**Monopoly**

Name: _________________________

**Multiple Choice (3 points each)**

1. Which of the following is true for a monopolist?
   A) It faces a downward-sloping demand curve.
   B) It must lower its price on all of its units in order to sell any additional units.
   C) Its marginal revenue curve is below its demand curve.
   D) All of the above.

2. Monopolists are price:
   A) Takers, as are competitive firms.
   B) Takers, but competitive firms are price makers.
   C) Makers, but competitive firms are price takers.
   D) Makers, as are competitive firms.

3. Competitive firms and monopolies both face downward-sloping:
   A) Market demand curves.
   B) Demand curves from the point of view of the firm.
   C) Long-run average cost curves.
   D) Short-run marginal cost curves.

4. The demand curve faced by a monopoly firm is:
   A) Perfectly inelastic reflecting the firm's dominance of the market.
   B) Perfectly elastic reflecting the fact that the monopolist can sell as much as it wants as the price it sets.
   C) The same as the market demand for the product.
   D) Below its marginal revenue curve.

5. Which of the following rules will always be satisfied when any firm (i.e. perfectly competitive or monopoly) has maximized profits?
   A) Price = lowest level of $ATC$.
   B) Price = $MC$.
   C) $MR = MC$.
   D) Total revenues are also maximized.

6. Which of the following statements is not correct?
   A) A monopolist's ability to act as a price setter guarantees economic profits in the short run.
   B) The monopolist's marginal revenue is less than the price for any output greater than one.
   C) A monopolist's demand curve is the same as the market demand curve for the product.
   D) In the long run, a monopolist will experience only positive or zero economic profits.

7. Marginal revenue measures:
   A) The change in total revenue resulting from a 1 unit change in output.
   B) The difference between the revenue gained from increasing output by 1 unit and the revenue lost from the resulting lower price.
   C) The slope of the total revenue curve.
   D) All of the above.
8. The marginal revenue curve is below the demand curve:
A) If a firm must lower its price to sell additional output.
B) For a competitive firm.
C) When a market is characterized by economies of scale.
D) All of the above.

9. Suppose a monopoly firm produces tables and can sell 10 tables per month at a price of $500 per table. In order to increase sales by one table per month, the monopolist must lower the price of its tables by $30 to $470 per table. The marginal revenue of the eleventh table is:
A) $170.
B) $-30.
C) $70.
D) $5170.

10. The price charged by a profit-maximizing monopolist occurs at:
A) The minimum of the average cost curve.
B) The price where \( MR = MC \).
C) A price on the demand curve above the intersection where \( MR = MC \).
D) A price on the average cost curve below the point where \( MR = MC \).

11. Which of the following is a barrier to entry in a monopoly market?
A) Economic profits greater than zero for the monopolist.
B) A rising long-run average total cost curve.
C) A patent on a new product.
D) All of the above.

12. In monopoly and perfect competition, a firm should expand production when:
A) Marginal revenue is below marginal cost.
B) Marginal revenue is above marginal cost.
C) Price is below marginal cost.
D) Price is above marginal cost.

13. Which of the following is an argument in favor of a competitive market structure rather than monopoly?
A) Monopolies have greater ability to pursue research and design.
B) The lure of monopoly power provides a greater incentive for invention and innovation.
C) Monopolies produce less at a higher price than competitive markets, \( ceteris paribus \).
D) Economies of scale allow a single firm to produce at lower cost than in a competitive market, \( ceteris paribus \).

14. The ultimate market constraint on the exercise of market power:
A) Is the demand curve facing the monopolist.
B) Is the \( ATC \) curve facing the monopolist.
C) Is MC pricing.
D) Are barriers to entry.
15. Price discrimination:
   A) Increases profits.
   B) Is the sale of an identical good at different prices to different consumers by a single seller.
   C) Requires the firm to eliminate possible resale of its product.
   D) All of the above.

16. Which of the following is an example of price discrimination at the only bar in town?
   A) Charging higher prices for foreign beer than domestic beer.
   B) Charging lower prices to customers who bring their own glasses.
   C) Charging women lower prices for drinks than men.
   D) Charging higher prices for beer than it could under a more competitive situation.

17. Which of the following is not a barrier to entry into a monopoly market?
   A) Economies of scale.
   B) Monopoly profits.
   C) Legal harassment.
   D) Control of key inputs.

18. Economies of scale over the entire range of market output:
   A) Lead to natural monopoly.
   B) Become a high barrier to entry, preventing a market from being contestable.
   C) Mean that as the size of a firm increases, its minimum average total costs continue to fall.
   D) All of the above.

19. Contestable market theory relies on:
   A) Vigorous price rivalry.
   B) Government regulation.
   C) Potential entry.
   D) All of the above.
20. In Figure 9.2, the profit-maximizing level of output is:
   A) 12 units.
   B) 20 units.
   C) 22 units.
   D) 28 units.

21. In Figure 9.2, a profit-maximizing monopolist will charge a price of:
   A) $6.00.
   B) $3.50.
   C) $4.00.
   D) $5.00.

22. In Figure 9.2, total profits per day for a profit-maximizing monopolist are:
   A) $20.00.
   B) $100.00.
   C) $80.00.
   D) $70.00.

23. In Figure 9.2, total profit for the monopolist is represented by the area:
   A) CDLK.
   B) CDHG.
   C) ABDLK.
   D) GHLK.
24. If the monopoly in Figure 9.5 produced an output of 29 units and charged a price of $15 per unit, which of the following statements is correct?
A) The firm is maximizing its profits.
B) The firm is experiencing a loss.
C) The firm is experiencing profits but is not maximizing them.
D) The firm should reduce its price in order to maximize profits.

25. A profit-maximizing monopolist facing the situation shown in the graph above should:
A) Shut down immediately.
B) Continue producing to minimize losses.
C) Continue producing to make economic profits.
D) Continue producing as long as price is greater than marginal cost.
26. At its profit-maximizing output, a pure nondiscriminating monopolist achieves:
   A) Neither "productive efficiency" nor "allocative efficiency."
   B) Both "productive efficiency" and "allocative efficiency."
   C) “Productive efficiency" but not "allocative efficiency."
   D) "Allocative efficiency" but not "productive efficiency."

**True/False (3 points each)**

1. ___ A monopoly occurs when one firm produces all of the market supply of a good or service.

2. ___ Monopolists can charge any price and sell any amount of output they want since no competition exists.

3. ___ A monopolist facing the same cost and demand conditions as a competitive market will produce the same output as a competitive market.

4. ___ A monopolist's price is the marginal revenue at the output where \( MR = MC \).

5. ___ For a monopolist, profit is maximized at the level of output where \( MR = MC \).

6. ___ Barriers to entry are obstacles, such as patents, that make it difficult for new consumers to enter a market. *(READ CAREFULLY! This one is tricky!)*

7. ___ Economies of scale involve a reduction in minimum average costs as a result of an increase in the size of plant and equipment.

8. ___ In the long run, a monopolist can continue to earn economic profits.

9. ___ Both competitive firms and monopolists maximize profits by producing at the output level where price equals marginal cost.

10. ___ To maintain market power, firms will sometimes purchase their competitors.

11. ___ Even when a market appears to be a monopoly, it can be contestable if there are many potential entrants.