1) Some markets have many buyers and sellers but fall into the category of monopolistic competition rather than perfect competition. The most common reason for this is
A) firms in these markets do not sell identical products.
B) firms in these markets make high profits.
C) firms in these markets sell identical products.
D) there are high barriers to entering these markets.

2) A perfectly competitive firm has to charge the same price as every other firm in the market. Therefore, the firm
A) is not able to make a profit in the short run.
B) is a price taker.
C) faces a perfectly elastic supply curve.
D) faces a perfectly inelastic demand curve.

3) For a perfectly competitive firm average revenue is equal to
A) marginal cost.
B) the market price.
C) average fixed cost.
D) total revenue.

4) At the profit-maximizing level of output for a perfectly competitive firm
A) price equals average revenue and marginal cost equals average variable cost.
B) marginal revenue equals marginal cost and average total cost equals average fixed cost.
C) price equals marginal cost.
D) average revenue equals average variable cost and price equals marginal cost.

5) If price = marginal cost at the output produced by a perfectly competitive firm, and the firm is earning an economic profit then
A) average total cost is at a minimum.
B) total revenue equals total cost.
C) marginal revenue is less than price.
D) price exceeds average total cost.
6) A firm will break even when
   A) P = ATC.
   B) P = AVC.
   C) P < AVC.
   D) P > ATC.

7) Ted's Pancake Kitchen suffers a short-run loss. When should Ted decide to shut down rather than continue to produce?
   A) if his Kitchen's revenue is less than its explicit costs
   B) if his Kitchen's revenue is less than its fixed costs
   C) if his Kitchen's revenue is less than its total costs
   D) if his Kitchen's revenue is less than its variable costs

8) Assume that firms in a perfectly competitive market are earning economic profits. Which of the following statements describes the change in market price and output as a result of the entry of new firms into this market?
   A) The short-run market supply curve shifts to the left, causing price to rise and total market output to decrease.
   B) The market demand curve shifts to the right, causing price to rise and market output to increase.
   C) The short-run market supply curve shifts to the right, causing price to fall and total market output to increase.
   D) The market demand curve shifts to the left, causing price to fall and market output to decrease.

9) If a perfectly competitive firm achieves productive efficiency then
   A) the price of the good it sells is equal to the benefit consumers receive from consuming the last unit of the good sold.
   B) it will raise its price in order to earn an economic profit.
   C) it is producing at minimum efficient scale.
   D) it is producing the good it sells at the lowest possible cost.

10) If firms in a monopolistically competitive industry are making profits in the short run
    A) some firms will ultimately exit the industry.
    B) barriers to entry will be erected to keep out rivals.
    C) new firms will enter the market.
    D) they will resort to advertising wars to help sustain these profits.

11) A monopolistically competitive firm that earns an accounting profit in the short run
    A) could earn an economic profit or break even, but could not suffer an economic loss in the short run.
    B) could earn an economic profit, break even or suffer an economic loss in the short run.
    C) must also earn an economic profit in the short run.
    D) does not earn enough to earn an economic profit in the short run.
12) **Monopolistic competition is a market structure in which**
   A) firms produce and sell products for which there are no close substitutes.
   B) firms cannot influence the market price.
   C) the demand curve for a typical firm is horizontal.
   D) barriers to entry are low.

13) **When a firm faces a downward-sloping demand curve, marginal revenue**
   A) is less than price because a firm must lower its price to sell more.
   B) must exceed price because the output effect outweighs the price effect.
   C) equals price because the firm sells a standardized product.
   D) must exceed price because the price effect outweighs the output effect.

14) **The fraction of an industry's sales that are accounted for by the largest firms is called**
   A) the four-firm oligopoly ratio.
   B) the four-firm competition ratio.
   C) the four-firm industry ratio.
   D) the four-firm concentration ratio.

15) **Economies of scale will create a barrier to entry in an oligopoly industry when**
   A) the typical firm's long-run average total cost curve reaches a minimum at a level of output that is a large fraction of total industry sales.
   B) the industry's four-firm concentration ratio is less than 40 percent.
   C) the typical firm's long-run average total cost curve reaches a minimum at a level of output that is a small fraction of total industry sales.
   D) a firm's minimum efficient scale occurs where long-run average total costs are constant.

16) **A supplier of an input is unlikely to have bargaining power if**
   A) it has a patent on the input.
   B) the input supplied is specialized.
   C) it is the sole supplier of the input.
   D) many firms can supply the input.

17) **Using a broad definition, a firm would have a monopoly if**
   A) it can make decisions regarding price and output without violating antitrust laws.
   B) there is no other firm selling a substitute for its product close enough that its economic profits are competed away in the long run.
   C) it produced a product that has no close complements.
   D) it does not have to collude with any other producer to earn an economic profit.

18) **Which one of the following is not a possible barrier to entry high enough to keep competing firms out of a monopoly industry?**
   A) A high concentration ratio.
   B) The monopoly firm has control of a key resource necessary to produce a good.
   C) Large economies of scale that result in a natural monopoly.
   D) There are important network externalities in supplying a good or service.
19) When the government wants to give an exclusive right to one firm to produce a product, it
   A) grants a patent or copyright to an individual or firm.
   B) imposes a tariff on imports of the product.
   C) uses antitrust laws to keep other firms from entering the market.
   D) imposes a quota on imports of the product.

20) Network externalities
   A) can only exist when there are economies of scale.
   B) prevent the dominance of a market by one firm.
   C) are created when celebrity endorsements of products lead to a surge in the demand for those products.
   D) exist when the usefulness of a product increases with the number of consumers who use it.

21) To be a natural monopoly a firm must
   A) control a key resource input.
   B) be very large relative to the total market.
   C) have significant network externalities.
   D) have economies of scale that are so large that it can supply the entire market at a lower cost than two or more firms.

22) Which of the following is true for a monopolist?
   A) Being the only seller in the market, the monopolist faces a downward sloping demand curve that lies below the marginal revenue curve.
   B) Being the only seller in the market, the monopolist faces a perfectly elastic demand curve.
   C) Being the only seller in the market, the monopolist faces the market demand curve.
   D) Being the only seller in the market, the monopolist faces a perfectly inelastic demand curve.

23) To maximize profit a monopolist will produce where
   A) average total cost is equal to average revenue.
   B) marginal revenue is equal to marginal cost.
   C) revenue per unit is maximized.
   D) demand for its product is unit-elastic.

24) Assume a hypothetical case where an industry begins as perfectly competitive and then becomes a monopoly. Which of the following statements comparing the conditions in the industry under both market structures is true?
   A) A monopoly will produce less and charge a higher price than would a perfectly competitive industry producing the same good.
   B) A monopoly will produce less and charge a lower price than would a perfectly competitive industry producing the same good.
   C) A monopoly will produce more and charge a higher price than would a perfectly competitive industry producing the same good.
   D) A monopoly will produce more and advertise more than would a perfectly competitive industry producing the same good.
25) Assume a hypothetical case where an industry begins as perfectly competitive and then becomes a monopoly. As a result of this change

   A) Price will be higher, output will be lower and the deadweight loss will be eliminated.
   B) Price will be higher, consumer surplus will be greater and output will be greater.
   C) Consumer surplus will be smaller and producer surplus will be greater. There will be a net increase in economic surplus.
   D) Consumer surplus will be smaller, producer surplus will be greater and there will be a reduction in economic efficiency.

26) In the United States, government policies with respect to monopolies and collusion are embodied in

   A) common law, which the U.S. adopted from English law.
   B) the Supreme Court.
   C) the U.S. Constitution.
   D) antitrust laws.