

Chapter 08 Testbank

1. An imperfectly competitive firm is one
 - A. that attempts but fails to compete perfectly.
 - B. with the ability to set price at any level it wishes.
 - C. that possesses some degree of control over its price.
 - D. that faces perfectly inelastic demand.

2. Pure monopoly exists when
 - A. many firms produce a good with no close substitutes.
 - B. a single firm produces a good with no close substitutes.
 - C. a single firm is present in the market.
 - D. a single firm produces a good with many close substitutes.

3. In many towns around the world a single firm tends to provide electricity. Those firms are
 - A. monopolists.
 - B. oligopolists.
 - C. monopolistic competitors.
 - D. the government.

4. If a firm functions in an oligopoly, it
 - A. is one of a few firms that produces a good with close substitutes.
 - B. has no close substitutes in a market.
 - C. is one of many suppliers of a good with perfect substitutes.
 - D. is the only firm in a geographic region.

5. A monopolistically competitive firm is one
 - A. that behaves like a monopolist.
 - B. of many firms that produce slightly different but very similar goods.
 - C. of many firms that produce goods with no close substitutes.
 - D. that is competitive but wants to be a monopolist.

6. The common feature in pure monopoly, oligopoly, and monopolistic competition is
 - A. the absence of close substitutes.
 - B. blocked entry.
 - C. interdependent decision making by firms.
 - D. downward sloping demand.

7. Price setters face
 - A. perfectly elastic demand.
 - B. more than perfectly elastic demand.
 - C. perfectly inelastic demand.
 - D. less than perfectly elastic demand.

8. In order to sell another unit, an imperfectly competitive firm must
- A. increase its advertising.
 - B. increase the value of its product.
 - C. lower its price.
 - D. lower its quality.
9. Suppose a firm is collecting \$100 in total revenues when it sells 10 units and it receives \$110 in total revenues when it sells 11 units. The firm is a(n)
- A. pure monopolist.
 - B. oligopolist.
 - C. monopolistic competitor.
 - D. perfect competitor.
10. Suppose a competitive firm and a monopolist are both charging \$5 for their respective outputs. One can infer that
- A. marginal revenue is \$5 for both firms.
 - B. marginal revenue is \$5 for the competitive firm and less than \$5 for the monopolist.
 - C. marginal revenue is less than \$5 for both firms.
 - D. the competitive firm is charging too much and the monopolist too little.

11. A firm's revenue is determined by

- A. its production technology.
- B. its implicit costs.
- C. its profit.
- D. the demand curve that the firm faces.

12. A downward sloping demand function

- A. is characteristic of both a perfectly competitive firm and a monopolistic firm.
- B. necessarily implies that the firm's marginal revenue will be less than price.
- C. is true only of firms in a perfectly competitive industry.
- D. indicates the presence of economies of scale.

13. To sell an extra unit of output, a perfect competitor _____ while an imperfect competitor _____.

- A. does not alter price; must lower price
- B. must hope the market price falls; must lower price
- C. does not alter price; does not alter price either
- D. must lower price; must lower price

14. Market power measures the firm's ability to

- A. under cut its competitors.
- B. force consumers to pay prices higher than their reservation prices.
- C. raise its price without losing all of its sales.
- D. influence the price its competitors charge.

15. A firm might have a monopoly in a market because
- A. its average total cost function is increasing over the entire relevant range of output.
 - B. the market is geographically isolated from other sellers.
 - C. the firm's technology is obsolete.
 - D. it faces a perfectly elastic demand curve.
16. Products have network economies if they
- A. can be used by more than one person at a time.
 - B. are cheaper to produce as more people buy them.
 - C. are more valuable to own as more people own them.
 - D. have many complements.
17. Which of the following is NOT an example of a good with network economies?
- A. Text messaging capabilities
 - B. An internet connection
 - C. A computer printer
 - D. Computer operating systems
18. Which of the following firms is most likely to be a monopolist?
- A. The clothing retailer with the best location in a mall
 - B. The grocery store in a large city closest to the central business district
 - C. The most popular hot dog vendor on a city street corner
 - D. The one grocery store in a small town

19. De Beers accounts for approximately 80% of diamond sales worldwide. The source of their market power is

- A. its exclusive ownership of South African diamond mines.
- B. its patent on diamond production.
- C. the perfectly inelastic demand for diamonds.
- D. Western engagement customs.

In exchange for a share in the revenues earned on campus, your university has granted CheapFizz the exclusive right to sell soft drinks in the student center and in vending machines on campus. Prior to the deal, three soft drink companies sold beverages on campus; now no other soft drink company is allowed to sell its products on campus or at university events.

20. CheapFizz now has market power due to

- A. the economies of scale gained by having more sales on campus.
- B. the grant of a patent.
- C. the grant of an exclusive license to sell.
- D. network economies caused by all students consuming their product.

21. Prior to the deal, a 300-ml can of CheapFizz sold for 75 cents. After the deal you would expect a 300-ml can of CheapFizz to sell for

- A. 75 cents because that is the market price.
- B. less than 75 cents because CheapFizz will have greater volume and so can sell for a lower price,
- C. more than 75 cents because demand for CheapFizz will shift to the left.
- D. more than 75 cents because other firms must exit the market.

22. The beneficiaries of this deal are _____.

- A. the students
- B. your university
- C. your university and CheapFizz
- D. CheapFizz

23. Patents and copyrights, which confer market power, exist to

- A. protect the consumer from imitations.
- B. ensure excessive profits to the holders.
- C. protect research, development and creative expression.
- D. magnify the dominance of large firms.

24. According to the textbook, the most important and enduring source of market power is

- A. government franchise.
- B. patents.
- C. copyright.
- D. economies of scale.

25. Start up costs are

- A. irrelevant in firm decision making because they are sunk costs.
- B. inversely related to variable costs.
- C. one-time costs of starting production of a new product.
- D. always greater than marginal costs.

26. Suppose a drug company introduces a new drug on the market. Its research, development, and testing costs are _____ and the chemicals used in manufacturing the drug are _____.

- A. start up costs; fixed costs
- B. fixed costs; start up costs
- C. start up costs; variable costs
- D. marginal costs; variable costs

27. A firm is most likely to experience economies of scale if it has _____ start up costs and _____ marginal costs.

- A. high; increasing
- B. high; low
- C. high; high
- D. low; decreasing

28. Constant returns to scale occur when a doubling of all inputs

- A. doubles the price of outputs.
- B. more than doubles output.
- C. less than doubles the price of the inputs.
- D. exactly doubles output.

29. Suppose a firm increases its labor usage and office space (the only inputs used) by 10% and observes a 13% increase in output. The firm has
- A. increasing returns to scale.
 - B. constant returns to scale.
 - C. violated the law of diminishing marginal returns.
 - D. increased its average costs.
30. When a firm with constant returns to scale uses 30% more of all inputs and input prices remain unchanged, then
- A. total costs rise by less than 30%.
 - B. average costs fall by 30%.
 - C. average costs rise by 30%.
 - D. average costs remain unchanged.
31. Economies of scale exist when
- A. firms become extremely large.
 - B. input prices are falling.
 - C. average costs fall as the scale of production grows.
 - D. a 10% increase in all inputs causes a 9% increase in output.

32. A firm that emerges as the only seller in an industry with economies of scale is termed a(n)

- A. antitrust violator.
- B. oligopoly.
- C. natural monopoly.
- D. natural oligopoly.

33. Which of the following industries does not fit the natural monopoly model?

- A. Electricity
- B. Cable TV
- C. Diamonds
- D. Natural gas

34. The term "natural monopoly" refers to

- A. government ownership of parks.
- B. industries with constant returns to scale.
- C. the desire of all firms to be monopolists.
- D. industries with economies of scale.

35. If a natural monopoly decreases the quantity of output it produces,

- A. its average costs will decrease.
- B. its average costs will increase.
- C. it will have to decrease the price that it charges
- D. its profits will increase.

Imagine that you are an entrepreneur, making designer T-shirts in your garage. Your accountant has estimated that your firm's total costs are $TC = 300 + 10 * Q$.

36. Your fixed costs are _____ and your marginal costs are _____.

- A. \$300; 10
- B. $\$300/Q$; 30
- C. \$300; 10 times quantity
- D. $\$300/Q$; 10

37. As you increase production of T-shirts your average fixed costs _____ and your marginal costs _____.

- A. decrease; increase
- B. increase; decrease
- C. decrease; stay the same
- D. stay the same; increased

38. If you make 100 T-shirts, your average total cost is _____.

- A. \$3
- B. \$10
- C. \$3.10
- D. \$13

39. If you make 1000 T-shirts, your average total cost is _____.
- A. \$3
 - B. \$3.10
 - C. \$10.30
 - D. \$1.03
40. Given the total cost function $TC = 2,000 + 2 * Q$, when output is 1,000 units average total costs are _____ and total fixed costs is _____.
- A. \$2; \$2
 - B. \$4; \$2
 - C. \$4; \$2,000
 - D. \$4,000; \$2,000
41. Industries in which the firms have large fixed costs and small, constant marginal costs will, over time,
- A. have more and more small firms.
 - B. see an increase in the average size of firms.
 - C. see no change in the average size of firms.
 - D. see no change in the average number of firms.

Suppose that there are just two firms in a small market.

Lasheen Manufacturing's Total Costs equal $\$100 + \$3 Qty$.

Generic Industries' Total Costs equal $\$500 + \$3 Qty$.

42. Compare cost functions at the two firms. Which statement is true?

- A. Lasheen will always have lower marginal costs than Generic.
- B. Lasheen and Generic have equal marginal costs.
- C. Marginal costs at each firm will depend on the quantity, or output, of the firms.
- D. Lasheen has greater economies of scale than does Generic.

43. If each firm is making the same quantity,

- A. Lasheen has lower average total costs than Generic.
- B. Lasheen's average total costs are equal to Generic's variable costs.
- C. Lasheen has higher average total costs than Generic.
- D. At some levels of output Lasheen's average total costs are less than Generic's, but at some levels of output Generic's average costs are less than Lasheen's.

44. Suppose that Lasheen and Generic face the same demand function, that they are both pursuing a profit maximization policy, and that both companies are earning positive economic profits at that quantity. Which statement is true?

- A. Lasheen will produce more output than Generic.
- B. Generic will produce more output than Lasheen.
- C. Lasheen and Generic will produce the same quantity and will have the same profits.
- D. Lasheen and Generic will produce the same quantity, but Lasheen will have higher profits.

45. The primary objective of a monopolist is to

- A. charge the highest possible price.
- B. maximize total revenues.
- C. minimize total costs.
- D. maximize profits.

46. Both the perfectly competitive firm and the monopolist find that

- A. price and marginal revenue are the same.
- B. they can sell all they want to at the market price.
- C. it is best to expand production until the benefits and costs of the last unit produced are equal.
- D. price is less than marginal revenue.

47. For all firms, the additional revenue collected from the sale of one additional unit of output is

- A. price.
- B. average revenue.
- C. marginal profit.
- D. marginal revenue.

48. When a perfect competitor sells additional units, _____, and when a monopolist sells additional units, _____

- A. total revenues always rise; total revenues may rise, fall, or remain unchanged.
- B. total revenues remain unchanged; total revenues always rise.
- C. marginal revenues stay the same; marginal revenues rise.
- D. total revenues always rise; total revenues always fall.

49. If a firm collects \$80 in revenues when it sells 4 units, \$100 in revenues when it sells 5 units, and \$120 when it sells 6 units, one can infer the firm is more likely to be
- A. a perfect competitor.
 - B. a monopolistic competitor.
 - C. an oligopolist.
 - D. a monopolist.
50. If a firm collects \$90 in revenues when it sells 4 units, \$100 in revenues when it sells 5 units, and \$105 when it sells 6 units, one can infer the firm is likely to be
- A. a perfect competitor.
 - B. a cost minimizer.
 - C. a perfect competitor or a monopolist.
 - D. a monopolist.
51. For perfectly competitive firms price _____ marginal revenue; for monopolists price _____ marginal revenue.
- A. equals; equals
 - B. equals; is less than
 - C. is less than; equals
 - D. equals; is greater than

52. The demand curve for a perfectly competitive firm is _____ while the demand curve for a monopolist is _____.

- A. perfectly elastic; downward sloping
- B. vertical; downward sloping
- C. perfectly elastic; perfectly inelastic
- D. perfectly inelastic; perfectly elastic

Output	Price
1	\$10
2	\$9
3	\$8
4	\$7
5	\$6
6	\$5
7	\$4

53. Refer to the figure above. The total revenue of selling 3 units is _____ and the marginal revenue of selling the third unit is

- A. \$28; 8.
- B. \$24; 6.
- C. \$52; 1.
- D. \$24; 8.

54. Refer to the figure above. The total revenue of selling six units is _____ and the marginal revenue of selling the sixth unit is

- A. \$5; 5.
- B. \$30; 0.
- C. \$24; \$5.
- D. \$30; \$1

55. Refer to the figure above. When the firm lowers price from \$8 to \$7, marginal revenue is less than \$7 because

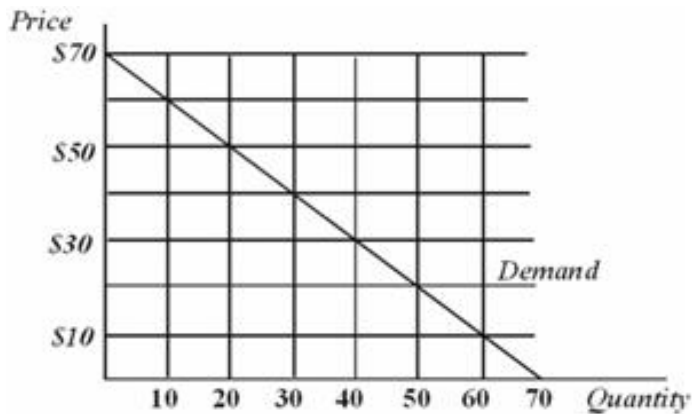
- A. marginal cost is greater than \$3.
- B. the consumer only pays \$4 for the fourth unit.
- C. the firm is charging \$1 less for each of the first three units of output.
- D. demand is perfectly elastic.

56. Refer to the figure above. Based on the marginal revenue data in the table, one can predict the firm will

- A. earn a profit.
- B. produce more than 7 units.
- C. never produce the seventh unit.
- D. never produce the fifth unit.

57. If a firm's demand function shifts

- A. its marginal revenue function and profit maximizing output will also change.
- B. its cost functions will also change.
- C. its total cost functions will change, but its variable cost functions will be the same.
- D. its marginal revenue function will change, but its profit maximizing level of output will not change.



58. Refer to the figure above. This imperfectly competitive firm's demand function gives information that is used to determine

- A. the change in costs when output changes.
- B. total revenue at different price and quantity combinations.
- C. fixed costs in the short run.
- D. advertising necessary to gain market share.

59. Refer to the figure above. If this firm were to sell 20 units of output, its total revenue would be

- A. \$50.
- B. \$100.
- C. \$140.
- D. \$1,000.

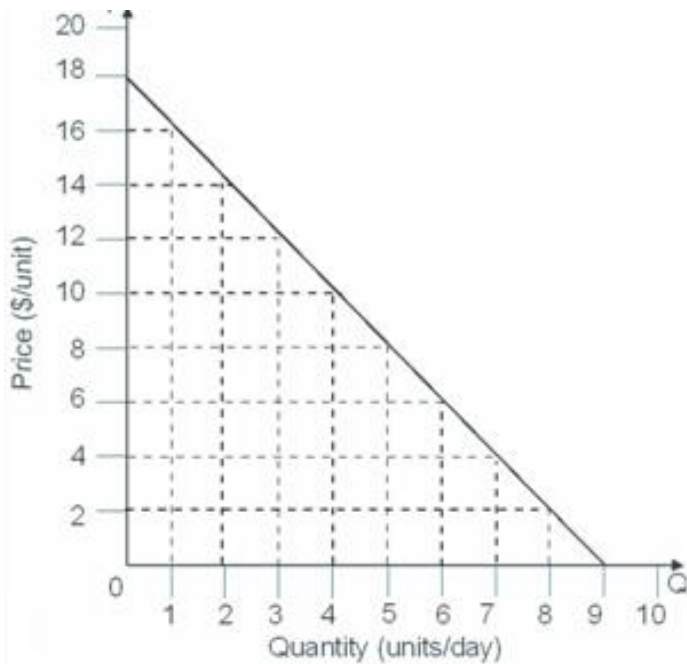
60. Refer to the figure above. If this firm were to increase sales from 20 units to 30 units of output, its marginal revenue would be

- A. +\$20.
- B. +\$200.
- C. 0.
- D. -\$20.

61. Refer to the figure above. This firm would maximize its profits by selling
- A. 10 units and charging \$70, the highest price on its demand function.
 - B. 40 units, the point at which Total Revenue is greatest.
 - C. the number of units at which Marginal Revenue minus Marginal Cost is greatest.
 - D. the number of units at which Marginal Revenue equals Marginal Cost.
62. Refer to the figure above. If this monopolistic firm's marginal cost is constant at \$30, its profit maximizing output is
- A. 50 units.
 - B. 40 units.
 - C. 20 units.
 - D. 30 units.
63. Refer to the figure above. This firm's marginal revenue function would intersect the horizontal axis at a quantity of _____.
- A. 70
 - B. 50
 - C. 20
 - D. 35

64. Once a firm has determined the quantity of output it wishes to sell, the price it can charge is determined by

- A. the cost of making the product.
- B. the firm's demand curve.
- C. market demand for the product minus cost.
- D. the explicit cost of making the product plus the implicit costs incurred by the firm owner.



65. Refer to the figure above. At a price of \$8 per unit of output the total revenue for the monopolist is _____, and the marginal revenue earned from the last unit sold is _____.

- A. \$8; 8
- B. \$24; 8
- C. \$32; 4
- D. \$40; 0

66. Refer to the figure above. At the price of \$6 per unit of output, this monopolist will sell _____ units and a perfect competitor will sell _____ units.
- A. 6; 6
 - B. more than 6; 6
 - C. less than 6; more than 6
 - D. 6; as many as it wants to
67. Refer to the figure above. If the monopolist decreases price from \$14 to \$12, its total revenue will _____.
- A. increase by \$2
 - B. decrease by \$2
 - C. increase by \$8
 - D. decrease by \$8
68. Refer to the figure above. The marginal revenue of selling the 4th unit, for the monopolist is _____ while for the perfectly competitive firm it is _____.
- A. \$10; \$2
 - B. \$10; \$4
 - C. \$4; \$10
 - D. \$0; \$12

69. If the monopolist's demand curve is $P = 50 - 10 * Q$, then marginal revenues are zero when Q equals _____ units.
- A. 50
 - B. 10
 - C. 5
 - D. 2.5
70. If the monopolist's demand curve is $P = 70 - 14 * Q$, then the slope of its marginal revenue curve is
- A. -28.
 - B. -14.
 - C. -7.
 - D. -1.
71. Because the monopolist charges a price in excess of marginal costs, it must be the case that the monopolist
- A. earns an excessive profit.
 - B. exploits the consumers who do make a purchase.
 - C. fails to equate the benefits to the costs of the last unit produced.
 - D. produces less than the socially efficient level of output.

72. When marginal revenues are zero,

- A. profits are maximized.
- B. total costs are minimized.
- C. elasticity of demand is zero.
- D. total revenues are maximized.

73. The monopolist will maximize profits if it produces where

- A. price equals marginal costs.
- B. price equals the minimum average total cost.
- C. marginal revenue equals average total cost.
- D. marginal revenue equals marginal cost.

74. The profit maximizing rule, $P = MC$, applies to

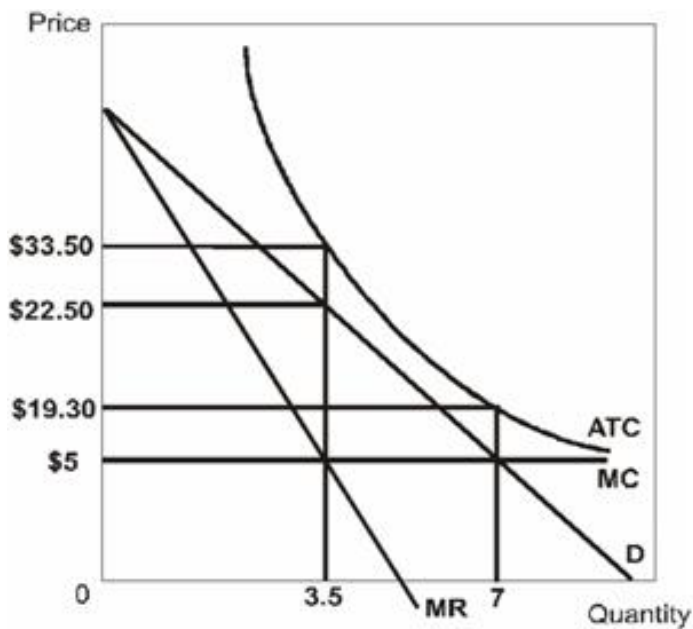
- A. all firms.
- B. monopolists only.
- C. monopolists and perfect competitors.
- D. perfect competitors only.

75. The profit maximizing rule $MR = MC$ applies to

- A. all firms.
- B. monopolists only.
- C. perfect competitors only.
- D. all firm types except perfect competitors.

76. If a monopolist finds that its marginal revenue exceeds its marginal costs at the current level of output, it should

- A. do nothing; it has maximized profits.
- B. contract production until the difference between marginal revenues and marginal costs is larger.
- C. expand output until marginal revenue equals marginal costs.
- D. expand output until price equals marginal costs.



77. Refer to the figure above. The firm illustrated in the graph is a(n)

- A. oligopolist.
- B. monopolistic competitor.
- C. perfect competitor.
- D. natural monopolist.

78. Refer to the figure above. To profit maximize, the firm will choose to produce _____ units and charge a price of _____.
- A. 3.5; \$33.50
 - B. 7; \$19.30
 - C. 3.5; \$22.50
 - D. 3.5; \$5
79. Refer to the figure above. The socially efficient price and output combination is
- A. \$5 and 7.
 - B. \$5 and 3.5.
 - C. \$19.30 and 7.
 - D. \$22.50 and 3.5.
80. Refer to the figure above. At the point of profit maximization, the monopolist
- A. earns a profit of \$38.50.
 - B. incurs a loss of \$11.20.
 - C. earns a profit of \$11.20.
 - D. incurs a loss of \$38.50.
81. Refer to the figure above. At the socially efficient level of output, the monopolist would
- A. earn a profit of \$100.10.
 - B. incur a loss of \$100.10.
 - C. incur a loss of \$61.25.
 - D. incur a loss of \$50.05.

82. Refer to the figure above. The _____ at the socially efficient level of output will be _____ at the profit maximizing level of output.

- A. loss; smaller than
- B. profit; smaller than
- C. loss; larger than
- D. profit; larger than

Output	Price	Marginal Costs
1	\$10	\$6
2	\$9	\$6
3	\$8	\$6
4	\$7	\$6
5	\$6	\$6
6	\$5	\$6
7	\$4	\$6
8	\$3	\$6

83. Refer to the figure above. The marginal revenue of the third unit of output is

- A. \$24.
- B. \$6.
- C. \$2.
- D. \$0.

84. Refer to the figure above. The marginal revenue of the fifth unit of output is

- A. 0.
- B. \$2.
- C. \$6.
- D. -\$2.

85. Refer to the figure above. The profit maximizing quantity and price for this monopolist are

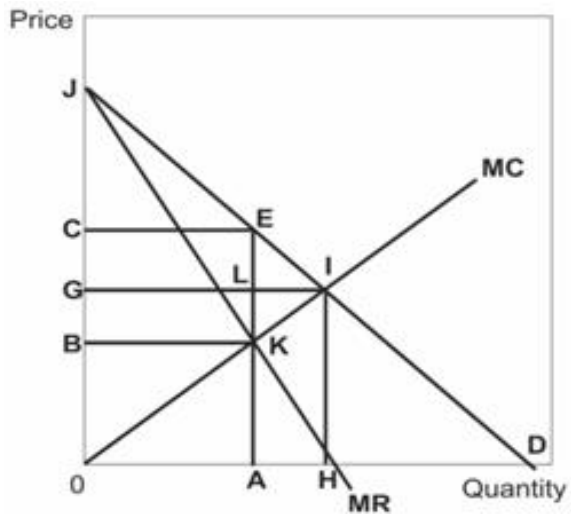
- A. 1 unit and \$10.
- B. 2 units and \$9.
- C. 3 units and \$8.
- D. 4 units and \$7.

86. Refer to the figure above. The socially efficient price and quantity combination is _____.

- A. 3 units and \$8
- B. 5 units and \$6
- C. 7 units and \$4
- D. 4 units and \$7

87. Refer to the figure above. The monopoly structure in this market causes _____ units produced and a price that is _____ when compared with social efficiency.

- A. 2 fewer; \$1 higher
- B. 2 fewer; \$2 higher
- C. 3 fewer; \$2 higher
- D. 3 fewer; \$1 higher



88. Refer to the figure above. The distance representing the profit maximizing level of output to the monopolist is

- A. 0H.
- B. GI.
- C. 0B.
- D. 0A.

89. Refer to the figure above. The distance representing the profit maximizing price to the monopolist is

- A. 0C.
- B. GI.
- C. 0B.
- D. 0A.

90. Refer to the figure above. At the profit-maximizing level of output, the monopolist collects total revenues equal to the area
- A. 0A.
 - B. 0CEA.
 - C. 0GIH.
 - D. 0C.
91. Refer to the figure above. At the point of monopoly profit maximization, consumer surplus is represented by the area
- A. CJE.
 - B. GJI.
 - C. BJEK.
 - D. BCEK.
92. Refer to the figure above. A perfectly competitive equilibrium would have resulted in a price equal to the distance _____ and a quantity equal to the distance _____.
- A. 0B; 0A
 - B. 0G; 0H
 - C. 0C; BK
 - D. 0J; CE

93. Refer to the figure above. The socially optimal equilibrium would yield consumer surplus equal to the area _____.

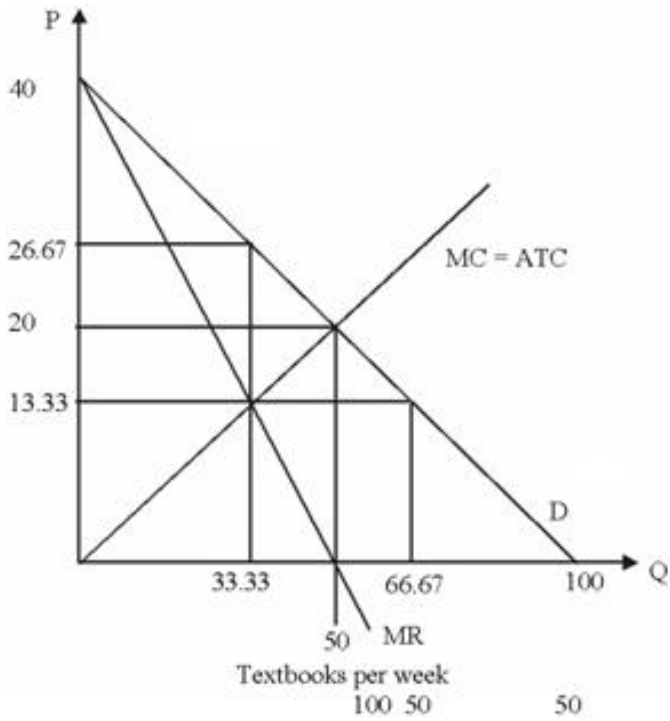
- A. LEI
- B. GCEI
- C. OGI
- D. GJI

94. Refer to the figure above. The deadweight loss resulting from monopoly is represented by the area _____.

- A. LEI.
- B. KLI.
- C. KEI.
- D. GCEL.

95. Refer to the figure above. The difference between consumer surplus given the monopoly market structure and consumer surplus with the socially efficient quantity is the area _____.

- A. LEI
- B. GCEI
- C. OGI
- D. GCEL



96. Refer to the figure above. The profit-maximizing level of output for the monopolist is ____ and the profit-maximizing price is _____.

- A. 50; \$20
- B. 33.33; \$13.33
- C. 33.33; \$26.67
- D. 50; \$26.67

97. Refer to the figure above. At the profit-maximizing level of output, profit for this monopolist is _____.

- A. \$0
- B. \$666.60
- C. \$533.40
- D. \$444.62

98. Refer to the figure above. At the point of monopoly profit maximization, consumer surplus is _____, and at the point of perfectly competitive profit maximization, consumer surplus is _____

- A. \$333.33; \$355.51
- B. \$222.14; \$500
- C. \$500.00; \$222.14
- D. \$266.67; \$355.51

99. Refer to the figure above. The deadweight loss resulting from monopoly is _____.

- A. \$111.19
- B. \$277.86
- C. \$222.21
- D. \$360

100. The reason economists consider monopoly socially undesirable is the monopolist

- A. always earns excessive profits.
- B. can charge any price he wants.
- C. exploits the inelastic nature of demand.
- D. produces less than the socially efficient amount.

101. Perfect competition is efficient and monopoly is not because in perfect competition _____ while in monopoly _____.

- A. $P = MC$; $P > MC$
- B. $P < MR$; $P = MR$
- C. $P = MR$; $P < MR$
- D. $P = MC$; $P < MC$

102. A monopolist calculates its marginal revenues to be \$15 and marginal costs to be \$16. One can infer that it

- A. is loss minimizing.
- B. should increase output.
- C. is profit-maximizing.
- D. should decrease output.

103. Price discrimination means charging

- A. higher prices to women and minorities.
- B. different prices to different consumers because production costs are different.
- C. the same price to all consumers even if production costs are different.
- D. different prices to different consumers when production costs are the same.

104. Perfect price discrimination occurs when

- A. each buyer pays his or her marginal cost.
- B. most buyers pay their reservation price.
- C. each buyer pays exactly his or her reservation price.
- D. the buyer with the highest reservation price sets the market price.

105. Imperfect price discrimination occurs when

- A. the monopolist charges a single price to all consumers.
- B. some buyers pay less than their reservation price.
- C. some buyers pay more than their reservation price.
- D. all buyers pay less than their reservation price.

Campus Bookstore is the only textbook supplier in the town, a profit-maximizing business.

Customer	Reservation Price (\$/book)
Q	60
R	54
S	48
T	42
U	36
V	30
W	24
X	18

Assume that the marginal and average total cost for each book is \$12.

106. How much should the bookstore charge for this book if it must charge a single price to all customers?

- A. \$36
- B. \$18
- C. \$24
- D. \$12

107. At the profit maximizing price how many books will they sell each day?

- A. 3
- B. 4
- C. 5
- D. 7

108. What will be the economic profit for the bookstore when selling its profit-maximizing quantity?

- A. \$60
- B. \$120
- C. \$180
- D. \$240

109. If the bookstore is selling the socially efficient number of books how many will it sell?

- A. 8
- B. 5
- C. 6
- D. 7

110. If the bookstore can charge two different prices for this book, the list price for the book will be _____ and the discounted price for the book will be _____.

- A. \$18; \$12
- B. \$18; \$18
- C. \$36; \$24
- D. \$36; \$36

111.If the bookstore can charge two different prices for this book, how many books will the bookstore sell?

- A. 8
- B. 5
- C. 6
- D. 7

112.If the bookstore can charge two different prices for this book, the economic profit for the bookstore is _____.

- A. \$144
- B. \$84
- C. \$108
- D. \$120

113.When the bookstore does not price discriminate, consumer surplus is _____, and when the bookstore can charge two different prices for this book, the consumer surplus will be _____.

- A. \$50; \$60
- B. \$60; \$66
- C. \$66; \$66
- D. \$66; \$128

114. Comparing the non-price discriminating monopoly outcome to the perfectly price discriminating monopoly outcome, profits are

- A. the same.
- B. less when price discriminating.
- C. greater when price discriminating.
- D. greater when charging a uniform price.

115. Suppose a monopolist charges a uniform price of \$10 based on profit maximization and has constant marginal costs of \$3. Hatim is willing to pay \$6 for the monopolist's output. Therefore,

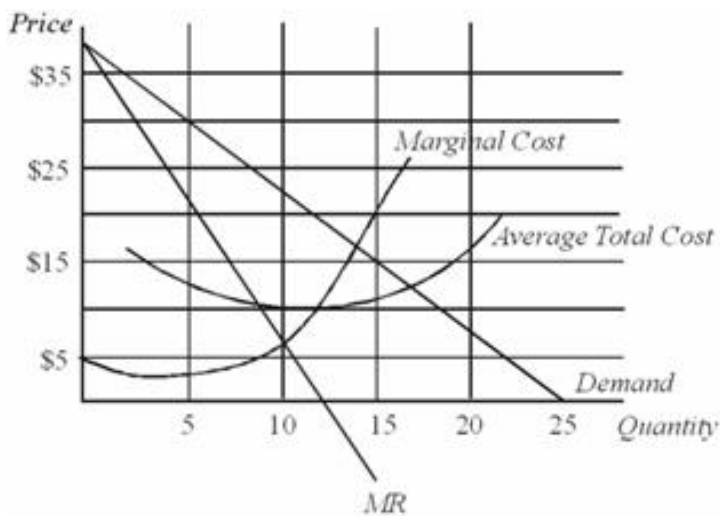
- A. the monopolist should lower its price to \$6 for all consumers.
- B. the monopolist should ignore Hatim's want; it is already profit maximizing.
- C. if resale of the output is impossible, the monopolist should lower its price to \$6 just for Hatim.
- D. the monopolist will not be better off if it lowers its price to \$6 just for Hatim.

116. Suppose a single-price monopolist is considering becoming a price discriminating monopolist. If the firm does begin to price discriminate, it can expect to

- A. decrease its output and increase its profit.
- B. run into legal trouble with the anti-trust enforcers.
- C. increase its output, but decrease its profits.
- D. increase both its output and its profit.

117. Suppose a monopolist sells one version of its output to consumers and another version to businesses. The marginal cost of the consumer version is \$5 per unit while the business version has marginal costs of \$5.75. If resale is impossible, one can infer that

- A. the monopolist will charge two different prices and is not practicing price discrimination.
- B. the monopolist will charge a uniform price to both consumers and businesses.
- C. the monopolist will charge two different prices and is perfectly price discriminating.
- D. the monopolist will charge two different prices and is imperfectly price discriminating.



118. Refer to the figure above. If the firm does not price discriminate, this monopolist will choose a quantity of _____, and charge a price of _____.

- A. 10; \$22
- B. 10; \$10
- C. 12; \$20
- D. 5; \$12

119. Refer to the figure above. If it did not price discriminate, this firm would earn total profits of

- A. \$500.
- B. \$200.
- C. \$120.
- D. \$60.

120. Refer to the figure above. As a perfect price-discriminator, this firm would produce approximately _____ units of output.

- A. 17
- B. 14
- C. 10
- D. 5

121. Compared with charging a single price, all else equal imperfect price discrimination

- A. sometimes hurts customers with low ability to pay while benefiting wealthy customers.
- B. always hurts all customers while increasing firm profits.
- C. sometimes benefits customers with low ability to pay while reducing firm profits.
- D. sometimes benefits customers with low ability to pay while increasing firm profits.

122. Compared to a monopolist charging a single price to everyone, perfect price discrimination makes

- A. the monopolist better off and all consumers worse off.
- B. society worse off.
- C. the monopolist worse off and consumers better off.
- D. the monopolist and some consumers better off.

123. When a consumer must take some sort of additional action to receive a lower price, the consumer is being subjected to

- A. "bait and switch" sales tactics.
- B. perfect price discrimination.
- C. the "hurdle" method of price discrimination.
- D. the "rebate and wait" method of price discrimination.

124. One would expect to see more mail in rebate coupons being offered at

- A. exclusive stores catering to the wealthy.
- B. a luxury car dealership.
- C. discount stores.
- D. convenience stores.

125. A consumer goes to purchase a TV advertised for \$300. As he is checking out, the clerk informs him of a \$20 rebate offer for the TV, which he fills out and receives in 3 months. One can infer that the consumer had

- A. a reservation price of at least \$300 but jumped the hurdle anyway.
- B. a reservation price of at most \$280.
- C. a reservation price of exactly \$300.
- D. a reservation price of at least \$280.

126. A consumer has a reservation price of \$90 for a blender. If the local store is offering the blender for \$100 with a \$10 rebate and he does not make the purchase, one can surmise that

- A. his reservation price was too high.
- B. his reservation price was too low.
- C. the hurdle was too high.
- D. the hurdle was too low.

127. A monopolist sets its price at \$100 and offers a 10% rebate. For this to be a perfect hurdle, it must be the case that

- A. those with a reservation price of \$100 or more purchase and ignore the rebate while those with a reservation price between \$99 and \$90 purchase and use the rebate.
- B. those with a reservation price of \$90 don't make a purchase.
- C. no one takes advantage of the rebate.
- D. those with a reservation price of \$100 make the purchase and claim the rebate.

128. Which of the following is not an example of the hurdle method of price discrimination?

- A. A rebate offer
- B. Eliminating all sales specials and reducing all prices by 10%
- C. After-holiday sales
- D. Weekly grocery store coupon fliers

129. Which of the following situations will come closest to perfect price discrimination?

- A. Charging a different price on different days
- B. Charging a different price at the end of the year
- C. Negotiating a price with a group of consumers
- D. Negotiating a price with each individual consumer

130. Any hurdle method of price discrimination is an attempt to

- A. separate consumers on the basis of their reservation prices.
- B. inconvenience all consumers.
- C. separate consumers on the basis of their incomes.
- D. encourage consumers with high reservation prices to make a purchase they were not going to make.

131. The hurdle method of price discrimination usually _____ consumer surplus and _____ producer surplus.

- A. decreases; increases
- B. increases; decreases
- C. decreases; decreases
- D. increases; increases

132. The hurdle method of price discrimination is _____ efficient, however it is _____ efficient than charging a single price to all buyers.

- A. not perfectly; more
- B. not perfectly; less
- C. not; less
- D. perfectly; less

133. Which of the following is not an example of hurdle method of price discrimination?

- A. A "Buy two, get the third free" special.
- B. Mail-in rebate coupon on a HP printer
- C. Tuesday student discount
- D. A going-out-of-business sale

134. Relative to a single price monopolist, a price discriminating monopolist generates

- A. more deadweight loss
- B. less deadweight loss
- C. the same amount of deadweight loss, but more consumer surplus.
- D. the same amount of deadweight loss, but less consumer surplus.

135. A feature of natural monopoly is economies of scale in production, which means marginal cost will always

- A. equal marginal revenue
- B. be less than average total cost
- C. be greater than average total cost
- D. be greater than average variable cost.

136. If a natural monopoly sets price equal to its marginal cost it will _____.

- A. earn a normal profit
- B. earn an economic profit
- C. earn zero economic profit
- D. incur an economic loss

137. A state-owned natural monopoly will have _____.

- A. an incentive to maximize profit
- B. an incentive to minimize cost
- C. no incentive to minimize cost
- D. no incentive to maximize revenue

138. When the Water Authority in Townsville cuts cost by \$1000, the government cuts its budget by \$1000. The most likely reason for this is, that _____

- A. it is a natural monopoly
- B. it is a state-owned natural monopoly
- C. it is a private natural monopoly
- D. its marginal cost is always greater than its average total cost

139. Government regulators typically set the price of electricity based on the explicit costs of the Electric Power Company, then add an extra amount to assure a normal return on the firm's investment. This procedure is called

- A. profit maximizing regulation.
- B. cost minimizing regulation.
- C. cost-plus regulation.
- D. efficient regulation

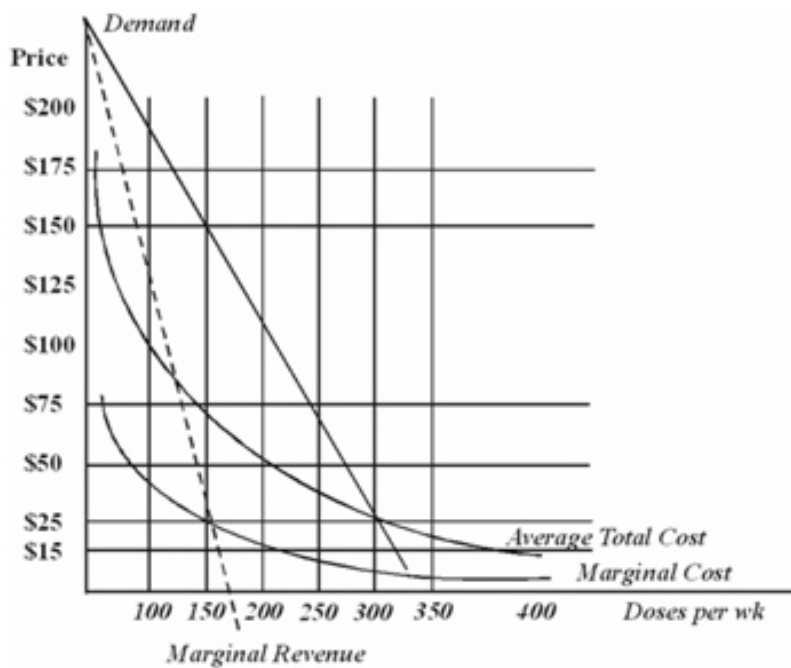
140. Which one of the following is an example of exclusive contracting for natural monopoly?

- A. Garbage collection
- B. Satellite TV
- C. Campus bookstore
- D. Oil wells in the UAE

141. According to the _____, it is illegal to monopolize or attempt to monopolize.

- A. Carter Act
- B. Rockefeller Act
- C. Clayton Act
- D. Sherman Act

This graph illustrates a hypothetical market for a newly-developed antibiotic drug. Bacteria mutate quickly, and so new antibiotics must be developed to work against bacteria strains that have evolved to be resistant to existing antibiotics.



142. The demand curve for this market is relatively steep because

- A. consumers do not know enough about the product.
- B. for some consumers this good is a necessity
- C. this good is a luxury good.
- D. production of the drug is subject to economies of scale.

143. The shapes of this firm's cost functions suggest that production of this drug

- A. involves high start up costs
- B. is most efficiently done by many small firms
- C. is inefficient when done by this firm.
- D. involves unique inputs.

144. The information given in the graph suggests that the source of market power for this drug manufacturer is

- A. patent protection granted by the government
- B. exclusive control over an ingredient used in manufacturing the drug
- C. economies of scale in the production of the drug
- D. network economies among physicians prescribing this drug

145. If the drug manufacturer cannot price discriminate, to maximize profit it will produce ____ doses and charge a price of _____

- A. 300; \$25
- B. 150; \$150
- C. 150; \$25
- D. 150; \$175

146. In its efforts to keep medical costs down, the government has decided to impose a \$15 price ceiling on a weekly dose of this drug. What is likely to happen?

- A. The firm will produce 400 doses per week causing excess supply of this drug on the market.
- B. This drug will disappear from the market.
- C. The firm will produce 325 doses per week, just meeting consumer demand.
- D. The firm will produce 200 doses per week, the quantity at which price equals Marginal Cost.

147. Cost plus regulation would result in a price for this drug of

- A. \$25
- B. \$50
- C. \$75
- D. \$100

148. Relative to the profit maximizing output, the number of doses produced under cost plus regulation is

- A. less efficient.
- B. more likely to encourage research and development.
- C. more efficient.
- D. exactly the same, but produced at lower cost.

149. Cost plus regulation in this market would yield a result that

- A. is the socially optimal quantity and price.
- B. is the profit maximizing quantity and price.
- C. eliminates deadweight loss
- D. is adequate to assure continued production of the drug while minimizing deadweight loss

Chapter 08 Testbank Key

1. An imperfectly competitive firm is one
- A. that attempts but fails to compete perfectly.
 - B. with the ability to set price at any level it wishes.
 - C. that possesses some degree of control over its price.
 - D. that faces perfectly inelastic demand.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #1

Learning Objective: 08-01 Define imperfect competition and describe how it differs from perfect competition.

Section: Imperfect Competition

2. Pure monopoly exists when
- A. many firms produce a good with no close substitutes.
 - B. a single firm produces a good with no close substitutes.
 - C. a single firm is present in the market.
 - D. a single firm produces a good with many close substitutes.

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Blooms: Knowledge

Frank - Chapter 08 #2

Learning Objective: 08-01 Define imperfect competition and describe how it differs from perfect competition.

Section: Imperfect Competition

3. In many towns around the world a single firm tends to provide electricity. Those firms are
- A. monopolists.
 - B. oligopolists.
 - C. monopolistic competitors.
 - D. the government.

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Frank - Chapter 08 #3

Learning Objective: 08-01 Define imperfect competition and describe how it differs from perfect competition.

Section: Imperfect Competition

4. If a firm functions in an oligopoly, it
- A. is one of a few firms that produces a good with close substitutes.
 - B. has no close substitutes in a market.
 - C. is one of many suppliers of a good with perfect substitutes.
 - D. is the only firm in a geographic region.

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Frank - Chapter 08 #4

Learning Objective: 08-01 Define imperfect competition and describe how it differs from perfect competition.

Section: Imperfect Competition

5. A monopolistically competitive firm is one
- A. that behaves like a monopolist.
 - B. of many firms that produce slightly different but very similar goods.
 - C. of many firms that produce goods with no close substitutes.
 - D. that is competitive but wants to be a monopolist.

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6. The common feature in pure monopoly, oligopoly, and monopolistic competition is
- A. the absence of close substitutes.
 - B. blocked entry.
 - C. interdependent decision making by firms.
 - D. downward sloping demand.

7. Price setters face
- A. perfectly elastic demand.
 - B. more than perfectly elastic demand.
 - C. perfectly inelastic demand.
 - D. less than perfectly elastic demand.

8. In order to sell another unit, an imperfectly competitive firm must
- A. increase its advertising.
 - B. increase the value of its product.
 - C. lower its price.
 - D. lower its quality.

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Blooms: Understanding

Frank - Chapter 08 #6

Learning Objective: 08-01 Define imperfect competition and describe how it differs from perfect competition.

Section: Imperfect Competition

9. Suppose a firm is collecting \$100 in total revenues when it sells 10 units and it receives \$110 in total revenues when it sells 11 units. The firm is a(n)
- A. pure monopolist.
 - B. oligopolist.
 - C. monopolistic competitor.
 - D. perfect competitor.

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Blooms: Application

Frank - Chapter 08 #5

Learning Objective: 08-01 Define imperfect competition and describe how it differs from perfect competition.

Section: Imperfect Competition

10. Suppose a competitive firm and a monopolist are both charging \$5 for their respective outputs. One can infer that
- A. marginal revenue is \$5 for both firms.
 - B.** marginal revenue is \$5 for the competitive firm and less than \$5 for the monopolist.
 - C. marginal revenue is less than \$5 for both firms.
 - D. the competitive firm is charging too much and the monopolist too little.

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Blooms: Understanding

Frank - Chapter 08 #10

Learning Objective: 08-01 Define imperfect competition and describe how it differs from perfect competition.

Section: Imperfect Competition

11. A firm's revenue is determined by
- A. its production technology.
 - B. its implicit costs.
 - C. its profit.
 - D.** the demand curve that the firm faces.

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Blooms: Understanding

Frank - Chapter 08 #11

Learning Objective: 08-01 Define imperfect competition and describe how it differs from perfect competition.

Section: Imperfect Competition

12. A downward sloping demand function

- A. is characteristic of both a perfectly competitive firm and a monopolistic firm.
- B.** necessarily implies that the firm's marginal revenue will be less than price.
- C. is true only of firms in a perfectly competitive industry.
- D. indicates the presence of economies of scale.

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Blooms: Knowledge

Frank - Chapter 08 #12

Learning Objective: 08-01 Define imperfect competition and describe how it differs from perfect competition.

Section: Imperfect Competition

13. To sell an extra unit of output, a perfect competitor _____ while an imperfect competitor _____.

- A.** does not alter price; must lower price
- B. must hope the market price falls; must lower price
- C. does not alter price; does not alter price either
- D. must lower price; must lower price

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Blooms: Understanding

Frank - Chapter 08 #13

Learning Objective: 08-01 Define imperfect competition and describe how it differs from perfect competition.

Section: Imperfect Competition

14. Market power measures the firm's ability to
- A. under cut its competitors.
 - B. force consumers to pay prices higher than their reservation prices.
 - C. raise its price without losing all of its sales.
 - D. influence the price its competitors charge.

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Blooms: Knowledge

Frank - Chapter 08 #14

Learning Objective: 08-02 Define market power and show how this affects the demand curve facing the firm.

Section: Five Sources of Market Power

15. A firm might have a monopoly in a market because
- A. its average total cost function is increasing over the entire relevant range of output.
 - B. the market is geographically isolated from other sellers.
 - C. the firm's technology is obsolete.
 - D. it faces a perfectly elastic demand curve.

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Blooms: Knowledge

Frank - Chapter 08 #15

Learning Objective: 08-02 Define market power and show how this affects the demand curve facing the firm.

Section: Five Sources of Market Power

16. Products have network economies if they
- A. can be used by more than one person at a time.
 - B. are cheaper to produce as more people buy them.
 - C. are more valuable to own as more people own them.
 - D. have many complements.

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17. Which of the following is NOT an example of a good with network economies?

- A. Text messaging capabilities
- B. An internet connection
- C. A computer printer
- D. Computer operating systems

18. Which of the following firms is most likely to be a monopolist?

- A. The clothing retailer with the best location in a mall
- B. The grocery store in a large city closest to the central business district
- C. The most popular hot dog vendor on a city street corner
- D. The one grocery store in a small town

19. De Beers accounts for approximately 80% of diamond sales worldwide. The source of their market power is

- A. its exclusive ownership of South African diamond mines.
- B. its patent on diamond production.
- C. the perfectly inelastic demand for diamonds.
- D. Western engagement customs.

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Blooms: Understanding

Frank - Chapter 08 #19

Learning Objective: 08-02 Define market power and show how this affects the demand curve facing the firm.

Section: Five Sources of Market Power

In exchange for a share in the revenues earned on campus, your university has granted CheapFizz the exclusive right to sell soft drinks in the student center and in vending machines on campus. Prior to the deal, three soft drink companies sold beverages on campus; now no other soft drink company is allowed to sell its products on campus or at university events.

Frank - Chapter 08

20. CheapFizz now has market power due to

- A. the economies of scale gained by having more sales on campus.
- B. the grant of a patent.
- C. the grant of an exclusive license to sell.
- D. network economies caused by all students consuming their product.

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Frank - Chapter 08 #20

Learning Objective: 08-02 Define market power and show how this affects the demand curve facing the firm.

Section: Five Sources of Market Power

21. Prior to the deal, a 300-ml can of CheapFizz sold for 75 cents. After the deal you would expect a 300-ml can of CheapFizz to sell for
- A. 75 cents because that is the market price.
 - B. less than 75 cents because CheapFizz will have greater volume and so can sell for a lower price,
 - C. more than 75 cents because demand for CheapFizz will shift to the left.
 - D. more than 75 cents because other firms must exit the market.

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Frank - Chapter 08 #21

Learning Objective: 08-02 Define market power and show how this affects the demand curve facing the firm.

Section: Five Sources of Market Power

22. The beneficiaries of this deal are _____.

- A. the students
- B. your university
- C. your university and CheapFizz
- D. CheapFizz

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Blooms: Application

Frank - Chapter 08 #22

Learning Objective: 08-02 Define market power and show how this affects the demand curve facing the firm.

Section: Five Sources of Market Power

23. Patents and copyrights, which confer market power, exist to
- A. protect the consumer from imitations.
 - B. ensure excessive profits to the holders.
 - C. protect research, development and creative expression.
 - D. magnify the dominance of large firms.

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Blooms: Understanding

Frank - Chapter 08 #23

Learning Objective: 08-02 Define market power and show how this affects the demand curve facing the firm.

Section: Five Sources of Market Power

24. According to the textbook, the most important and enduring source of market power is
- A. government franchise.
 - B. patents.
 - C. copyright.
 - D. economies of scale.

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Blooms: Knowledge

Frank - Chapter 08 #24

Learning Objective: 08-02 Define market power and show how this affects the demand curve facing the firm.

Section: Five Sources of Market Power

25. Start up costs are
- A. irrelevant in firm decision making because they are sunk costs.
 - B. inversely related to variable costs.
 - C. one-time costs of starting production of a new product.
 - D. always greater than marginal costs.

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26. Suppose a drug company introduces a new drug on the market. Its research, development, and testing costs are _____ and the chemicals used in manufacturing the drug are _____.

- A. start up costs; fixed costs
- B. fixed costs; start up costs
- C. start up costs; variable costs**
- D. marginal costs; variable costs

27. A firm is most likely to experience economies of scale if it has _____ start up costs and _____ marginal costs.

- A. high; increasing
- B. high; low**
- C. high; high
- D. low; decreasing

28. Constant returns to scale occur when a doubling of all inputs

- A. doubles the price of outputs.
- B. more than doubles output.
- C. less than doubles the price of the inputs.
- D. exactly doubles output.

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Blooms: Knowledge

Frank - Chapter 08 #28

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

29. Suppose a firm increases its labor usage and office space (the only inputs used) by 10% and observes a 13% increase in output. The firm has

- A. increasing returns to scale.
- B. constant returns to scale.
- C. violated the law of diminishing marginal returns.
- D. increased its average costs.

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Blooms: Application

Frank - Chapter 08 #29

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

30. When a firm with constant returns to scale uses 30% more of all inputs and input prices remain unchanged, then
- A. total costs rise by less than 30%.
 - B. average costs fall by 30%.
 - C. average costs rise by 30%.
 - D. average costs remain unchanged.

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Blooms: Understanding

Frank - Chapter 08 #30

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

31. Economies of scale exist when
- A. firms become extremely large.
 - B. input prices are falling.
 - C. average costs fall as the scale of production grows.
 - D. a 10% increase in all inputs causes a 9% increase in output.

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Blooms: Understanding

Frank - Chapter 08 #31

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

32. A firm that emerges as the only seller in an industry with economies of scale is termed a(n)
- A. antitrust violator.
 - B. oligopoly.
 - C. natural monopoly.
 - D. natural oligopoly.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #32

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

33. Which of the following industries does not fit the natural monopoly model?
- A. Electricity
 - B. Cable TV
 - C. Diamonds
 - D. Natural gas

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #33

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

34. The term "natural monopoly" refers to
- A. government ownership of parks.
 - B. industries with constant returns to scale.
 - C. the desire of all firms to be monopolists.
 - D. industries with economies of scale.

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35. If a natural monopoly decreases the quantity of output it produces,
- A. its average costs will decrease.
 - B. its average costs will increase.**
 - C. it will have to decrease the price that it charges
 - D. its profits will increase.

Imagine that you are an entrepreneur, making designer T-shirts in your garage. Your accountant has estimated that your firm's total costs are $TC = 300 + 10 * Q$.

36. Your fixed costs are _____ and your marginal costs are _____.
- A. \$300; 10**
 - B. $\$300/Q$; 30
 - C. \$300; 10 times quantity
 - D. $\$300/Q$; 10

37. As you increase production of T-shirts your average fixed costs _____ and your marginal costs _____.

- A. decrease; increase
- B. increase; decrease
- C. decrease; stay the same**
- D. stay the same; increased

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Blooms: Application

Frank - Chapter 08 #37

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

38. If you make 100 T-shirts, your average total cost is _____.

- A. \$3
- B. \$10
- C. \$3.10
- D. \$13**

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Blooms: Application

Frank - Chapter 08 #36

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

39. If you make 1000 T-shirts, your average total cost is _____.

- A. \$3
- B. \$3.10
- C. \$10.30
- D. \$1.03

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Blooms: Application

Frank - Chapter 08 #39

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

40. Given the total cost function $TC = 2,000 + 2 * Q$, when output is 1,000 units average total costs are _____ and total fixed costs is _____.

- A. \$2; \$2
- B. \$4; \$2
- C. \$4; \$2,000
- D. \$4,000; \$2,000

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #40

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

41. Industries in which the firms have large fixed costs and small, constant marginal costs will, over time,
- A. have more and more small firms.
 - B.** see an increase in the average size of firms.
 - C. see no change in the average size of firms.
 - D. see no change in the average number of firms.

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Blooms: Understanding

Frank - Chapter 08 #41

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

Suppose that there are just two firms in a small market.

Lasheen Manufacturing's Total Costs equal $\$100 + \$3 Qty.$

Generic Industries' Total Costs equal $\$500 + \$3 Qty.$

Frank - Chapter 08

42. Compare cost functions at the two firms. Which statement is true?
- A. Lasheen will always have lower marginal costs than Generic.
 - B.** Lasheen and Generic have equal marginal costs.
 - C. Marginal costs at each firm will depend on the quantity, or output, of the firms.
 - D. Lasheen has greater economies of scale than does Generic.

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Blooms: Application

Frank - Chapter 08 #42

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

43. If each firm is making the same quantity,

- A. Lasheen has lower average total costs than Generic.
- B. Lasheen's average total costs are equal to Generic's variable costs.
- C. Lasheen has higher average total costs than Generic.
- D. At some levels of output Lasheen's average total costs are less than Generic's, but at some levels of output Generic's average costs are less than Lasheen's.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #43

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

44. Suppose that Lasheen and Generic face the same demand function, that they are both pursuing a profit maximization policy, and that both companies are earning positive economic profits at that quantity. Which statement is true?

- A. Lasheen will produce more output than Generic.
- B. Generic will produce more output than Lasheen.
- C. Lasheen and Generic will produce the same quantity and will have the same profits.
- D. Lasheen and Generic will produce the same quantity, but Lasheen will have higher profits.

AACSB: Reflective Thinking Skills

Blooms: Analysis

Frank - Chapter 08 #44

Learning Objective: 08-03 Explain how start-up costs affect economics of scale and market power.

Section: Economies of Scale and the Importance of Start-Up Costs

45. The primary objective of a monopolist is to

- A. charge the highest possible price.
- B. maximize total revenues.
- C. minimize total costs.
- D. maximize profits.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #45

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

46. Both the perfectly competitive firm and the monopolist find that

- A. price and marginal revenue are the same.
- B. they can sell all they want to at the market price.
- C. it is best to expand production until the benefits and costs of the last unit produced are equal.
- D. price is less than marginal revenue.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #46

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

47. For all firms, the additional revenue collected from the sale of one additional unit of output is
- A. price.
 - B. average revenue.
 - C. marginal profit.
 - D. marginal revenue.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #47

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

48. When a perfect competitor sells additional units, _____, and when a monopolist sells additional units, _____
- A. total revenues always rise; total revenues may rise, fall, or remain unchanged.
 - B. total revenues remain unchanged; total revenues always rise.
 - C. marginal revenues stay the same; marginal revenues rise.
 - D. total revenues always rise; total revenues always fall.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #46

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

49. If a firm collects \$80 in revenues when it sells 4 units, \$100 in revenues when it sells 5 units, and \$120 when it sells 6 units, one can infer the firm is more likely to be

- A. a perfect competitor.
- B. a monopolistic competitor.
- C. an oligopolist.
- D. a monopolist.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #49

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

50. If a firm collects \$90 in revenues when it sells 4 units, \$100 in revenues when it sells 5 units, and \$105 when it sells 6 units, one can infer the firm is likely to be

- A. a perfect competitor.
- B. a cost minimizer.
- C. a perfect competitor or a monopolist.
- D. a monopolist.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #50

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

51. For perfectly competitive firms price _____ marginal revenue; for monopolists price _____ marginal revenue.
- A. equals; equals
 - B. equals; is less than
 - C. is less than; equals
 - D. equals; is greater than

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #51

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

52. The demand curve for a perfectly competitive firm is _____ while the demand curve for a monopolist is _____.
- A. perfectly elastic; downward sloping
 - B. vertical; downward sloping
 - C. perfectly elastic; perfectly inelastic
 - D. perfectly inelastic; perfectly elastic

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #52

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

Output	Price
1	\$10
2	\$9
3	\$8
4	\$7
5	\$6
6	\$5
7	\$4

53. Refer to the figure above. The total revenue of selling 3 units is _____ and the marginal revenue of selling the third unit is

- A. \$28; 8.
- B. \$24; 6.**
- C. \$52; 1.
- D. \$24; 8.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #53

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

54. Refer to the figure above. The total revenue of selling six units is _____ and the marginal revenue of selling the sixth unit is

- A. \$5; 5.
- B. \$30; 0.**
- C. \$24; \$5.
- D. \$30; \$1

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #54

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

55. Refer to the figure above. When the firm lowers price from \$8 to \$7, marginal revenue is less than \$7 because
- A. marginal cost is greater than \$3.
 - B. the consumer only pays \$4 for the fourth unit.
 - C. the firm is charging \$1 less for each of the first three units of output.
 - D. demand is perfectly elastic.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #55

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

56. Refer to the figure above. Based on the marginal revenue data in the table, one can predict the firm will
- A. earn a profit.
 - B. produce more than 7 units.
 - C. never produce the seventh unit.
 - D. never produce the fifth unit.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #56

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

57. If a firm's demand function shifts

- A. its marginal revenue function and profit maximizing output will also change.
- B. its cost functions will also change.
- C. its total cost functions will change, but its variable cost functions will be the same.
- D. its marginal revenue function will change, but its profit maximizing level of output will not change.

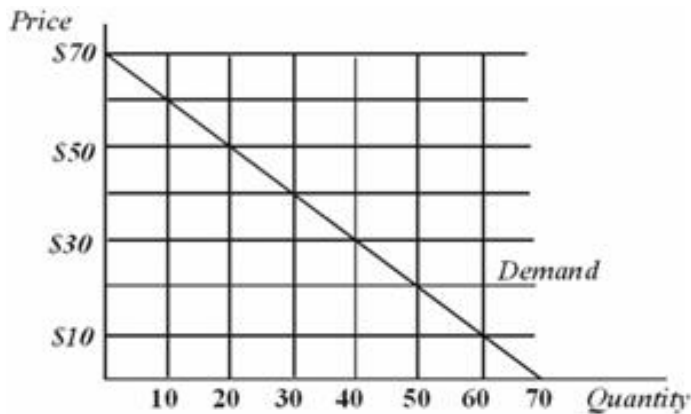
AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #57

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist



Frank - Chapter 08

58. Refer to the figure above. This imperfectly competitive firm's demand function gives information that is used to determine

- A. the change in costs when output changes.
- B. total revenue at different price and quantity combinations.
- C. fixed costs in the short run.
- D. advertising necessary to gain market share.

AACSB: Analytical Skills

Blooms: Application

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

59. Refer to the figure above. If this firm were to sell 20 units of output, its total revenue would be

- A. \$50.
- B. \$100.
- C. \$140.
- D. \$1,000.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #59

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

60. Refer to the figure above. If this firm were to increase sales from 20 units to 30 units of output, its marginal revenue would be

- A. +\$20.
- B. +\$200.
- C. 0.
- D. -\$20.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #60

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

61. Refer to the figure above. This firm would maximize its profits by selling
- A. 10 units and charging \$70, the highest price on its demand function.
 - B. 40 units, the point at which Total Revenue is greatest.
 - C. the number of units at which Marginal Revenue minus Marginal Cost is greatest.
 - D. the number of units at which Marginal Revenue equals Marginal Cost.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #61

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

62. Refer to the figure above. If this monopolistic firm's marginal cost is constant at \$30, its profit maximizing output is
- A. 50 units.
 - B. 40 units.
 - C. 20 units.
 - D. 30 units.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #62

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

63. Refer to the figure above. This firm's marginal revenue function would intersect the horizontal axis at a quantity of _____.

A. 70

B. 50

C. 20

D. 35

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #63

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

64. Once a firm has determined the quantity of output it wishes to sell, the price it can charge is determined by

A. the cost of making the product.

B. the firm's demand curve.

C. market demand for the product minus cost.

D. the explicit cost of making the product plus the implicit costs incurred by the firm owner.

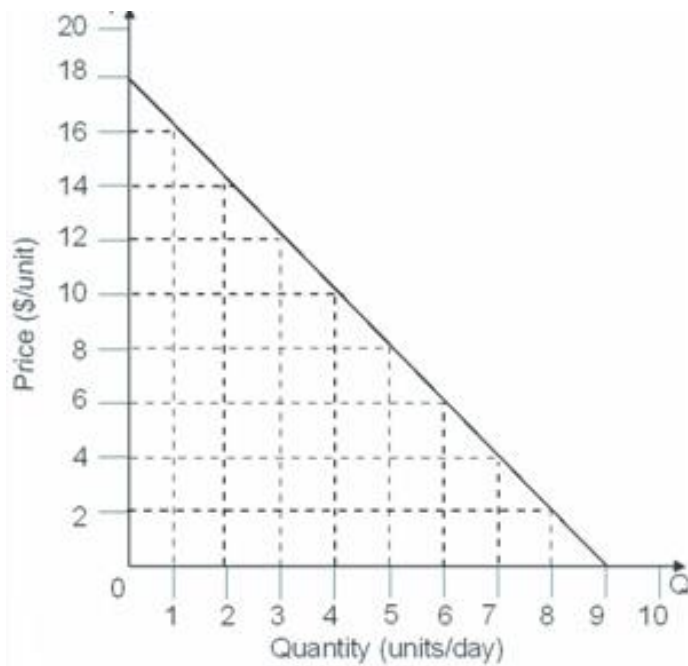
AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #64

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist



Frank - Chapter 08

65. Refer to the figure above. At a price of \$8 per unit of output the total revenue for the monopolist is _____, and the marginal revenue earned from the last unit sold is _____.
- A. \$8; 8
 - B. \$24; 8
 - C. \$32; 4
 - D. \$40; 0

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #65

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

66. Refer to the figure above. At the price of \$6 per unit of output, this monopolist will sell _____ units and a perfect competitor will sell _____ units.

- A. 6; 6
- B. more than 6; 6
- C. less than 6; more than 6
- D. 6; as many as it wants to

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #66

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

67. Refer to the figure above. If the monopolist decreases price from \$14 to \$12, its total revenue will _____.

- A. increase by \$2
- B. decrease by \$2
- C. increase by \$8
- D. decrease by \$8

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #67

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

68. Refer to the figure above. The marginal revenue of selling the 4th unit, for the monopolist is _____ while for the perfectly competitive firm it is _____.

- A. \$10; \$2
- B. \$10; \$4
- C. \$4; \$10**
- D. \$0; \$12

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #68

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

69. If the monopolist's demand curve is $P = 50 - 10 * Q$, then marginal revenues are zero when Q equals _____ units.

- A. 50
- B. 10
- C. 5
- D. 2.5**

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #69

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

70. If the monopolist's demand curve is $P = 70 - 14 * Q$, then the slope of its marginal revenue curve is

A. -28.

B. -14.

C. -7.

D. -1.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #70

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

71. Because the monopolist charges a price in excess of marginal costs, it must be the case that the monopolist

A. earns an excessive profit.

B. exploits the consumers who do make a purchase.

C. fails to equate the benefits to the costs of the last unit produced.

D. produces less than the socially efficient level of output.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #71

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

72. When marginal revenues are zero,

- A. profits are maximized.
- B. total costs are minimized.
- C. elasticity of demand is zero.
- D. total revenues are maximized.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #72

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

73. The monopolist will maximize profits if it produces where

- A. price equals marginal costs.
- B. price equals the minimum average total cost.
- C. marginal revenue equals average total cost.
- D. marginal revenue equals marginal cost.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #73

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

74. The profit maximizing rule, $P = MC$, applies to

- A. all firms.
- B. monopolists only.
- C. monopolists and perfect competitors.
- D. perfect competitors only.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #74

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

75. The profit maximizing rule $MR = MC$ applies to

- A. all firms.
- B. monopolists only.
- C. perfect competitors only.
- D. all firm types except perfect competitors.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #75

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

76. If a monopolist finds that its marginal revenue exceeds its marginal costs at the current level of output, it should
- A. do nothing; it has maximized profits.
 - B. contract production until the difference between marginal revenues and marginal costs is larger.
 - C. expand output until marginal revenue equals marginal costs.**
 - D. expand output until price equals marginal costs.

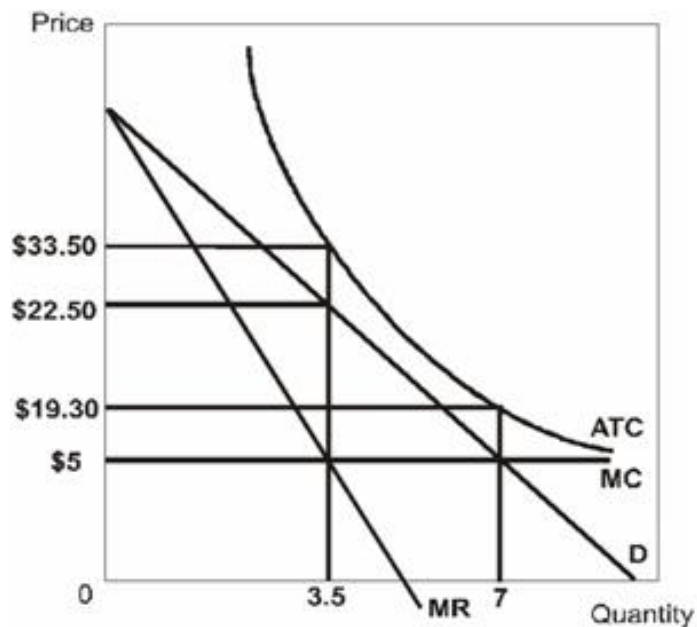
AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #76

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist



Frank - Chapter 08

77. Refer to the figure above. The firm illustrated in the graph is a(n)

- A. oligopolist.
- B. monopolistic competitor.
- C. perfect competitor.
- D. natural monopolist.

AACSB: Reflective Thinking Skills

Blooms: Analysis

Frank - Chapter 08 #77

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

78. Refer to the figure above. To profit maximize, the firm will choose to produce _____ units and charge a price of _____.

- A. 3.5; \$33.50
- B. 7; \$19.30
- C. 3.5; \$22.50
- D. 3.5; \$5

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #78

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

79. Refer to the figure above. The socially efficient price and output combination is

- A. \$5 and 7.
- B. \$5 and 3.5.
- C. \$19.30 and 7.
- D. \$22.50 and 3.5.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #79

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

80. Refer to the figure above. At the point of profit maximization, the monopolist

- A. earns a profit of \$38.50.
- B. incurs a loss of \$11.20.
- C. earns a profit of \$11.20.
- D. incurs a loss of \$38.50.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #80

Learning Objective: 08-04 Understand and use the concepts of marginal cost and marginal revenue to find the output level and price that maximize a monopolists profit.

Section: Profit Maximization for the Monopolist

81. Refer to the figure above. At the socially efficient level of output, the monopolist would
- A. earn a profit of \$100.10.
 - B. incur a loss of \$100.10.**
 - C. incur a loss of \$61.25.
 - D. incur a loss of \$50.05.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #81

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

82. Refer to the figure above. The _____ at the socially efficient level of output will be _____ at the profit maximizing level of output.

- A. loss; smaller than
- B. profit; smaller than
- C. loss; larger than**
- D. profit; larger than

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #82

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

Output	Price	Marginal Costs
1	\$10	\$6
2	\$9	\$6
3	\$8	\$6
4	\$7	\$6
5	\$6	\$6
6	\$5	\$6
7	\$4	\$6
8	\$3	\$6

Frank - Chapter 08

83. Refer to the figure above. The marginal revenue of the third unit of output is

A. \$24.

B. \$6.

C. \$2.

D. \$0.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #83

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

84. Refer to the figure above. The marginal revenue of the fifth unit of output is

A. 0.

B. \$2.

C. \$6.

D. -\$2.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #84

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

85. Refer to the figure above. The profit maximizing quantity and price for this monopolist are

A. 1 unit and \$10.

B. 2 units and \$9.

C. 3 units and \$8.

D. 4 units and \$7.

AACSB: Analytical Skills

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

86. Refer to the figure above. The socially efficient price and quantity combination is _____.

A. 3 units and \$8

B. 5 units and \$6

C. 7 units and \$4

D. 4 units and \$7

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #86

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

87. Refer to the figure above. The monopoly structure in this market causes _____ units produced and a price that is _____ when compared with social efficiency.

A. 2 fewer; \$1 higher

B. 2 fewer; \$2 higher

C. 3 fewer; \$2 higher

D. 3 fewer; \$1 higher

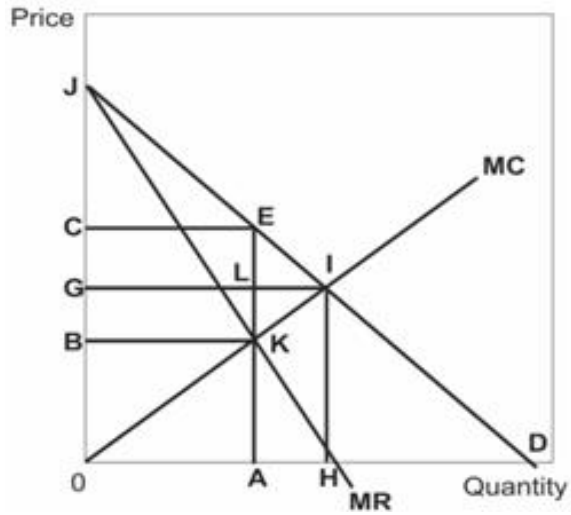
AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #87

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly



Frank - Chapter 08

88. Refer to the figure above. The distance representing the profit maximizing level of output to the monopolist is

- A. 0H.
- B. GI.
- C. 0B.
- D. 0A.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #88

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

89. Refer to the figure above. The distance representing the profit maximizing price to the monopolist is

A. 0C.

B. GI.

C. 0B.

D. 0A.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #89

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

90. Refer to the figure above. At the profit-maximizing level of output, the monopolist collects total revenues equal to the area

A. 0A.

B. 0CEA.

C. 0GIH.

D. 0C.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #90

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

91. Refer to the figure above. At the point of monopoly profit maximization, consumer surplus is represented by the area

- A. CJE.
- B. GJI.
- C. BJEK.
- D. BCEK.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #91

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

92. Refer to the figure above. A perfectly competitive equilibrium would have resulted in a price equal to the distance _____ and a quantity equal to the distance _____.

- A. 0B; 0A
- B. 0G; 0H
- C. 0C; BK
- D. 0J; CE

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #92

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

93. Refer to the figure above. The socially optimal equilibrium would yield consumer surplus equal to the area _____.

- A. LEI
- B. GCEI
- C. OGI
- D. GJI

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #93

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

94. Refer to the figure above. The deadweight loss resulting from monopoly is represented by the area _____.

- A. LEI.
- B. KLI.
- C. KEI.
- D. GCEL.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #94

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

95. Refer to the figure above. The difference between consumer surplus given the monopoly market structure and consumer surplus with the socially efficient quantity is the area _____.

- A. LEI
- B. GCEI**
- C. OGI
- D. GCEL

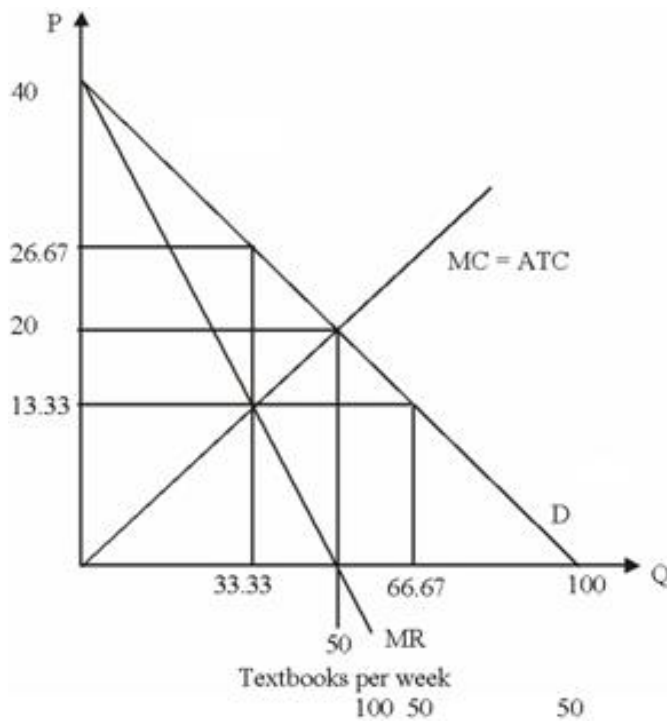
AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #95

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly



Frank - Chapter 08

96. Refer to the figure above. The profit-maximizing level of output for the monopolist is ____ and the profit-maximizing price is _____.

- A. 50; \$20
- B. 33.33; \$13.33
- C. 33.33; \$26.67
- D. 50; \$26.67

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #96

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

97. Refer to the figure above. At the profit-maximizing level of output, profit for this monopolist is _____.

- A. \$0
- B. \$666.60
- C. \$533.40
- D. \$444.62

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #97

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

98. Refer to the figure above. At the point of monopoly profit maximization, consumer surplus is _____, and at the point of perfectly competitive profit maximization, consumer surplus is _____

A. \$333.33; \$355.51

B. \$222.14; \$500

C. \$500.00; \$222.14

D. \$266.67; \$355.51

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #98

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

99. Refer to the figure above. The deadweight loss resulting from monopoly is _____.

A. \$111.19

B. \$277.86

C. \$222.21

D. \$360

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #99

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

100. The reason economists consider monopoly socially undesirable is the monopolist
- A. always earns excessive profits.
 - B. can charge any price he wants.
 - C. exploits the inelastic nature of demand.
 - D. produces less than the socially efficient amount.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #100

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

101. Perfect competition is efficient and monopoly is not because in perfect competition _____ while in monopoly _____.

- A. $P = MC; P > MC$
- B. $P < MR; P = MR$
- C. $P = MR; P < MR$
- D. $P = MC; P < MC$

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #101

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

102. A monopolist calculates its marginal revenues to be \$15 and marginal costs to be \$16. One can infer that it

- A. is loss minimizing.
- B. should increase output.
- C. is profit-maximizing.
- D. should decrease output.

AACSB: Reflective Thinking Skills

Blooms: Analysis

Frank - Chapter 08 #102

Learning Objective: 08-05 Show how monopoly alters consumer surplus, producer surplus, and total economic surplus relative to perfect competition.

Section: Why the Invisible Hand Breaks Down Under Monopoly

103. Price discrimination means charging

- A. higher prices to women and minorities.
- B. different prices to different consumers because production costs are different.
- C. the same price to all consumers even if production costs are different.
- D. different prices to different consumers when production costs are the same.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #103

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

104. Perfect price discrimination occurs when
- A. each buyer pays his or her marginal cost.
 - B. most buyers pay their reservation price.
 - C. each buyer pays exactly his or her reservation price.
 - D. the buyer with the highest reservation price sets the market price.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #104

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

105. Imperfect price discrimination occurs when
- A. the monopolist charges a single price to all consumers.
 - B. some buyers pay less than their reservation price.
 - C. some buyers pay more than their reservation price.
 - D. all buyers pay less than their reservation price.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #105

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

Campus Bookstore is the only textbook supplier in the town, a profit-maximizing business.

Customer	Reservation Price (\$/book)
Q	60
R	54
S	48
T	42
U	36
V	30
W	24
X	18

Assume that the marginal and average total cost for each book is \$12.

106. How much should the bookstore charge for this book if it must charge a single price to all customers?

- A. \$36
- B. \$18
- C. \$24
- D. \$12

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #106

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

107. At the profit maximizing price how many books will they sell each day?

- A. 3
- B. 4
- C. 5
- D. 7

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #107

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

108. What will be the economic profit for the bookstore when selling its profit-maximizing quantity?

A. \$60

B. \$120

C. \$180

D. \$240

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #108

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

109. If the bookstore is selling the socially efficient number of books how many will it sell?

A. 8

B. 5

C. 6

D. 7

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #109

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

110. If the bookstore can charge two different prices for this book, the list price for the book will be _____ and the discounted price for the book will be _____.

A. \$18; \$12

B. \$18; \$18

C. \$36; \$24

D. \$36; \$36

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #110

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

111. If the bookstore can charge two different prices for this book, how many books will the bookstore sell?

A. 8

B. 5

C. 6

D. 7

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #111

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

112. If the bookstore can charge two different prices for this book, the economic profit for the bookstore is _____.

A. \$144

B. \$84

C. \$108

D. \$120

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #112

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

113. When the bookstore does not price discriminate, consumer surplus is _____, and when the bookstore can charge two different prices for this book, the consumer surplus will be _____.

A. \$50; \$60

B. \$60; \$66

C. \$66; \$66

D. \$66; \$128

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #113

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

114. Comparing the non-price discriminating monopoly outcome to the perfectly price discriminating monopoly outcome, profits are
- A. the same.
 - B. less when price discriminating.
 - C. greater when price discriminating.
 - D. greater when charging a uniform price.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #114

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

115. Suppose a monopolist charges a uniform price of \$10 based on profit maximization and has constant marginal costs of \$3. Hatim is willing to pay \$6 for the monopolist's output. Therefore,
- A. the monopolist should lower its price to \$6 for all consumers.
 - B. the monopolist should ignore Hatim's want; it is already profit maximizing.
 - C. if resale of the output is impossible, the monopolist should lower its price to \$6 just for Hatim.
 - D. the monopolist will not be better off if it lowers its price to \$6 just for Hatim.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #115

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

116. Suppose a single-price monopolist is considering becoming a price discriminating monopolist. If the firm does begin to price discriminate, it can expect to
- A. decrease its output and increase its profit.
 - B. run into legal trouble with the anti-trust enforcers.
 - C. increase its output, but decrease its profits.
 - D. increase both its output and its profit.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #116

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

117. Suppose a monopolist sells one version of its output to consumers and another version to businesses. The marginal cost of the consumer version is \$5 per unit while the business version has marginal costs of \$5.75. If resale is impossible, one can infer that
- A. the monopolist will charge two different prices and is not practicing price discrimination.
 - B. the monopolist will charge a uniform price to both consumers and businesses.
 - C. the monopolist will charge two different prices and is perfectly price discriminating.
 - D. the monopolist will charge two different prices and is imperfectly price discriminating.

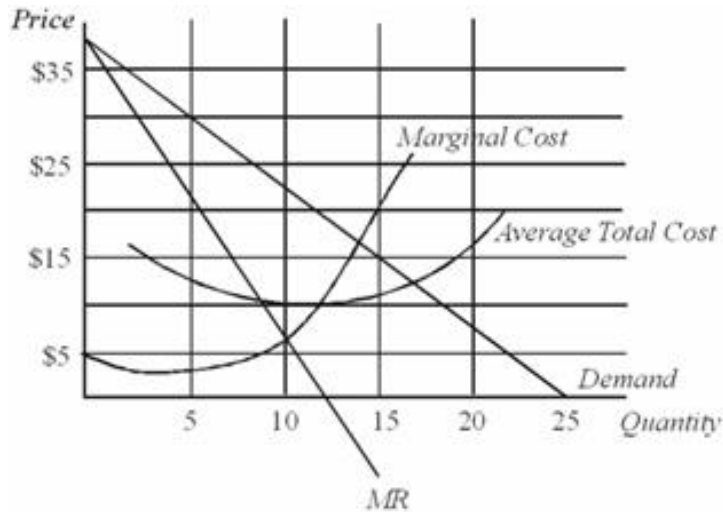
AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #117

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market



Frank - Chapter 08

118. Refer to the figure above. If the firm does not price discriminate, this monopolist will choose a quantity of _____, and charge a price of _____.

- A. 10; \$22
- B. 10; \$10
- C. 12; \$20
- D. 5; \$12

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #118

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

119. Refer to the figure above. If it did not price discriminate, this firm would earn total profits of

- A. \$500.
- B. \$200.
- C. \$120.
- D. \$60.

AACSB: Analytical Skills

Blooms: Application

120. Refer to the figure above. As a perfect price-discriminator, this firm would produce approximately _____ units of output.

A. 17

B. 14

C. 10

D. 5

121. Compared with charging a single price, all else equal imperfect price discrimination

A. sometimes hurts customers with low ability to pay while benefiting wealthy customers.

B. always hurts all customers while increasing firm profits.

C. sometimes benefits customers with low ability to pay while reducing firm profits.

D. sometimes benefits customers with low ability to pay while increasing firm profits.

122. Compared to a monopolist charging a single price to everyone, perfect price discrimination makes

- A. the monopolist better off and all consumers worse off.
- B. society worse off.
- C. the monopolist worse off and consumers better off.
- D. the monopolist and some consumers better off.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #122

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

123. When a consumer must take some sort of additional action to receive a lower price, the consumer is being subjected to

- A. "bait and switch" sales tactics.
- B. perfect price discrimination.
- C. the "hurdle" method of price discrimination.
- D. the "rebate and wait" method of price discrimination.

AACSB: Analytical Skills

Blooms: Knowledge

Frank - Chapter 08 #123

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

124. One would expect to see more mail in rebate coupons being offered at

- A. exclusive stores catering to the wealthy.
- B. a luxury car dealership.
- C. discount stores.
- D. convenience stores.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #124

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

125. A consumer goes to purchase a TV advertised for \$300. As he is checking out, the clerk informs him of a \$20 rebate offer for the TV, which he fills out and receives in 3 months. One can infer that the consumer had

- A. a reservation price of at least \$300 but jumped the hurdle anyway.
- B. a reservation price of at most \$280.
- C. a reservation price of exactly \$300.
- D. a reservation price of at least \$280.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #125

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

126. A consumer has a reservation price of \$90 for a blender. If the local store is offering the blender for \$100 with a \$10 rebate and he does not make the purchase, one can surmise that

- A. his reservation price was too high.
- B. his reservation price was too low.
- C. the hurdle was too high.
- D. the hurdle was too low.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #126

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

127. A monopolist sets its price at \$100 and offers a 10% rebate. For this to be a perfect hurdle, it must be the case that

- A. those with a reservation price of \$100 or more purchase and ignore the rebate while those with a reservation price between \$99 and \$90 purchase and use the rebate.
- B. those with a reservation price of \$90 don't make a purchase.
- C. no one takes advantage of the rebate.
- D. those with a reservation price of \$100 make the purchase and claim the rebate.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #127

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

128. Which of the following is not an example of the hurdle method of price discrimination?
- A. A rebate offer
 - B. Eliminating all sales specials and reducing all prices by 10%**
 - C. After-holiday sales
 - D. Weekly grocery store coupon fliers

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #128

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

129. Which of the following situations will come closest to perfect price discrimination?
- A. Charging a different price on different days
 - B. Charging a different price at the end of the year
 - C. Negotiating a price with a group of consumers
 - D. Negotiating a price with each individual consumer**

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #129

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

130. Any hurdle method of price discrimination is an attempt to

- A. separate consumers on the basis of their reservation prices.
- B. inconvenience all consumers.
- C. separate consumers on the basis of their incomes.
- D. encourage consumers with high reservation prices to make a purchase they were not going to make.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #130

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

131. The hurdle method of price discrimination usually _____ consumer surplus and _____ producer surplus.

- A. decreases; increases
- B. increases; decreases
- C. decreases; decreases
- D. increases; increases

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #131

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

132. The hurdle method of price discrimination is _____ efficient, however it is _____ efficient than charging a single price to all buyers.

- A. not perfectly; more
- B. not perfectly; less
- C. not; less
- D. perfectly; less

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #132

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

133. Which of the following is not an example of hurdle method of price discrimination?

- A. A "Buy two, get the third free" special.
- B. Mail-in rebate coupon on a HP printer
- C. Tuesday student discount
- D. A going-out-of-business sale

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #133

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

134. Relative to a single price monopolist, a price discriminating monopolist generates
- A. more deadweight loss
 - B. less deadweight loss**
 - C. the same amount of deadweight loss, but more consumer surplus.
 - D. the same amount of deadweight loss, but less consumer surplus.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #134

Learning Objective: 08-06 Describe price discrimination and its effects.

Section: Using Discounts to Expand the Market

135. A feature of natural monopoly is economies of scale in production, which means marginal cost will always
- A. equal marginal revenue
 - B. be less than average total cost**
 - C. be greater than average total cost
 - D. be greater than average variable cost.

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #135

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

136. If a natural monopoly sets price equal to its marginal cost it will _____.

- A. earn a normal profit
- B. earn an economic profit
- C. earn zero economic profit
- D. incur an economic loss

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #136

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

137. A state-owned natural monopoly will have _____.

- A. an incentive to maximize profit
- B. an incentive to minimize cost
- C. no incentive to minimize cost
- D. no incentive to maximize revenue

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #137

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

138. When the Water Authority in Townsville cuts cost by \$1000, the government cuts its budget by \$1000. The most likely reason for this is, that _____
- A. it is a natural monopoly
 - B.** it is a state-owned natural monopoly
 - C. it is a private natural monopoly
 - D. its marginal cost is always greater than its average total cost

AACSB: Reflective Thinking Skills

Blooms: Analysis

Frank - Chapter 08 #138

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

139. Government regulators typically set the price of electricity based on the explicit costs of the Electric Power Company, then add an extra amount to assure a normal return on the firm's investment. This procedure is called
- A. profit maximizing regulation.
 - B. cost minimizing regulation.
 - C.** cost-plus regulation.
 - D. efficient regulation

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #139

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

140. Which one of the following is an example of exclusive contracting for natural monopoly?

- A. Garbage collection
- B. Satellite TV
- C. Campus bookstore
- D. Oil wells in the UAE

AACSB: Analytical Skills

Blooms: Understanding

Frank - Chapter 08 #140

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

141. According to the _____, it is illegal to monopolize or attempt to monopolize.

- A. Carter Act
- B. Rockefeller Act
- C. Clayton Act
- D. Sherman Act

AACSB: Analytical Skills

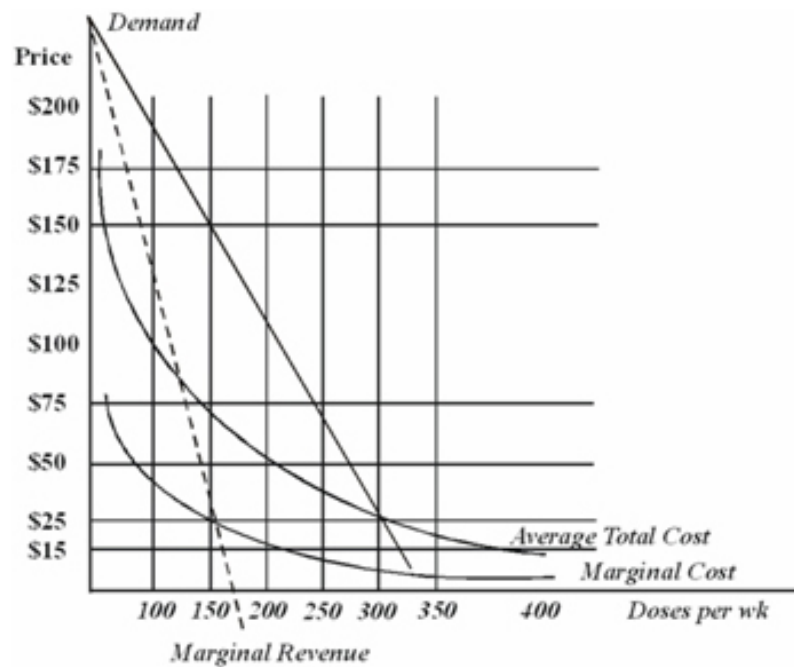
Blooms: Knowledge

Frank - Chapter 08 #141

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

This graph illustrates a hypothetical market for a newly-developed antibiotic drug. Bacteria mutate quickly, and so new antibiotics must be developed to work against bacteria strains that have evolved to be resistant to existing antibiotics.



Frank - Chapter 08

142. The demand curve for this market is relatively steep because

- A. consumers do not know enough about the product.
- B.** for some consumers this good is a necessity
- C. this good is a luxury good.
- D. production of the drug is subject to economies of scale.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #142

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

143. The shapes of this firm's cost functions suggest that production of this drug

- A. involves high start up costs
- B. is most efficiently done by many small firms
- C. is inefficient when done by this firm.
- D. involves unique inputs.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #143

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

144. The information given in the graph suggests that the source of market power for this drug manufacturer is

- A. patent protection granted by the government
- B. exclusive control over an ingredient used in manufacturing the drug
- C. economies of scale in the production of the drug
- D. network economies among physicians prescribing this drug

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #144

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

145. If the drug manufacturer cannot price discriminate, to maximize profit it will produce ____ doses and charge a price of _____

- A. 300; \$25
- B. 150; \$150**
- C. 150; \$25
- D. 150; \$175

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #145

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

146. In its efforts to keep medical costs down, the government has decided to impose a \$15 price ceiling on a weekly dose of this drug. What is likely to happen?

- A. The firm will produce 400 doses per week causing excess supply of this drug on the market.
- B. This drug will disappear from the market.**
- C. The firm will produce 325 doses per week, just meeting consumer demand.
- D. The firm will produce 200 doses per week, the quantity at which price equals Marginal Cost.

AACSB: Reflective Thinking Skills

Blooms: Analysis

Frank - Chapter 08 #146

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

147. Cost plus regulation would result in a price for this drug of

- A. \$25
- B. \$50
- C. \$75
- D. \$100

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #147

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

148. Relative to the profit maximizing output, the number of doses produced under cost plus regulation is

- A. less efficient.
- B. more likely to encourage research and development.
- C. more efficient.
- D. exactly the same, but produced at lower cost.

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #148

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

149. Cost plus regulation in this market would yield a result that

- A. is the socially optimal quantity and price.
- B. is the profit maximizing quantity and price.
- C. eliminates deadweight loss
- D. is adequate to assure continued production of the drug while minimizing deadweight loss

AACSB: Analytical Skills

Blooms: Application

Frank - Chapter 08 #149

Learning Objective: 08-07 Discuss public policies that are often applied to natural monopolies.

Section: Public Policy Toward Natural Monopoly

Chapter 08 Testbank Summary

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