

Economics: Canada in the Global Environment, 7e (Parkin)
Chapter 14 Monopolistic Competition

14.1 What Is Monopolistic Competition?

1) In monopolistic competition

- A) firms practice product differentiation.
- B) the goods produced by each firm are identical.
- C) firms do not have any control over the price of their products.
- D) there are barriers to entry.
- E) a small number of firms compete.

Answer: A

Diff: 2

Topic: What Is Monopolistic Competition?

2) Toronto has a large number of retail stores that sell clothes. Each store has its own characteristics which differ from the other stores. The clothing business in Toronto is an example of

- A) a duopoly.
- B) an oligopoly.
- C) a perfectly competitive market.
- D) a monopoly.
- E) a monopolistically competitive market.

Answer: E

Diff: 2

Topic: What Is Monopolistic Competition?

3) A firm in a monopolistically competitive market

- A) faces an upward-sloping demand curve.
- B) faces a downward-sloping demand curve.
- C) practices product differentiation.
- D) faces a horizontal demand curve.
- E) B and C are correct.

Answer: E

Diff: 2

Topic: What Is Monopolistic Competition?

4) 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

Diff: 2

Topic: What Is Monopolistic Competition?

5) In monopolistic competition

- A) there are two firms in the market.
- B) the size of one firm is small relative to the size of the industry.
- C) the size of one firm is large relative to the size of the industry.
- D) each firm is a price-taker.
- E) there is only one firm in the market.

Answer: B

Diff: 2

Topic: What Is Monopolistic Competition?

6) If some firms in the industry make an economic profit, then

- A) the industry cannot be perfectly competitive.
- B) the industry must be monopolistically competitive.
- C) rival firms will enter if there are no barriers to entry.
- D) the firms must practice product differentiation.
- E) the industry must be an oligopoly.

Answer: C

Diff: 2

Topic: What Is Monopolistic Competition?

7) A monopolistically competitive firm is able to influence the price of what it sells because of

- A) barriers to entry.
- B) economies of scale.
- C) product differentiation.
- D) the fact there are many buyers.
- E) inelastic demand.

Answer: C

Diff: 2

Topic: What Is Monopolistic Competition?

8) In monopolistic competition

- A) firms can collude.
- B) each firm has a small market share.
- C) each firm pays attention to every other firm.
- D) firms make a profit in the long run.
- E) all of the above.

Answer: B

Diff: 2

Topic: What Is Monopolistic Competition?

Source: Study Guide

9) ACME, Inc. operates in a market structure in which there are many other firms that find it easy to enter or exit. ACME is operating in _____ market.

- A) definitely a perfectly competitive
- B) a perfectly competitive or a monopolistically competitive
- C) definitely a monopolistically competitive
- D) neither a perfectly competitive nor a monopolistically competitive
- E) a monopolistic

Answer: B

Topic: What Is Monopolistic Competition?

Skill: Recognition

AACSB: Reflective Thinking

10) The existence of a large number of firms in monopolistic competition

- A) means that each firm has a small market share.
- B) makes it possible for each firm's price to deviate by a large amount from the average price of the other firms.
- C) means that a firm must pay attention to the behavior of all of its competitors.
- D) all of the above answers are correct.
- E) none of the above answers are correct.

Answer: A

Topic: What Is Monopolistic Competition?

Skill: Recognition

AACSB: Reflective Thinking

11) The key feature of monopolistic competition that distinguishes it from perfect competition is

- A) many sellers.
- B) barriers to entry.
- C) perfectly elastic demand.
- D) product differentiation.
- E) none of the above.

Answer: D

Topic: What Is Monopolistic Competition?

Skill: Recognition

AACSB: Reflective Thinking

12) In monopolistic competition, firms compete on the basis of

- A) price only.
- B) price, quality, and marketing.
- C) marketing only.
- D) quality and marketing, but not price.
- E) quality only.

Answer: B

Diff: 1

Topic: What Is Monopolistic Competition?

Skill: Recognition

AACSB: Reflective Thinking

13) In monopolistic competition, each firm supplies a _____ part of the total industry output and its actions _____ the actions of the other firms.

- A) small; do not directly affect
- B) small; directly affect
- C) large; do not directly affect
- D) large; directly affect
- E) large; may or may not directly affect

Answer: A

Diff: 1

Topic: What Is Monopolistic Competition?

Skill: Recognition

AACSB: Reflective Thinking

14) Monopolistic competition differs from monopoly because in monopolistic competition

- A) firms maximize profits.
- B) firms set marginal revenue equal to marginal cost to maximize profit.
- C) firms are free to enter and exit.
- D) All of the above are differences between monopoly and monopolistically competitive firms.
- E) None of the above are differences between monopoly and monopolistically competitive firms.

Answer: C

Topic: What Is Monopolistic Competition?

Skill: Recognition

AACSB: Reflective Thinking

15) Dole Co. operates in a monopolistically competitive market. Which of the following characterizes Dole Co.'s market?

- A) Dole Co. supplies a small portion of the market's output.
- B) Dole Co.'s product is slightly different from its competitors.
- C) Dole Co. faced no barrier to entry when it decided to enter its market.
- D) Dole Co. is unable to collude with other firms in the market.
- E) All of the above describe Dole Co.'s market.

Answer: E

Topic: What Is Monopolistic Competition?

Skill: Recognition

AACSB: Reflective Thinking

16) Which of the following goods is best described as being sold in a monopolistically competitive market?

- A) automobiles
- B) wheat
- C) fast food
- D) postage stamps
- E) the local newspaper

Answer: C

Topic: What Is Monopolistic Competition?

Skill: Conceptual

AACSB: Reflective Thinking

- 17) Within a monopolistically competitive industry,
- A) firms can freely enter and exit, and economic profit is zero in the long run.
 - B) firms can freely enter and exit, and economic profit is greater than zero in the long run.
 - C) there are some barriers to entry and exit, and economic profit is zero in the long run.
 - D) there are some barriers to entry and exit, and economic profit is greater than zero in the long run.
 - E) firms can freely enter and exit, and economic profit is zero in the short run.

Answer: A

Topic: What Is Monopolistic Competition?

Skill: Recognition

AACSB: Reflective Thinking

- 18) When comparing perfect competition and monopolistic competition, we find that
- A) firms in monopolistic competition produce identical products just as do firms in perfect competition.
 - B) firms in monopolistic competition face barriers to entry, unlike firms in perfect competition.
 - C) advertising plays a large role in monopolistic competition, unlike in perfect competition.
 - D) firms in monopolistic competition are price takers just as is the case for firms in perfect competition.
 - E) firms in monopolistic competition each have a large market share.

Answer: C

Topic: What Is Monopolistic Competition?

Skill: Conceptual

AACSB: Reflective Thinking

14.2 Price and Output in Monopolistic Competition

Use the figure below to answer the following questions.

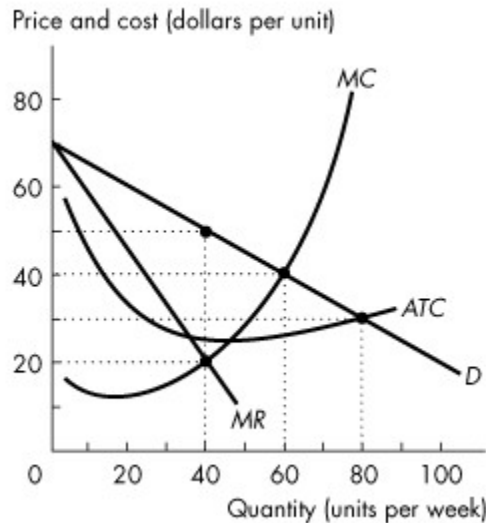


Figure 14.2.1

1) 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

Diff: 1

Topic: Price and Output in Monopolistic Competition

2) 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

Diff: 2

Topic: Price and Output in Monopolistic Competition

- 3) Refer to Figure 14.2.1. This firm in monopolistic competition will
- A) make an economic profit in the short run.
 - B) make zero economic profit in the short run.
 - C) incur an economic loss.
 - D) make an economic profit in the long run.
 - E) incur an economic loss in the long run.

Answer: A

Diff: 2

Topic: Price and Output in Monopolistic Competition

- 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

Diff: 2

Topic: Price and Output in Monopolistic Competition

Use the figure below to answer the following questions.

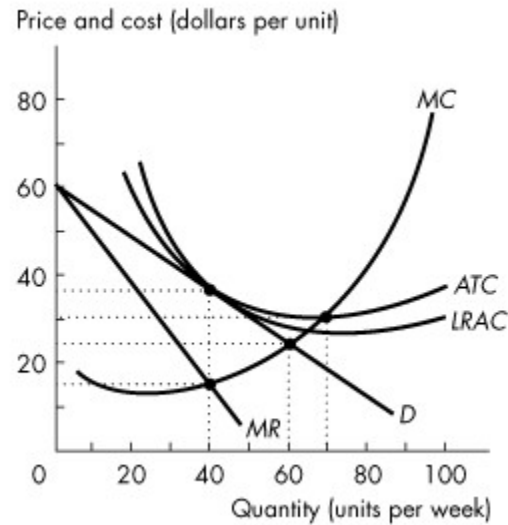


Figure 14.2.2

5) Refer to Figure 14.2.2. To maximize economic profit, this firm in monopolistic competition will charge a price of

- A) \$15 a unit.
- B) \$25 a unit.
- C) \$20 a unit.
- D) \$32 a unit.
- E) \$35 a unit.

Answer: E

Diff: 2

Topic: Price and Output in Monopolistic Competition

6) Refer to Figure 14.2.2. To maximize economic profit, this firm in monopolistic competition produces an output

- A) of 40 units.
- B) of 70 units.
- C) of 60 units.
- D) that cannot be determined without information concerning rival firms.
- E) of less than 40 units.

Answer: A

Diff: 1

Topic: Price and Output in Monopolistic Competition

- 7) Refer to Figure 14.2.2. This firm
- A) is incurring an economic loss.
 - B) is in long-run equilibrium.
 - C) is making an economic profit.
 - D) must raise its price to maximize economic profit.
 - E) will make more economic profit in the long run.

Answer: B

Diff: 2

Topic: Price and Output in Monopolistic Competition

- 8) Refer to Figure 14.2.2. If this firm in monopolistic competition is maximizing economic profit
- A) there will be entry of rival firms into the industry.
 - B) rival firms will exit the industry.
 - C) its profit will rise over time.
 - D) this firm will exit the industry in the long run.
 - E) none of the above.

Answer: E

Diff: 2

Topic: Price and Output in Monopolistic Competition

Use the figure below to answer the following questions.

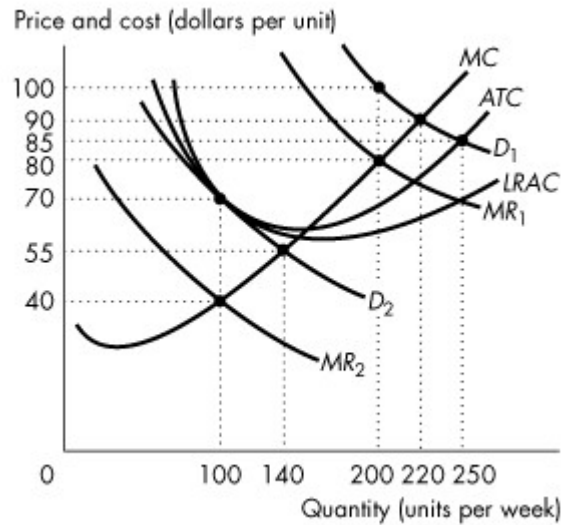


Figure 14.2.3

9) Refer to Figure 14.2.3. Which demand curve does this monopolistically competitive firm face in the long run?

- A) demand curve D1
- B) demand curve D2
- C) either demand curve D1 or D2
- D) neither demand curve D1 nor demand curve D2
- E) Any demand curve is possible, including D1 or D2.

Answer: B

Diff: 3

Topic: Price and Output in Monopolistic Competition

10) Refer to Figure 14.2.3. Assume this firm faces demand curve D1. To maximize economic profit, this firm in monopolistic competition will charge a price of _____ and produce an output of _____ units.

- A) \$100; 200
- B) \$90; 220
- C) \$80; 200
- D) \$70; 100
- E) \$55; 140

Answer: A

Diff: 2

Topic: Price and Output in Monopolistic Competition

11) Refer to Figure 14.2.3. Assume this firm faces demand curve D1. At the profit-maximizing output level, the firm

- A) incurs an economic loss.
- B) makes zero economic profit.
- C) makes an economic profit.
- D) makes less economic profit than that earned by firms in perfect competition.
- E) makes an unknown economic profit that is impossible to determine without information concerning the price charged by the rival firms.

Answer: C

Diff: 2

Topic: Price and Output in Monopolistic Competition

12) Refer to Figure 14.2.3. Assume this firm faces demand curve D1. If this firm in monopolistic competition is maximizing profit,

- A) there will be entry of rival firms into the industry.
- B) rival firms will exit the industry.
- C) the market is efficient.
- D) this firm will exit the industry in the long run.
- E) its profit will rise over time.

Answer: A

Diff: 2

Topic: Price and Output in Monopolistic Competition

13) Refer to Figure 14.2.3. Assume this firm faces demand curve D1. If the firm produced the efficient quantity, it would produce

- A) 100 units.
- B) 220 units.
- C) 200 units.
- D) 250 units.
- E) 140 units.

Answer: B

Diff: 3

Topic: Price and Output in Monopolistic Competition

14) Refer to Figure 14.2.3. Assume this firm faces demand curve D2. To maximize economic profit, this firm in monopolistic competition will charge a price of _____ and produce an output of _____ units.

- A) \$40; 100
- B) \$90; 220
- C) \$80; 200
- D) \$55; 140
- E) \$70; 100

Answer: E

Diff: 2

Topic: Price and Output in Monopolistic Competition

15) Refer to Figure 14.2.3. Assume this firm faces demand curve D2. At the profit-maximizing output level, the firm

- A) incurs an economic loss.
- B) makes zero economic profit.
- C) makes an economic profit.
- D) is not in a long-run equilibrium.
- E) is producing at its efficient scale.

Answer: B

Diff: 2

Topic: Price and Output in Monopolistic Competition

16) Refer to Figure 14.2.3. Assume this firm faces demand curve D2. If this firm in monopolistic competition is maximizing economic profit,

- A) there will be entry of rival firms into the industry.
- B) rival firms will exit the industry.
- C) it is producing the efficient quantity.
- D) the number of firms in the industry will remain constant.
- E) economic profit will fall over time.

Answer: D

Diff: 2

Topic: Price and Output in Monopolistic Competition

17) Refer to Figure 14.2.3. Assume this firm faces demand curve D2. When the firm produces the efficient quantity, it produces

- A) 100 units.
- B) 140 units.
- C) 200 units.
- D) 220 units.
- E) 250 units.

Answer: B

Diff: 3

Topic: Price and Output in Monopolistic Competition

18) Refer to Figure 14.2.3. Assume this firm faces demand curve D2. If the firm produces the efficient quantity, it

- A) makes an economic profit.
- B) makes zero economic profit.
- C) incurs an economic loss.
- D) is in a long-run equilibrium.
- E) will face competition from new firms entering the industry.

Answer: C

Diff: 3

Topic: Price and Output in Monopolistic Competition

19) In the long run, all firms in an industry that are monopolistically competitive

- A) produce at their efficient scale.
- B) set price equal to marginal cost.
- C) incur an economic profit.
- D) make an economic profit.
- E) make zero economic profit.

Answer: E

Diff: 1

Topic: Price and Output in Monopolistic Competition

20) In the short-run, the similarity between a monopolist and a monopolistically competitive firm is that

- A) they both make the same decisions about the level of output and output price.
- B) they both face an upward-sloping supply curve for their products.
- C) they both try to maximize their total revenues.
- D) they both try to minimize their average fixed costs.
- E) they set the price such that marginal revenue equals average total cost.

Answer: A

Diff: 2

Topic: Price and Output in Monopolistic Competition

21) Mrs. Smiths bakery shop is a firm in monopolistic competition. If in the short-run Mrs. Smith incurs an economic loss, she will keep producing as long as

- A) price is less than average variable cost.
- B) price is equal to marginal cost.
- C) price is greater than or equal to average variable cost.
- D) marginal revenue is greater than or equal to average variable cost.
- E) marginal revenue is less than average variable cost.

Answer: C

Diff: 2

Topic: Price and Output in Monopolistic Competition

22) Mrs. Smiths bakery shop is a firm in monopolistic competition. The firm's marginal revenue curve

- A) is upward sloping.
- B) is downward sloping and above the demand curve.
- C) is a horizontal line.
- D) is the same as the demand curve.
- E) is downward sloping and lies below the demand curve.

Answer: E

Diff: 2

Topic: Price and Output in Monopolistic Competition

23) Mrs. Smith's bakery shop is a firm in monopolistic competition. She is currently selling a box of bread for \$16. The firm's marginal cost is \$7 and marginal revenue is \$7. To maximize economic profit Mrs. Smith

- A) shuts down.
- B) decreases output so that marginal revenue exceeds marginal cost.
- C) continues to produce the same level of output.
- D) increases output so that marginal cost exceeds marginal revenue.
- E) decreases output so that marginal cost equals the output price.

Answer: C

Diff: 2

Topic: Price and Output in Monopolistic Competition

24) What will happen in the long run if firms in monopolistic competition incur economic loss?

- A) Firms will continue producing and endure the losses.
- B) Firms will leave the industry until the remaining firms make positive economic profit.
- C) Firms will ask the government for financial aid.
- D) Firms will leave the industry until the remaining firms make zero economic profit.
- E) The level of investment in this industry will increase to boost the economy.

Answer: D

Diff: 2

Topic: Price and Output in Monopolistic Competition

25) A firm has excess capacity if

- A) it produces above its efficient scale.
- B) it produces below its efficient scale.
- C) it produces the same level as its efficient scale.
- D) it sells some of its factors of production.
- E) it improves the quality of its factors of production.

Answer: B

Diff: 2

Topic: Price and Output in Monopolistic Competition

26) The real-estate industry is monopolistically competitive because in this industry

- A) the market demand curve is a horizontal line.
- B) the market demand curve is upward sloping.
- C) there are few realtors in the market.
- D) excess capacity exists.
- E) excess capacity does not exist.

Answer: D

Diff: 2

Topic: Price and Output in Monopolistic Competition

- 27) A firm's markup is
- A) the firm's total profit.
 - B) the firm's total cost.
 - C) the amount by which price exceeds marginal cost.
 - D) the amount by which price equals marginal cost.
 - E) the amount by which price is less than marginal cost.

Answer: C

Diff: 2

Topic: Price and Output in Monopolistic Competition

- 28) Markup
- A) does not exist in monopoly.
 - B) does not exist in monopolistic competition.
 - C) exists in perfect competition.
 - D) is the difference between price and average total cost.
 - E) exists in both monopoly and monopolistic competition.

Answer: E

Diff: 2

Topic: Price and Output in Monopolistic Competition

- 29) In monopolistically competitive industries,
- A) firms compete on quality, price and marketing.
 - B) the range of choice of products is the same as in perfectly competitive industries.
 - C) firms are insensitive to changes in consumer demand.
 - D) all firms produce a quantity at which marginal cost is greater than marginal benefit.
 - E) all firms make an economic profit.

Answer: A

Diff: 1

Topic: Price and Output in Monopolistic Competition

- 30) Excess capacity in monopolistically competitive firms occurs because
- A) each firm faces a demand that is perfectly elastic.
 - B) each firm builds a huge plant.
 - C) the existence of slightly differentiated products, serving almost the same purpose, causes a waste of precious natural resources.
 - D) firms produce an output that is less than the output at minimum average total cost.
 - E) marginal cost is too high.

Answer: D

Diff: 2

Topic: Price and Output in Monopolistic Competition

Use the figure below to answer the following questions.

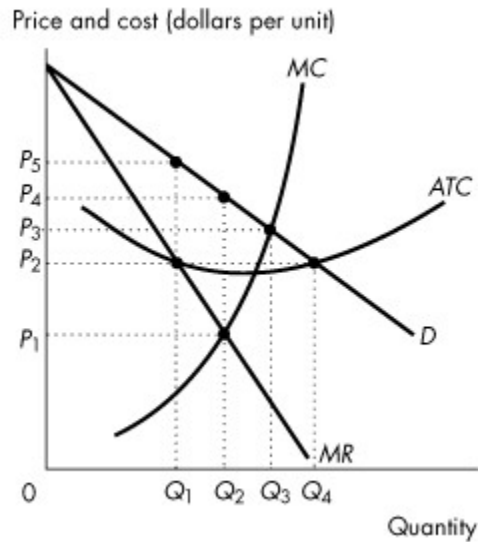


Figure 14.2.4

31) Refer to Figure 14.2.4. The figure represents a monopolistically competitive firm in short-run equilibrium. What is the firm's level of output?

- A) Q1.
- B) Q2.
- C) Q3.
- D) Q4.
- E) zero.

Answer: B

Diff: 1

Topic: Price and Output in Monopolistic Competition

Source: Study Guide

32) Refer to Figure 14.2.4. The figure represents a monopolistically competitive firm in short-run equilibrium. What price does the firm charge?

- A) P2.
- B) P1.
- C) P4.
- D) P3.
- E) P5.

Answer: C

Diff: 2

Topic: Price and Output in Monopolistic Competition

33) Refer to Figure 14.2.4. The figure represents a monopolistically competitive firm in short-run equilibrium. In the long run,

- A) new firms enter, and each existing firm's demand curve shifts leftward.
- B) new firms enter, and each existing firm's demand curve shifts rightward.
- C) existing firms exit, and each remaining firm's demand curve shifts leftward.
- D) existing firms exit, and each remaining firm's demand curve shifts rightward.
- E) the equilibrium is the same as in the short run.

Answer: A

Diff: 2

Topic: Price and Output in Monopolistic Competition

Source: Study Guide

34) In the long run, a monopolistically competitive firm produces the output at which price equals

- A) marginal cost.
- B) marginal revenue.
- C) average variable cost.
- D) average total cost.
- E) B and D.

Answer: D

Diff: 2

Topic: Price and Output in Monopolistic Competition

Source: Study Guide

35) Consider a monopolistically competitive industry in long-run equilibrium. Suppose there is a large increase in wages that raises the costs for all firms. What happens within each firm in the short run?

- A) They will be forced to close down due to the excess costs.
- B) They will continue producing as before, cushioned by their previous excess profits.
- C) They will expand output and try to make up for lost profits.
- D) They will lower prices and try to steal customers away from their rivals.
- E) They will decrease production and produce the quantity at which marginal revenue equals the new (higher) marginal cost curve; this means a rise in price.

Answer: E

Diff: 3

Topic: Price and Output in Monopolistic Competition

36) Under monopolistic competition, long-run economic profit is zero because of

- A) product differentiation.
- B) no barriers to entry.
- C) excess capacity.
- D) economic inefficiency.
- E) the downward-sloping demand curve facing each firm.

Answer: B

Diff: 2

Topic: Price and Output in Monopolistic Competition

Source: Study Guide

- 37) In the long run, a monopolistically competitive firm will make the same economic profit as
- A) a monopolistically competitive firm in the short run.
 - B) a single-price monopoly.
 - C) a price-discriminating monopoly.
 - D) a perfectly competitive firm in long-run equilibrium.
 - E) none of the above.

Answer: D

Diff: 2

Topic: Price and Output in Monopolistic Competition

Source: Study Guide

- 38) Which one of the following is true for perfect competition, monopolistic competition, and single-price monopoly?

- A) Each firm produces an identical good.
- B) Each firm makes zero long-run economic profit.
- C) The profit maximizing quantity occurs at the quantity at which $MC = MR$.
- D) Easy entry and exit.
- E) None of the above.

Answer: C

Diff: 2

Topic: Price and Output in Monopolistic Competition

Source: Study Guide

- 39) In the long run, the firm in monopolistic competition

- A) faces a perfectly elastic demand.
- B) produces more than the quantity at minimum ATC.
- C) produces less than the quantity at minimum ATC.
- D) produces the quantity at minimum ATC.
- E) makes an economic profit.

Answer: C

Diff: 2

Topic: Price and Output in Monopolistic Competition

Source: Study Guide

- 40) Which one of the following characteristics is not shared by single-price monopoly and monopolistic competition?

- A) Firms face a downward-sloping demand curve.
- B) Profit-maximizing quantity occurs where $MC = MR$.
- C) Price charged is the highest consumers are willing to pay.
- D) Firms make an economic profit in the long run.
- E) The marginal revenue curve lies below the demand curve.

Answer: D

Diff: 2

Topic: Price and Output in Monopolistic Competition

Source: Study Guide

41) Which one of the following characteristics is shared by perfect competition and monopolistic competition?

- A) Firms face a downward-sloping demand curve.
- B) Profit-maximizing quantity occurs where $MC = MR$.
- C) Long-run equilibrium price equals minimum ATC.
- D) Firms make an economic profit in the long run.
- E) None of the above.

Answer: B

Diff: 2

Topic: Price and Output in Monopolistic Competition

42) Which of the following are true? The similarities between perfect competition and monopolistic competition include:

- (1) no barriers to entry
- (2) profit-maximizing output occurs where $MC = MR$
- (3) long-run economic profit equals zero.

- A) (1)
- B) (2)
- C) (1) and (2)
- D) (2) and (3)
- E) (1), (2), and (3)

Answer: E

Diff: 3

Topic: Price and Output in Monopolistic Competition

43) Firms in monopolistic competition make zero economic profit in the long run because

- A) their costs rise over time.
- B) the demand they face decreases as rival firms offer slightly differentiated products for sale in the same market.
- C) their marginal cost curves slope upward.
- D) the market eventually becomes perfectly competitive.
- E) both A and B are correct.

Answer: B

Diff: 2

Topic: Price and Output in Monopolistic Competition

44) Choose the correct statement about firms in monopolistic competition.

- A) All firms make positive economic profit.
- B) The price is set equal to marginal cost to achieve maximum economic profit.
- C) Price is lower than in perfect competition.
- D) Production always takes place at minimum average total cost.
- E) The price is always greater than the marginal cost.

Answer: E

Diff: 2

Topic: Price and Output in Monopolistic Competition

45) Choose the correct statement about firms in monopolistic competition.

- A) A firm must lower its price to sell a greater quantity.
- B) A firm can never incur an economic loss.
- C) Price is never more than marginal cost.
- D) Firms offer identical products.
- E) The most a firm can earn is zero economic profit.

Answer: A

Diff: 2

Topic: Price and Output in Monopolistic Competition

46) For a monopolistically competitive firm to be making an economic profit,

- A) the production period must be the short run.
- B) the production period must be the long run.
- C) rival firms must not exist.
- D) its rivals must also be making an economic profit.
- E) barriers to entry must exist.

Answer: A

Topic: Price and Output in Monopolistic Competition

47) When firms in monopolistic competition incur an economic loss

- A) firms enter the industry and produce better products.
- B) firms exit the industry, and demand increases for the products of the firms that remain.
- C) firms exit the industry, and demand decreases for the firms that remain in the industry.
- D) firms enter the industry, and demand increases for the firms that were originally in the industry.
- E) the industry will eventually disappear.

Answer: B

Diff: 2

Topic: Price and Output in Monopolistic Competition

48) When firms in monopolistic competition make an economic profit

- A) firms enter the industry, which increases demand for the product of the firms originally in the market.
- B) firms exit the industry, and demand increases for the products of the firms that remain.
- C) firms exit the industry, and demand decreases for the firms that remain in the industry.
- D) firms enter the industry, and demand decreases for the firms that were originally in the industry.
- E) eventually the market will become a monopoly.

Answer: D

Diff: 2

Topic: Price and Output in Monopolistic Competition

- 49) Firms in monopolistic competition have rivals that
- A) will always match their price increases.
 - B) will always match their price decreases but not their price increases.
 - C) all agree on a common price.
 - D) set their price where the demand curve is tangent to the average cost curve.
 - E) set their price according to the demand they face.

Answer: E

Diff: 2

Topic: Price and Output in Monopolistic Competition

- 50) For a firm in monopolistic competition, the marginal cost curve intersects the average total cost curve
- A) at the minimum average total cost.
 - B) to the left of the minimum average total cost.
 - C) to the right of the minimum average total cost.
 - D) at no point.
 - E) at the same quantity at which the marginal cost curve intersects the marginal revenue curve.

Answer: A

Topic: Price and Output in Monopolistic Competition

Skill: Analytical

AACSB: Reflective Thinking

- 51) Which of the following is always true regarding a profit-maximizing monopolistically competitive firm in short-run equilibrium?
- A) $P = ATC$.
 - B) $P = MR$.
 - C) $MR = MC$.
 - D) $MC = ATC$.
 - E) $P = MC$.

Answer: C

Topic: Price and Output in Monopolistic Competition

Skill: Recognition

AACSB: Reflective Thinking

Use the figure below to answer the following questions.

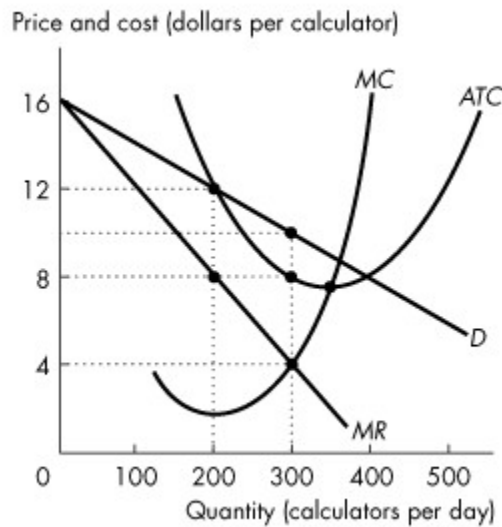


Figure 14.2.5

52) Refer to Figure 14.2.5 The figure shows the situation facing Smart Digit, Inc., a firm in monopolistic competition that produces calculators. What is the firm's economic profit per day?

- A) zero
- B) between \$1 and \$700
- C) between \$701 and \$900
- D) more than \$901
- E) less than zero

Answer: B

Topic: Price and Output in Monopolistic Competition

Skill: Analytical

AACSB: Analytical Skills

53) Refer to Figure 14.2.5. The figure shows the situation facing Smart Digit, Inc., a firm in monopolistic competition that produces calculators. The firm's markup is _____ per calculator.

- A) zero
- B) \$2
- C) \$4
- D) \$6
- E) \$10

Answer: D

Topic: Price and Output in Monopolistic Competition

Skill: Analytical

AACSB: Analytical Skills

Use the figure below to answer the following questions.

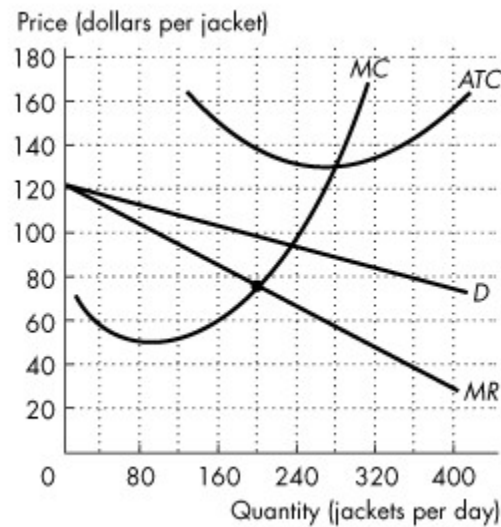


Figure 14.2.6

54) Refer to Figure 14.2.6, which shows the demand curve, marginal revenue curve and cost curves faced by Gap. Gap maximizes its profit if it sells _____ jackets per day.

- A) 200
- B) 240
- C) 275
- D) 140
- E) 280

Answer: A

Diff: 2

Topic: Price and Output in Monopolistic Competition

Skill: Analytical

AACSB: Analytical Skills

55) Refer to Figure 14.2.6, which shows the demand curve, marginal revenue curve and cost curves faced by Gap. Gap maximizes its profit if it charges _____ per jacket.

- A) \$100
- B) \$95
- C) \$75
- D) \$120
- E) \$90

Answer: A

Diff: 2

Topic: Price and Output in Monopolistic Competition

Skill: Analytical

AACSB: Analytical Skills

56) Refer to Figure 14.2.6, which shows the demand curve, marginal revenue curve and cost curves faced by Gap. Gap's economic _____ is _____ a day.

- A) loss; \$8,000
- B) loss; \$13,000
- C) profit; \$7,200
- D) profit; \$13,000
- E) loss; \$8,960

Answer: A

Diff: 2

Topic: Price and Output in Monopolistic Competition

Skill: Analytical

AACSB: Analytical Skills

57) Consider a monopolistically competitive industry which is in long-run equilibrium. Which of the following is true?

- A) All firms charge a price equal to average total cost.
- B) All firms charge a price equal to marginal cost.
- C) All firms make an economic profit.
- D) The demand, average total cost, and marginal cost curves all intersect at the same point.
- E) Firms have an incentive to enter the industry.

Answer: A

Topic: Price and Output in Monopolistic Competition

Skill: Conceptual

AACSB: Reflective Thinking

58) In the long-run, a firm in monopolistic competition produces at an output level where

- A) $P > ATC$ and $MR = MC$.
- B) $P > ATC$ and $MR > MC$.
- C) $P = ATC$ and $MR = MC$.
- D) $P = ATC$ and $MR > MC$.
- E) $P > ATC$ and $MC > ATC$.

Answer: C

Topic: Price and Output in Monopolistic Competition

Skill: Recognition

AACSB: Reflective Thinking

Use the figure below to answer the following question.

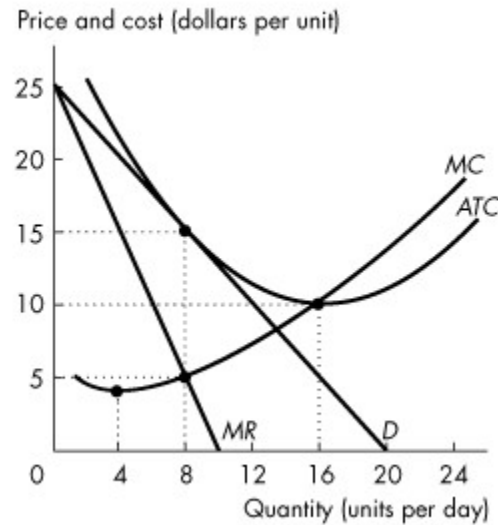


Figure 14.2.7

59) 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

Topic: Price and Output in Monopolistic Competition

Skill: Analytical

AACSB: Analytical Skills

60) Monopolistic competition might be efficient if

- A) firms invested in technology that decreased the marginal cost of production.
- B) more firms entered the industry.
- C) firms left the industry.
- D) the loss that arises because the quantity produced is less than the efficient quantity is offset by the gain that arises from having a greater degree of product variety.
- E) firms made more use of brand names.

Answer: D

Topic: Price and Output in Monopolistic Competition

Source: MyEconLab

- 61) A firm's efficient scale is the quantity at which _____ is a minimum.
 A firm has excess capacity if it produces _____ its efficient scale.
 In the long run, a firm in monopolistic competition produces less than the efficient scale and has excess capacity because the firm faces a _____ demand curve.
- A) average total cost; below; downward-sloping
 - B) marginal cost; above; horizontal
 - C) average total cost; above; downward-sloping
 - D) marginal cost; below; horizontal
 - E) average variable cost; below; downward-sloping

Answer: A

Topic: Price and Output in Monopolistic Competition

Source: MyEconLab

Use the table below to answer the following question.

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

62) 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

Topic: Price and Output in Monopolistic Competition

Source: MyEconLab

14.3 Product Development and Marketing

1) An advantage of monopolistic competition over perfect competition is

- A) economic profit.
- B) product variety.
- C) excess capacity.
- D) efficiency.
- E) economies of scale.

Answer: B

Diff: 1

Topic: Product Development and Marketing

Source: Study Guide

2) 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

Diff: 2

Topic: Product Development and Marketing

3) Selling costs

- A) are variable costs that increase total cost.
- B) always increase demand for a firm's product.
- C) always decrease demand by increasing competition.
- D) always provide consumers with valuable services.
- E) include marketing expenditures on advertising and packaging.

Answer: E

Diff: 2

Topic: Product Development and Marketing

Source: Study Guide

4) Advertising by firms in monopolistic competition

- A) does not provide consumers with useful information.
- B) increases the marginal cost of production.
- C) is inefficient.
- D) is a waste of valuable resources because firms are forced by the entry of rival firms to be price takers.
- E) generates the perception among consumers that product differentiation exists.

Answer: E

Diff: 1

Topic: Product Development and Marketing

- 5) The decision to undertake product development in monopolistic competition is made by comparing the
- A) marginal benefit of product development to the marginal cost of product development.
 - B) marginal revenue of product development to the average total cost of product development.
 - C) total revenue of product development to the total cost of product development.
 - D) firm's expenditure on product development to expenditures by competing firms.
 - E) none of the above.

Answer: A

Topic: Product Development and Marketing

Skill: Conceptual

AACSB: Reflective Thinking

- 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

Topic: Product Development and Marketing

Skill: Recognition

AACSB: Reflective Thinking

- 7) Advertising costs in monopolistic competition increase a firm's
- A) total fixed cost.
 - B) marginal cost.
 - C) total variable cost.
 - D) average variable cost.
 - E) both A and B are correct.

Answer: A

Topic: Product Development and Marketing

Skill: Conceptual

AACSB: Reflective Thinking

- 8) If a firm spends \$600 on advertising, its
- A) ATC and MC curves shift upward.
 - B) MC curve shifts upward and its ATC curve does not shift.
 - C) ATC curve shifts upward and its MC curve does not shift.
 - D) ATC curve shifts upward and its MC curve shifts downward.
 - E) AFC and AVC curves shift upward.

Answer: C

Topic: Product Development and Marketing

Skill: Conceptual

AACSB: Reflective Thinking

9) Advertising costs are _____ costs and the per unit cost of advertising _____ as production increases.

- A) fixed; increases
- B) variable; increases
- C) fixed; decreases
- D) variable; does not change
- E) variable; decreases

Answer: C

Topic: Product Development and Marketing

Skill: Conceptual

AACSB: Reflective Thinking

10) Expenditures on advertising

- A) can lower average total cost if the advertising increases the quantity sold by a large enough amount.
- B) cannot lower average total cost because when a firm advertises it increases its costs.
- C) always lower average total cost because whenever a firm advertises, it increases the quantity sold.
- D) are variable costs so do not affect the average total cost.
- E) lower total cost if the advertising increases the quantity sold by a large enough amount.

Answer: A

Topic: Product Development and Marketing

Skill: Conceptual

AACSB: Reflective Thinking

11) Advertising costs of a monopolistically competitive firm are

- A) greater than a monopoly and the same as a perfectly competitive firm.
- B) greater than a perfectly competitive firm.
- C) less than a perfectly competitive firm.
- D) the same as a monopoly.
- E) less than a monopoly.

Answer: B

Topic: Product Development and Marketing

Skill: Conceptual

AACSB: Reflective Thinking

12) A textbook publisher is in monopolistic competition. If the firm spends nothing on advertising, it can sell no books at \$100 a book, but for each \$10 cut in price, the quantity of books it can sell increases by 20 books a day. The firm's total fixed cost is \$2,400 a day. Its average variable cost and marginal cost is a constant \$20 per book. If the firm spends \$1,200 a day on advertising, it can increase the quantity of books sold at each price by 50 percent. If the publisher advertises, its profit maximizing level of output is

- A) 120 books per day.
- B) 80 books per day.
- C) 160 books per day.
- D) 100 books per day.
- E) 240 books per day.

Answer: A

Topic: Product Development and Marketing

Skill: Analytical

AACSB: Analytical Skills

13) A textbook publisher is in monopolistic competition. If the firm spends nothing on advertising, it can sell no books at \$100 a book, but for each \$10 cut in price, the quantity of books it can sell increases by 20 books a day. The firm's total fixed cost is \$2,400 a day. Its average variable cost and marginal cost is a constant \$20 per book. If the firm spends \$1,200 a day on advertising, it can increase the quantity of books sold at each price by 50 percent. If the publisher advertises, its profit maximizing price per book is

- A) \$40.
- B) \$50.
- C) \$60.
- D) \$70.
- E) \$20

Answer: C

Topic: Product Development and Marketing

Skill: Analytical

AACSB: Analytical Skills

Use the information below to answer the following question.

Fact 14.3.1

Suppose that at one of the Talbot's shops, marginal cost of a coat is constant at \$150, and total fixed cost is \$3,000 a day. The shop maximizes its profit by selling 15 coats a day at \$500 per coat. Then the shops nearby increase their advertising. The Talbot shop responds by spending \$1,500 a day more on advertising its coats. As a result, its profit-maximizing number of coats sold increases to 25 a day at \$400 per coat.

14) Refer to Fact 14.3.1. As a result of increased advertising, Talbot's markup

- A) decreases by \$100.
- B) increases by \$50.
- C) increases by \$75.
- D) decreases by \$60.
- E) decreases by an unknown amount.

Answer: A

Diff: 3

Topic: Product Development and Marketing

Skill: Analytical

AACSB: Analytical Skills

15) Other than by adjusting price, the two main ways in which a firm in monopolistic competition competes with other firms are by _____ and _____.

- A) innovation and product development; advertising
- B) taking surveys to discover the wants of its consumers; opening up new retail outlets
- C) changing its method of production; relocating its factories to areas with lower wage rates
- D) decreasing its workforce; using new technology
- E) advertising; producing the efficient quantity

Answer: A

Topic: Product Development and Marketing

Source: MyEconLab

16) Product innovation and development is efficient if the marginal social benefit of a new and improved product _____ its marginal social benefit.

In monopolistic competition marginal revenue is less than price, so product innovation is probably _____ to its efficient level.

- A) is greater than; not pushed
- B) equals; pushed
- C) is greater than; pushed
- D) equals; not pushed
- E) is less than; not pushed

Answer: D

Topic: Product Development and Marketing

Source: MyEconLab

17) Advertising and brand names

A) are never efficient.

B) can be efficient but are not always efficient.

C) are equally efficient in monopolistically competitive markets and perfectly competitive markets.

D) are always efficient.

E) are more efficient in perfectly competitive markets than in monopolistically competitive markets.

Answer: B

Topic: Product Development and Marketing

Source: MyEconLab

Use the information below to answer the following questions.

Fact 14.3.2

Suppose that Tommy Hilfiger's marginal cost of a jacket is \$100 (a constant marginal cost) and at one of the firm's shops, total fixed cost is \$2,000 a day.

The profit-maximizing number of jackets sold in this shop is 20 a day.

Then the shops nearby start to advertise their jackets. The Tommy Hilfiger shop now spends \$2,000 a day advertising its jackets, and its profit-maximizing number of jackets sold jumps to 50 a day.

18) Refer to Fact.14.3.2. If advertising decreases demand and makes demand more elastic, the price of a Tommy Hilfiger jacket _____. If advertising increases demand and makes demand less elastic, the price of a Tommy Hilfiger jacket _____.

If price falls, markup _____.

If price rises, markup _____.

A) falls; rises; rises; falls

B) rises; falls; falls; rises

C) falls; rises; falls; rises

D) rises; falls; rises; falls

E) falls; rises; does not change; does not change

Answer: C

Topic: Product Development and Marketing

Source: MyEconLab

- 19) Refer to Fact 14.3.2. Tommy Hilfiger uses advertising as a signal because
- A) when Tommy Hilfiger advertises, it forces its competitors to advertise, which raises the competition's average total cost and increases the possibility of the competition incurring an economic loss and leaving the market.
 - B) only firms that can afford advertising have longevity and will be able to honor any future obligations to its customers.
 - C) by spending large sums of advertising Tommy Hilfiger is signaling that its jackets are high quality.
 - D) advertising encourages people to spend regardless of the quality.
 - E) advertising always increases demand and creates a more efficient market.

Answer: C

Topic: Product Development and Marketing

Source: MyEconLab

- 20) Refer to Fact 14.3.2. Having a brand name helps Tommy Hilfiger increase its economic profit because
- A) the goal of a brand name is to encourage people to buy just one good. After the initial purchases, Tommy Hilfiger can decrease quality and produce goods at a lower average total cost, which increases economic profit
 - B) in every type of market, consumers are most comfortable when buying from a firm with a well-known brand name. And the greater the number of consumers, the greater is the economic profit.
 - C) a brand name provides an incentive to achieve high and consistent quality, and consumers will purchase goods from Tommy Hilfiger rather than from an unknown producer because they know what to expect from Tommy Hilfiger.
 - D) having a brand name usually leads to a monopoly.
 - E) none of the above.

Answer: C

Topic: Product Development and Marketing

Source: MyEconLab

- 21) Calvin is a custom picture framer. His total fixed cost is \$110 a day, and his average variable cost is \$1 a frame. He is maximizing his profit by selling 22 picture frames a day for \$6 a frame. Few people know about Calvin's Framery. Calvin thinks that if he spends \$10 a day on advertising, he can increase his market and sell 44 picture frames a day for \$6 a frame. If Calvin's belief about the effect of advertising is correct, he
- A) cannot increase his economic profit by advertising because advertising increases his average total cost.
 - B) cannot increase his economic profit by advertising because advertising increases his total cost.
 - C) can increase his economic profit by advertising.
 - D) can increase his economic profit by advertising only if he raises the price of a picture frame.
 - E) can increase his economic profit by advertising only if he can lower his total variable cost.

Answer: C

Topic: Product Development and Marketing

Source: MyEconLab