Eco201 Review questions for chapters 13-15
Prof. Bill Even

1) A monopoly has two key features, which are ________.
A) barriers to entry and close substitutes
B) franchises and barriers to entry
C) barriers to entry and no close substitutes
D) close substitutes and no barriers to entry

2) An industry in which economies of scale allow one firm to supply the entire market at the lowest possible cost is called a
A) one-firm monopoly.
B) natural monopoly.
C) single-price monopoly.
D) legal monopoly.

3) A major difference between a single-price monopolist and a perfectly competitive firm is that the
A) monopolist is guaranteed to earn an economic profit.
B) monopolist can always increase its profits by increasing the price of its output.
C) monopolist can maximize profit by setting the price of the output where demand is inelastic.
D) monopolist's marginal revenue is less than price.

4) If a monopolist was operating in a price range where marginal revenue was negative, it would be
A) maximizing revenue but not profits.
B) in the inelastic range of the demand for its product.
C) in the unit elastic range of the demand for its product.
D) in the elastic range of the demand for its product.
<table>
<thead>
<tr>
<th>Price (dollars per movie)</th>
<th>Quantity demanded (movies per week)</th>
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</thead>
<tbody>
<tr>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>15</td>
<td>100</td>
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<tr>
<td>12</td>
<td>200</td>
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<td>9</td>
<td>300</td>
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<tr>
<td>6</td>
<td>400</td>
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<td>3</td>
<td>500</td>
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5) Roxie's Movie Theatre is the only one in town. The table above gives the demand schedule for movies. If Roxie's is a single-price monopoly and the marginal cost of a movie is $6, Roxie's will charge ________ a movie and will sell ________ movie tickets a week.

A) $12; 200  
B) $6; 400  
C) $9; 300  
D) $15; 100

6) The figure above shows the demand and cost curves for a single-price monopoly. What economic profit does this firm make?

A) $400  
B) zero  
C) $600  
D) $200
7) The above figure illustrates a single-price unregulated monopolist. If the monopolist maximizes its profit, the consumer surplus equals ________.
A) $10,000  
B) $40,000  
C) $20,000  
D) $45,000

8) In the figure above, compared to a perfectly competitive industry with the same costs, a single-price, unregulated monopoly will raise the price by
A) $4.00 per unit.   
B) $6.00 per unit.   
C) $8.00 per unit.   
D) $2.00 per unit.
9) The above figure illustrates a single-price unregulated monopolist. If the monopolist maximizes its profit, the deadweight loss equals ________.

A) $40,000
B) $45,000
C) $20,000
D) $10,000
10) Prime Pharmaceuticals has developed a new asthma medicine, for which it has a patent. An inhaler can be produced at a constant marginal cost of $2/inhaler. The demand curve, marginal revenue curve, and marginal cost curve for this new asthma inhaler are in the figure above. With its patent giving it a monopoly for its new inhaler, if Prime Pharmaceuticals could perfectly price discriminate, then which of the following is true?
A) It would produce and sell 16 million inhalers.
B) Inhalers would sell for $2 each.
C) Inhalers would sell for $5 each.
D) None of the above answers is correct.

11) Prime Pharmaceuticals has developed a new asthma medicine, for which it has a patent. An inhaler can be produced at a constant marginal cost of $2/inhaler. The demand curve, marginal revenue curve, and marginal cost curve for this new asthma inhaler are in the figure above. With its patent giving it a monopoly for its new inhaler, if Prime Pharmaceuticals could perfectly price discriminate, then consumer surplus would equal
A) $32 million.
B) $64 million.
C) zero.
D) $16 million.
12) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. What is the area of deadweight loss when Light-U-Up produces the unregulated, profit-maximizing level of output?
A) deg
B) acg
C) abd
D) There is no deadweight loss.

13) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. If Light-U-Up is regulated, what is its economic profit if it must follow a marginal cost pricing rule?
A) $0
B) -$40
C) -$20
D) $30

14) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. What is the area of deadweight loss when Light-U-Up is regulated and follows a marginal cost pricing rule?
A) deg
B) abd
C) acg
D) There is no deadweight loss.
15) In the above figure, if the natural monopoly is regulated with an average cost pricing rule and the firm does not inflate its costs, the deadweight loss to society is
A) $ebc$.
B) zero.
C) $efc$.
D) $gac$.

16) In the above figure, if the natural monopoly is regulated with an average cost pricing rule and the firm does not inflate its costs, then consumer surplus will be
A) $216$ million.
B) $192$ million.
C) $108$ million.
D) $60$ million.
17) A characteristic of monopolistic competition is that each firm
A) faces a downward-sloping demand curve.   B) has a perfectly inelastic supply.
C) faces perfectly elastic demand.       D) has a perfectly elastic supply.

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

19) In the above figure, if the firm is in monopolistic competition, it will produce
A) 100 units.   B) 40 units.
C) between 61 and 99 units.   D) 60 units.

20) In the long run, a firm in monopolistic competition has its price equal to ______and also has its price _______.
A) marginal cost; equal to its average total cost   B) average total cost; less than its marginal cost
C) average total cost; exceeds its marginal cost   D) marginal cost; exceeding its average total cost.

21) In monopolistic competition, in the long run customers pay a price that is
A) more than the minimum ATC.
B) less than the minimum ATC.
C) equal to the minimum ATC, but not equal to the minimum AVC.
D) equal to both the minimum ATC and the minimum AVC.
The figure shows the demand curve for Gap jackets ($D$), and Gap's marginal revenue curve ($MR$), marginal cost curve ($MC$), and average total cost curve ($ATC$).

22) In the figure above, Gap maximizes its profit if it sells ____ jackets per day.
A) 100  B) 133  C) 129  D) 64

23) In monopolistic competition, advertising costs
A) shift the $ATC$ curve upward.
B) are fixed costs.
C) can result in the firm producing an amount of output such that its average total costs are lower than if it did not advertise.
D) All of the above answers are correct.

24) Advertising costs affect a firm in a monopolistic competition by increasing the firm's
A) total fixed cost.  B) average variable cost.
C) marginal cost.  D) total variable cost.

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.

25) In the scenario above, as a result of increased advertising, Talbot's average total cost:
A) Falls by $40 per coat.  B) Rises by $30 per coat.
C) Rises by $50 per coat.  D) Falls by $20 per coat.

26) In the scenario above, as a result of increased advertising, Talbot's markup:
A) Increases by $75.  B) Decreases by $60.  C) Decreases by $100.  D) Increases by $50.
The figure shows the demand curve for Gap jackets (D), and Gap's marginal revenue curve (MR), marginal cost curve (MC), and average total cost curve (ATC).

27) In the figure above, what is Gap's excess capacity?
A) 32 jackets per day  B) 4 jackets per day  C) 132 jackets per day  D) zero

28) In the long run, a firm in a monopolistically competitive industry produces where its marginal cost
A) equals its average cost.  B) equals its price.
C) is less than its average cost.  D) exceeds its average cost.

29) In the above figure, if the firm is in monopolistic competition, its price will be
30) In the above figure, the monopolistically competitive firm makes an economic profit of
   A) between $50.01 and $100 per day.  B) $0. 
   C) between $0 and $50 per day.  D) greater than $100.01 per day.

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

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<tr>
<th>Firm 1</th>
<th>Sell</th>
<th>Give away</th>
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<tbody>
<tr>
<td>Sell</td>
<td>1: $3</td>
<td>1: $4</td>
</tr>
<tr>
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<td>2: -$1</td>
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<table>
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<tr>
<th>Firm 2</th>
<th>Give away</th>
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<tbody>
<tr>
<td></td>
<td>1: -$1</td>
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<tr>
<td></td>
<td>2: $4</td>
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32) 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) Firm 1 will give the application away free and Firm 2 will sell it at $30.
B) Both Firm 1 and 2 will give the software application away free.
C) Both Firm 1 and 2 will sell the software application at $30 a copy.
D) There is no Nash equilibrium to this game.

<table>
<thead>
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<th>Firm A</th>
<th>R&amp;D</th>
<th>No R&amp;D</th>
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<tbody>
<tr>
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<td>A: $25</td>
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<table>
<thead>
<tr>
<th>Firm B</th>
<th>No R&amp;D</th>
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<tbody>
<tr>
<td></td>
<td>A: $60</td>
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<td></td>
<td>B: -$3</td>
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33) Firms A and B can conduct research and development (R&D) or not conduct it. R&D is costly but can increase the
quality of the product and increase sales. The payoff matrix is the economic profits of the two firms and is given above,
where the numbers are millions of dollars. A’s best strategy is to
A) conduct R&D regardless of what B does.
B) conduct R&D only if B conducts R&D.
C) conduct R&D only if B does not conduct R&D.
D) not conduct R&D regardless of what B does.

34) In a collusive agreement between two duopolists in an oligopoly, each firm has an incentive to cheat on the agreement
because the firm’s price
A) exceeds its marginal revenue.  B) is less than its average total cost.
C) exceeds its marginal cost.  D) None of the above answers is correct.

35) A firm might be tempted to cheat on a collusive price-fixing agreement by setting a ________price and producing
________ than agreed upon.
A) lower; more  B) higher; less  C) higher; more  D) lower; less
36) Dell and Gateway must decide whether to lower their prices, based on the potential economic profits shown in the payoff matrix above. (The profits are in millions of dollars.) In the Nash equilibrium, Dell’s profit is __ million and Gateway’s profit is __ million.
A) $20; $5  B) $15; $15  C) $5; $20  D) $10; $10

37) Dell and Gateway must decide whether to lower their prices, based on the potential economic profits shown in the payoff matrix above. (The profits are in millions of dollars.) If the firms collude and don’t cheat, Dell’s profit is __ million and Gateway’s profit is __ million.
A) $20; $5  B) $10; $10  C) $5; $20  D) $15; $15

38) Suppose that two soft drink manufacturers, Fizzy Pop and Spritzy Soda, agree to charge the same prices for their soft drinks. This practice is
A) legal as long as the firms had a cost justification for setting prices.
B) always legal under the antitrust laws.
C) always illegal under the antitrust laws.
D) legal as long as Herfindahl-Hirschman index is less than 1,000.

39) The iPhone 5 no longer comes pre-loaded with Google Maps and uses the Apple map application instead. Regulators might be concerned with this requirement because they might see it as an example of
A) a tying arrangement. B) collusion to create a monopoly.
C) predatory pricing. D) resale price maintenance.

40) The Hirschman-Herfindahl index (HHI) in an industry is 50. A merger is proposed that will raise the HHI to 100. In this case, the
A) Federal Trade Commission will challenge the merger.
B) rule of reason will prevent the merger if it represents a horizontal merger. C) Sherman Act will prohibit the merger.
D) Federal Trade Commission will not challenge the merger.

41) Other things being the same, the department of justice is less likely to challenge a proposed merger of companies if
A) the companies are unable to observe each other’s pricing
B) it is difficult for new firms to enter the industry
C) the HHI in the industry is higher
D) all of the above

42) Suppose that copper producers form a cartel to maximize profits. We would expect this to cause copper prices to ___ and copper production to _____________.
A) rise; rise  B) rise; fall  C) fall; rise  D) fall; fall
43) Suppose that copper producers form a cartel to maximize profits. At the production level chosen by the cartel, we should expect that marginal revenue will __________ marginal cost and individual firms will want to produce _______________ than specified by the cartel agreement.
A) equal; more  B) exceed; more  C) exceed; less D) none of the above

44) Suppose that copper producers form a cartel to maximize profits. Compared to the competitive outcome before the cartel’s formation, we should expect to see consumer surplus will be ___ and a deadweight loss that is ___.
A) smaller; smaller B) smaller; larger C) larger; smaller D) larger; larger