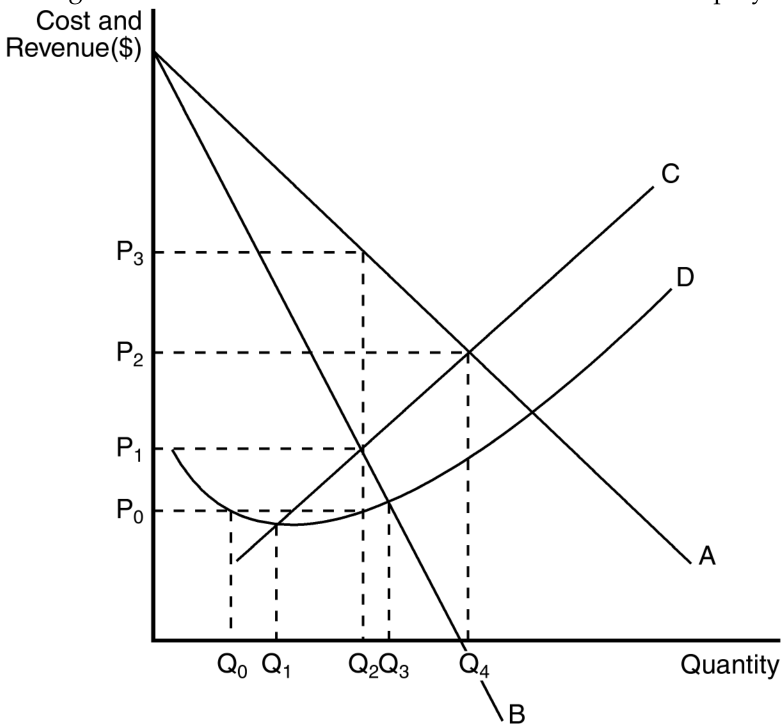
Monopoly

1. Which of the following statements about a firm's market pricing of its product is true?
   a. Both competitive firms and monopolies are price makers.
   b. Both competitive firms and monopolies are price takers.
   c. A competitive firm is a price taker and a monopoly is a price maker.
   d. A competitive firm is a price maker and a monopoly is a price taker.
ANSWER: c. A competitive firm is a price taker and a monopoly is a price maker.
2. A monopoly's marginal cost will most likely
   a. exceed its marginal revenue.
   b. be less than average fixed cost.
   c. be less than the market price of its goods.
   d. equal average total cost.
ANSWER: c. be less than the market price of its goods.
3. A fundamental source of monopoly market power arises from
   a. availability of "free" natural resources, such as water or air.
   b. perfectly elastic demand.
   c. perfectly inelastic demand.
   d. barriers to entry.
ANSWER: d. barriers to entry.
4. The defining characteristic of a natural monopoly is
   a. economies of scale over the relevant range of output.
   b. diseconomies of scale over the relevant range of output.
   c. marginal cost is U-shaped over the relevant range of output.
   d. marginal cost is constant over the relevant range of output.
ANSWER: a. economies of scale over the relevant range of output.
5. Authors are allowed to be monopolists in the sale of their books in order to
   a. satisfy literary advocacy groups that exercise their lobbying power.
   b. encourage authors to write more and better books.
   c. correct for the negative externalities that the internet and television impose.
   d. promote a society that thinks for themselves and learns from whichever books they please.
ANSWER: b. encourage authors to write more and better books.
6. If a monopolist faces a downward-sloping market demand curve, its
   a. marginal revenue is always less than the price of the units it sells.
   b. marginal revenue is greater than the price of the units it sells.
   c. average revenue is always less than marginal revenue.
   d. average revenue is less than the price of its product.
ANSWER: a. marginal revenue is always less than the price of the units it sells.
7. The monopolist's profit-maximizing quantity of output is where
   a. average cost equals marginal revenue.
   b. marginal cost equals marginal revenue.
   c. price equals marginal revenue.
   d. All of the above are correct.
ANSWER: b. marginal cost equals marginal revenue.
8. A monopolist is a price
   a. taker, and therefore has no demand curve.
   b. taker, and therefore has no supply curve.
   c. setter, and therefore has no demand curve.
   d. setter, and therefore has no supply curve.
ANSWER: d. setter, and therefore has no supply curve.
9. For a monopoly firm, which of the following equalities is true?
   a. price = average revenue
   b. price = marginal cost
   c. price = marginal revenue
   d. All of the above are correct.
ANSWER: a. price = average revenue

The figure reflects the cost and revenue structure for a monopoly firm.



10. According to the figure, a profit-maximizing monopoly would have total revenues equal to
    a. $P_0 \times Q_1$.
    b. $P_1 \times Q_3$.
    c. $P_2 \times Q_4$.
    d. $P_3 \times Q_2$.

ANSWER: d. $P_3 \times Q_2$.

11. According to the figure, a profit-maximizing monopoly would have average revenues of
    a. P_0.
    b. P_1.
    c. P_2.
    d. P_3.

ANSWER: d. P_3.

12. What happens to the price and quantity sold of a drug when its patent runs out?
    (i) The price will fall.
    (ii) The price will equilibrate to marginal cost.
    (iii) The quantity sold will rise.
    a. (i) and (ii)
    b. (ii) and (iii)
    c. (i) and (iii)
    d. (i) and (ii) and (iii)

ANSWER: d. (i) and (ii) and (iii)

13. The economic inefficiency of a monopolist can be measured by the
    a. deadweight loss.
    b. excess profit generated by monopoly firms.
    c. poor quality of service offered by monopoly firms.
    d. number of consumers who are unable to purchase the product because of its high price.

ANSWER: a. deadweight loss.

14. Consider a profit-maximizing monopoly pricing under the following conditions: The profit-maximizing price charged for goods produced is \$16. The intersection of the marginal revenue and marginal cost curves occurs where output is 10 units and marginal cost is \$8. The socially efficient level of production is 14 units. The demand curve and marginal cost curves are linear. What is the deadweight loss?

a. $8
b. $16
c. $48
d. None of the above is correct.
ANSWER: b. $16
15. For a monopoly market, total surplus can be defined as the value of the good to the
a. producers minus the cost incurred by consumers.
b. producers plus the cost incurred by consumers.
c. consumers minus the cost of making the good.
d. consumers plus the cost of making the good.
ANSWER: c. consumers minus the cost of making the good.
16. The inefficiency of monopolies is created by a deadweight loss due to the fact that
a. consumers who still buy the product at the high price are worse-off.
b. consumers buy fewer units at the price the monopoly sets.
c. high monopoly prices take money from consumers' pockets and put it in the pocket of the monopoly owners.
d. All of the above are correct.
ANSWER: b. consumers buy fewer units at the price the monopoly sets.
17. Suppose that a firm has a monopoly on the production of a prescription drug, regulating them on the basis of cost has problems because
a. it does not provide an incentive for the monopolist to reduce its cost.
b. a monopolist is still able to generate excessive economic profits.
c. a monopolist's costs, by definition, are higher than costs of perfectly competitive firms.
d. All of the above are correct.
ANSWER: a. it does not provide an incentive for the monopolist to reduce its cost.
18. The legislation passed by Congress in 1890 to reduce the market power of large and powerful "trusts" is called the
a. Clayton Act.
b. 14th Amendment.
c. Sherman Act.
d. None of the above is correct.
ANSWER: c. Sherman Act.
19. If regulators require a monopoly to set price equal to average total cost
a. consumer surplus is maximized.
b. total social welfare is maximized.
c. Both a and b are correct.
d. Neither a nor b is correct.
ANSWER: d. Neither a nor b is correct.
20. Since natural monopolies have a declining average cost curve, regulating natural monopolies by setting price equal to marginal cost would
a. maximize consumer surplus.
b. cause the monopolist to operate at a loss.
c. maximize producer surplus.
d. None of the above is correct.
ANSWER: b. cause the monopolist to operate at a loss.
21. A perfectly price-discriminating monopolist is able to
a. produce a level of output consistent with optimal social well-being, but not maximize profit.
b. exercise illegal preferences over the gender of its employees.
c. maximize profit and produce a level of output more consistent with optimal social well-being.
d. do none of the above.
ANSWER: c. maximize profit and produce a level of output more consistent with optimal social well-being.
22. When a monopolist can price discriminate perfectly then
a. the price effect dominates the output effect on monopoly revenue, so profits fall.
b. consumer surplus and deadweight losses are transformed into monopoly profits.
c. consumer surplus is increased.

d. deadweight loss is increased.
ANSWER: b. consumer surplus and deadweight losses are transformed into monopoly profits.

23. In theory, perfect price discrimination increases
    a. the monopolist's profits.
    b. consumer surplus.
    c. deadweight loss.
    d. All of the above are correct.
ANSWER: a. the monopolist's profits.

24. Firms may be prevented from price discrimination, if
    a. there are large fluctuations in the price of raw materials.
    b. buyers can arbitrage.
    c. firms have high fixed costs.
    d. All of the above are correct.
ANSWER: b. buyers can arbitrage.

25. OPEC often holds oil production below capacity in an effort to
    a. compel consumers to search for oil substitutes.
    b. compel consumers to conserve oil.
    c. keep prices above the competitive level.
    d. create a shift in the demand for oil.
ANSWER: c. keep prices above the competitive level.

1 ANSWER: c. A competitive firm is a price taker and a monopoly is a price maker.
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM:Y

2 ANSWER: c. be less than the market price of its goods.
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM:Y

3 ANSWER: d. barriers to entry.
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM:Y

4 ANSWER: a. economies of scale over the relevant range of output.
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM:Y

5 ANSWER: b. encourage authors to write more and better books.
TYPE: M KEY1:D SECTION:1 OBJECTIVE: 1 RANDOM:Y

6 ANSWER: a. marginal revenue is always less than the price of the units it sells.
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y

7 ANSWER: b. marginal cost equals marginal revenue.
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y

8 ANSWER: d. setter, and therefore has no supply curve.
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y

9 ANSWER: a. price = average revenue
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y

10 ANSWER: d. $P_3 \times Q_2$.
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y

11 ANSWER: d. P_3.
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y

12 ANSWER: d. (i) and (ii) and (iii)
TYPE: M KEY1:D SECTION:2 OBJECTIVE: 2 RANDOM:Y

13 ANSWER: a. deadweight loss.
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM:Y

14 ANSWER: b. $16
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM:Y

15 ANSWER: c. consumers minus the cost of making the good.
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM:Y

16 ANSWER: b. consumers buy fewer units at the price the monopoly sets.
TYPE: M KEY1:D SECTION:3 OBJECTIVE: 3 RANDOM:Y

17 ANSWER: a. it does not provide an incentive for the monopolist to reduce its cost.
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM:Y

18 ANSWER: c. Sherman Act.
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM:Y

19 ANSWER: d. Neither a nor b is correct.
TYPE: M KEY1: C SECTION:4 OBJECTIVE: 4 RANDOM:Y

20 ANSWER: b. cause the monopolist to operate at a loss.
TYPE: M KEY1:D SECTION:4 OBJECTIVE: 4 RANDOM:Y

21 ANSWER: c. maximize profit and produce a level of output more consistent with optimal social well-being.
TYPE: M KEY1:D SECTION:5 OBJECTIVE: 5 RANDOM:Y

22 ANSWER: b. consumer surplus and deadweight losses are transformed into monopoly profits.
TYPE: M KEY1:D SECTION:5 OBJECTIVE: 5 RANDOM:Y

23 ANSWER: a. the monopolist's profits.
TYPE: M KEY1:D SECTION:5 OBJECTIVE: 5 RANDOM:Y

24 ANSWER: b. buyers can arbitrage.
TYPE: M KEY1:D SECTION:5 OBJECTIVE: 5 RANDOM:Y

25 ANSWER: c. keep prices above the competitive level.
TYPE: M KEY1:D SECTION:5 OBJECTIVE: 2 RANDOM:Y