and Firm 2 will sell it at $30.
D) There is no Nash equilibrium to this game.
E) Firm 1 will sell the application for $30 and Firm 2 will give it away.
Answer: B

8) Consider the game shown in Table 15.3.1 based on potential gas prices between two competitors. The game is played repeatedly and the result is a cooperative equilibrium. The payoffs in the table show the economic profit of the firms. The most likely outcome is
A) a cycle of first $0.95/litre, then $1.15/litre, etc.
B) Hare sets her prices at $1.15/litre, and Turtle sets his at $0.95/litre.
C) Hare sets her prices at $0.95/litre, and Turtle sets his at $1.15/litre.
D) both set their prices at $1.15/litre.
E) both set their prices at $0.95/litre.
Answer: D

9) Consider the cartel of Trick and Gear. The game is repeated indefinitely and each firm employs a tit-for-tat strategy. The equilibrium is
A) both firms cheat on the agreement.
B) both firms comply with the agreement.
C) Trick cheats and Gear complies with the agreement.
D) Gear cheats and Trick complies with the agreement.
E) unknown.
Answer: B

10) A merger is unlikely to be approved if _____.
A) there are fewer than 6 firms in a market
B) it prevents or substantially lessens competition
C) the good produced in the market has been deemed a necessity
D) the industry is government regulated
E) All of the above.
Answer: B

Chapter 16   Externalities

1) A well-maintained water-front property that is enjoyed by other property owners is an example of
A) an inefficient allocation of resources.
B) a negative consumption externality.
C) a positive consumption externality.
D) a negative production externality.
E) a positive production externality.

Table 16.2.1

Output (units)	Marginal Social Benefit (dollars)	Marginal Private Cost (dollars)	Marginal Social Cost (dollars)
0	80	0	20
1	70	10	30
2	60	20	40
3	50	30	50
4	40	40	60
5	30	50	70
6	20	60	80

2) Refer to Table 16.2.1. Given in the table are the marginal private cost and the marginal social cost of the production of chemical fertilizer and the marginal social benefit from the consumption of fertilizer. Under these circumstances,
A) there are positive externalities in this market.
B) there are negative externalities in this market, equal to $10 per unit.
C) there are no externalities in this market.
D) not enough information is provided to determine whether or not there are externalities.
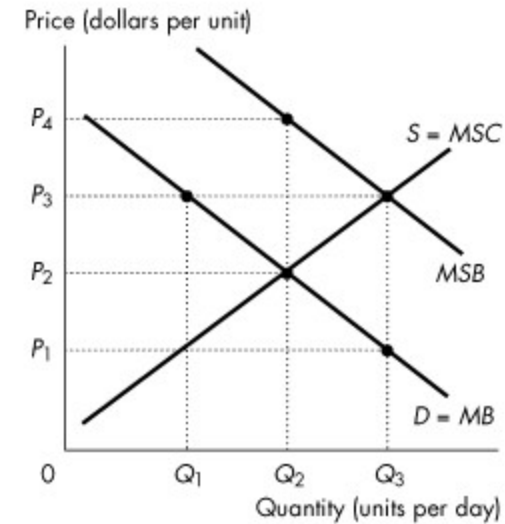E) there are negative externalities in this market, equal to $20 per unit.
Answer: E

Figure 16.3.1

3) Refer to Figure 16.3.1. The figure shows the marginal private benefit curve, the marginal social benefit curve, and the market supply curve. If production is left to the private market, then the quantity produced is
A) zero.
B) Q_1.
C) Q_2.
D) Q_3.
E) between 0 and Q_1.
Answer: C

4) Refer to Figure 16.3.1. The figure shows the marginal private benefit curve, the marginal social benefit curve, and the market supply curve. If production is left to the private market, then the price is
A) P_1.
B) P_3.
C) P_2.
D) greater than P_4.
E) P_4.
Answer: C

5) Refer to Figure 16.3.1. The figure shows the marginal private benefit curve, the marginal social benefit curve, and the market supply curve. If production is left to the private market, then
A) the quantity produced is less than the efficient quantity.
B) the quantity produced is greater than the efficient quantity.
C) price is greater than marginal social benefit quantity.
D) the marginal cost curve is horizontal.
E) none of the above.
Answer: A

Chapter 17 Public Goods and Common Resources

1) When a good is nonrival and nonexcludable, it is a
A) natural monopoly.
B) private good.
C) regulated good.
D) public good.
E) common resource.
Answer: D

2) When a city street is *not* congested, it is
A) a common resource
B) rival and excludable.
C) rival and nonexcludable.
D) a private good.
E) a public good.
Answer: E

3) Which of the following quotations describes a rival good?
A) "Mom, Ashley is looking at me."
B) "Mom, Morgan won't let me watch the Backyardigans because she is watching Dora the Explorer."
C) "Mom, Harrison won't let me in his room."
D) "Mom, Taylor told me on the phone that he is also watching the Backyardigans on TV at his house."
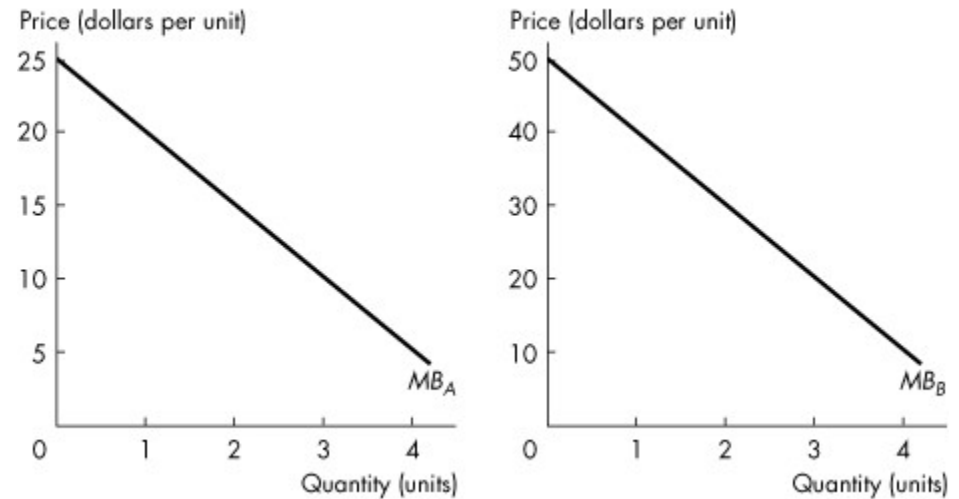E) "Mom said everyone in this house gets to enjoy the flowers in the garden."

Answer: B

Figure 17.2.1

4) Refer to Figure 17.2.1. Curve MB_A is Andrew's marginal benefit curve for a private good and curve MB_B is Betty's marginal benefit curve for the same private good. If Andrew and Betty are the only two consumers in the economy, which point would be on the economy's marginal social benefit curve?
A) price of $20, quantity of 3 units
B) price of $20, quantity of 4 units
C) price of $10, quantity of 4 units
D) price of $30, quantity of 0 units
E) price of $60, quantity of 1 units
Answer: B

5) Refer to Figure 17.2.1. Curve MB_A is Andrew's marginal benefit curve for a public good and curve MB_B is Betty's marginal benefit curve for the same public good. If Andrew and Betty are the only two consumers in the economy, which point would be on the economy's marginal social benefit curve?
A) price of $20, quantity of 3
B) price of $20, quantity of 4

C) price of $10, quantity of 4
D) price of $30, quantity of 0
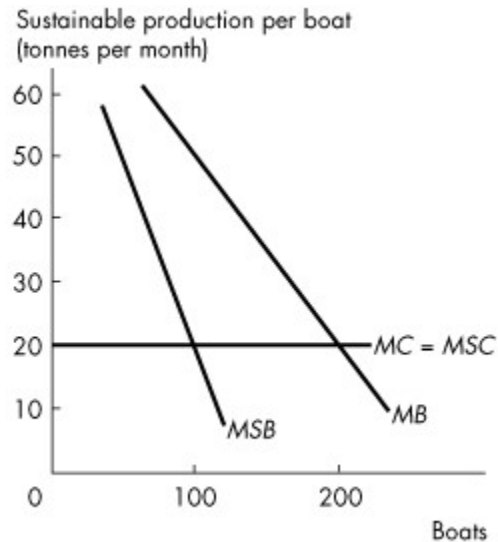E) price of $60, quantity of 1
Answer: E

Figure 17.3.1

Figure 17.3.2

7) Refer to Figure 17.3.1. What is the efficient use of this common resource?
A) 100 boats producing 20 tonnes per boat
B) 100 boats producing 50 tonnes per boat
C) 200 boats producing 20 tonnes per boat
D) 200 boats producing 50 tonnes per boat
E) There is no efficient use of this common resource.
Answer: B

8) Refer to Figure 17.3.1. What would be use of this common resource if boat owners consider only the marginal private benefit?
A) 100 boats producing 20 tonnes per boat
B) 100 boats producing 50 tonnes per boat
C) 200 boats producing 20 tonnes per boat
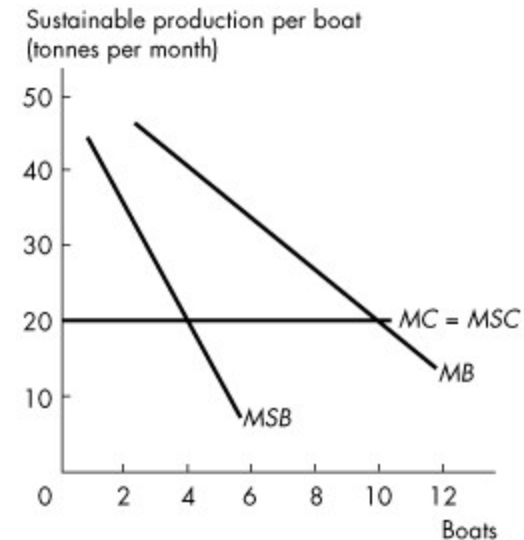D) 200 boats producing 50 tonnes per boat
E) A common resource cannot be privately used.

9) Refer Figure 17.3.2. If individual transfer quotas (ITQs) are used to achieve an efficient outcome, the market price of an ITQs equals
A) 20 tonnes of fish per month.
B) 30 tonnes of fish per month.
C) 40 tonnes of fish per month.
D) 5 boats of fish per month.
E) 10 boats of fish per month.
Answer: A

10) Refer Figure 17.3.2. What would a production quota be set at to achieve an efficient outcome?
A) 4 boats
B) 2 boats
C) 6 boats
D) 8 boats
E) zero boats
Answer: A