

Name: _____ Date: _____

1. A monopoly
 - A) consists of two to eight players, like the board game.
 - B) must be inexpensive to create, as so many of them exist.
 - C) is continually prone to the threat of entry from new rivals.
 - D) will never earn economic losses in the short run.
 - E) None of the above

2. A natural monopoly is
 - A) a monopoly resulting from government control.
 - B) a monopoly resulting from economies of scale.
 - C) a monopoly resulting from monopoly market power.
 - D) a monopoly resulting from a large advertising budget.
 - E) the same as a perfectly competitive firm.

3. A local monopoly is a firm that
 - A) is a sole supplier without substitutes in a specific geographic area.
 - B) is a supplier in a specific geographic area.
 - C) is a supplier within only one country.
 - D) is a seller to only one customer.
 - E) supplies its product to customers only in one city

4. The monopolist's demand curve
 - A) has the same constant elasticity throughout when it is a straight line.
 - B) is the market-demand curve.
 - C) shows increasing total revenue with decreasing prices.
 - D) is usually very elastic.
 - E) is zero-elastic.

5. A clothing store can sell two shirts for \$20 each or three shirts for \$18 each. At a quantity of three shirts sold, marginal revenue is
 - A) \$18.
 - B) \$14.
 - C) \$54.
 - D) \$20.
 - E) Cannot be determined from the information given.

Use the following to answer questions 6-9:

Gizmo's Inc.	
Quantity	Price
0	\$20
1	\$18
2	\$16
3	\$14
4	\$12
5	\$10
6	\$8
7	\$6
8	\$4
9	\$2
10	\$0

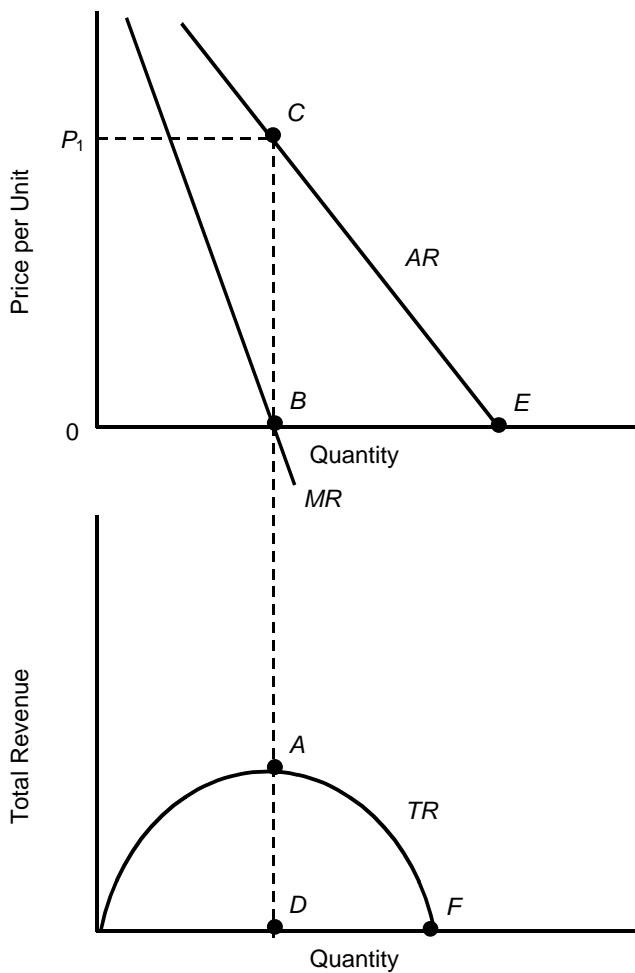
6. According to the table above, what is the marginal revenue of the third unit?
 - A) \$42
 - B) \$32
 - C) \$18
 - D) \$14
 - E) \$10

7. According to the table above, at what level of output is marginal revenue equal to \$14?
 - A) 1
 - B) 2
 - C) 3
 - D) 4
 - E) 5

8. In the table above, at what level of output is total revenue maximized?
 - A) 3
 - B) 4
 - C) 5
 - D) 6
 - E) 7

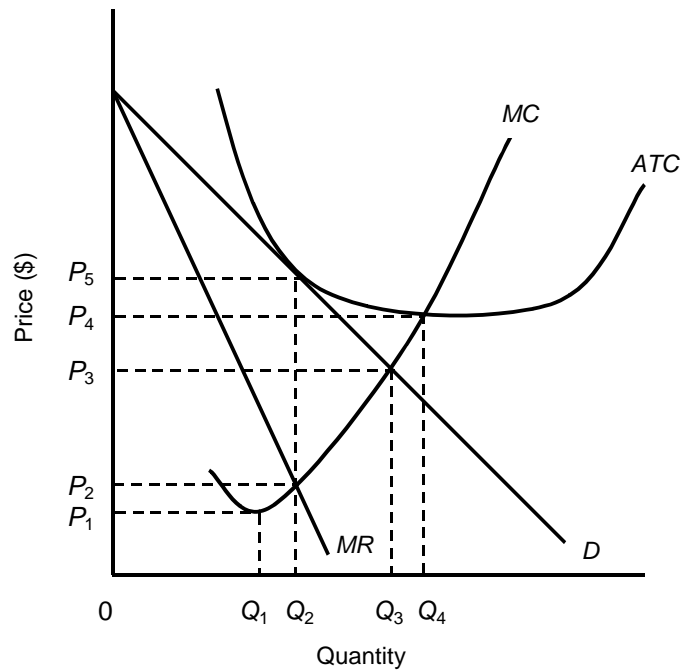
9. According to the table above, Gizmo's cannot be
- A) maximizing profits.
 - B) a monopoly.
 - C) an oligopolistic firm.
 - D) a perfectly competitive firm.
 - E) a very good idea in the first place.
10. At any positive level of output, the monopolist's
- A) marginal revenue equals price.
 - B) marginal revenue is less than price.
 - C) marginal revenue is greater than its average revenue.
 - D) marginal revenue equals marginal cost.
 - E) marginal-revenue curve is greater than its demand curve.

Use the following to answer question 11:



11. Refer to the figure above, which shows a monopolist's MR , AR , and TR curves. At point C ,
- A) price elasticity of demand is perfectly inelastic.
 - B) price elasticity of supply is equal to 1.
 - C) marginal revenue is equal to 1.
 - D) price elasticity of demand is equal to 0.
 - E) price elasticity of demand is equal to 1.
12. A monopolist's marginal-revenue curve
- A) lies above the marginal-cost curve at all points.
 - B) lies below the demand curve.
 - C) is horizontal.
 - D) slopes upward.
 - E) is vertical.
13. Cheater, Inc. currently produces an output level of 3,000 term papers per month. Its marginal revenue at its current output level is \$24, and its marginal cost is \$18. If Cheater, Inc. is a monopoly firm earning positive economic profits, then
- A) it should raise its price to increase profits.
 - B) it is maximizing profit.
 - C) it should produce less to increase profits.
 - D) it should produce more to increase profits.
 - E) it will be earning economic losses and should shut down in the long run.
14. When marginal revenue is less than zero
- A) the firm cannot be maximizing profits.
 - B) total revenue is declining with increases in output.
 - C) demand is inelastic.
 - D) decreases in output will increase total revenue.
 - E) All of the above

Use the following to answer questions 15-17:



15. Consider the monopolist described in the figure above. The firm can maximize profit by producing
- A) zero units.
 - B) Q_1 units.
 - C) Q_2 units.
 - D) Q_3 units.
 - E) Q_4 units.
16. Consider the monopolist described in the figure above. If the firm engages in profit-maximizing behavior, what price will it charge?
- A) P_1 .
 - B) P_2 .
 - C)
 - D) P_4 .
 - E) P_5 .

17. Consider the profit-maximizing monopolist described in the figure above. If the firm decides to produce in the short run, what will be its economic profit?
- A) 0
 - B) Positive economic profit of P_2 per unit of output
 - C) Positive economic profit of P_5 minus P_4 per unit of output
 - D) Economic loss equivalent to
 - E) Economic loss equivalent to
18. If the monopolist's price happens to be greater than the average-variable cost but less than the average-total cost, in the short run the monopolist will
- A) shut down to minimize the cost.
 - B) operate at a loss.
 - C) operate at an economic profit.
 - D) operate at a normal profit.
 - E) go out of business.
19. In making pricing decisions, the monopolist is
- A) limited by the demand for its product.
 - B) able to choose any price and quantity combination that it desires.
 - C) always able to earn unseemly high economic profits because of market power.
 - D) always able to raise its price without affecting the quantity sold.
 - E) All of the above
20. When a firm is able to practice price discrimination,
- A) the firm's total revenue is often reduced.
 - B) the firm, rather than the consumer, essentially collects more of the consumer surplus.
 - C) it has no way of distinguishing between types of customers.
 - D) it has no market power in its industry.
 - E) it must be a perfectly competitive firm.
21. Movie theaters are able to offer discounts to senior citizens because
- A) the elderly deserve lower prices because of their contributions to society.
 - B) senior citizens have the most inelastic demand.
 - C) movie theaters can separate senior citizens from other customers, and it is relatively easy to prevent resale.
 - D) senior citizens can't see the movie very well anyway because of poor eyesight.
 - E) All of the above

22. When practicing price discrimination, a firm can increase its revenue by
- A) charging a higher price to those customers with more inelastic demand.
 - B) charging a higher price to those customers with more elastic demand.
 - C) charging a lower price to those customers with more inelastic demand.
 - D) charging all customers the same price.
 - E) concealing the practice from government authorities.
23. Perfect price discrimination occurs when
- A) each customer is charged the maximum price that each is willing and able to pay.
 - B) two classes of customers are charged different prices.
 - C) senior citizens are offered restaurant discounts.
 - D) the firm sets for each class of customers.
 - E) All of the above
24. Compared with a perfectly competitive market with similar cost conditions, a monopolist will have
- A) a higher output and lower price.
 - B) a lower output and lower price.
 - C) a higher output and a lower price.
 - D) a lower output and a higher price.
 - E) the same output and a higher price.
25. The efficiency loss that occurs when a market is monopolized is known as
- A) a deadweight loss.
 - B) a monopoly loss.
 - C) an economic loss.
 - D) an X-loss.
 - E) None of the above

Answer Key

1. E
2. B
3. A
4. B
5. B
6. E
7. B
8. C
9. D
10. B
11. E
12. B
13. D
14. E
15. C
16. E
17. A
18. B
19. A
20. B
21. C
22. A
23. A
24. D
25. A