

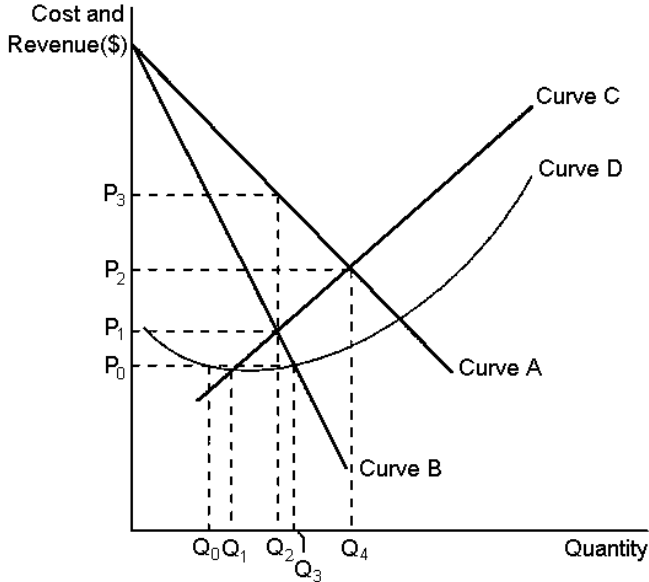
Chapter 15-Monopoly

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. Assuming that Jerry's Bicycle Shop operates in a competitive market for bicycles, which of the following statements is(are) true?
- (i) He can maximize profit by raising his price.
 - (ii) He can maximize profit by altering the quantity of bicycles that he supplies.
 - (iii) He will be able to earn a profit only if he differentiates his bicycles from the rest of the market.
- a. (i) only
 - b. (i) and (ii)
 - c. (ii) only
 - d. (ii) and (iii) only
- _____ 2. A government created monopoly arises when
- a. government spending in a certain industry gives rise to monopoly power.
 - b. the government gives a firm the exclusive right to sell some good or service.
 - c. the government exercises its market control by encouraging competition among sellers.
 - d. All of the above could qualify as government created monopolies.
- _____ 3. Competitive firms have
- a. horizontal demand curves and can sell only a limited amount at each price.
 - b. horizontal demand curves and can sell as much as they want at the market price.
 - c. downward sloping demand curves and can sell as much as they want at the market price.
 - d. downward sloping demand curves and can sell only a limited amount at each price.
- _____ 4. A monopolist's marginal revenue curve is less than price because
- (i) to sell additional units of the good, the price charged on all units must decrease.
 - (ii) with the sale of an additional unit, the monopolist receives less revenue for each of the previous units it planned to sell.
 - (iii) of the downward sloping demand curve.
- a. (i) and (ii)
 - b. (ii) and (iii)
 - c. (i) and (iii)
 - d. all of the above

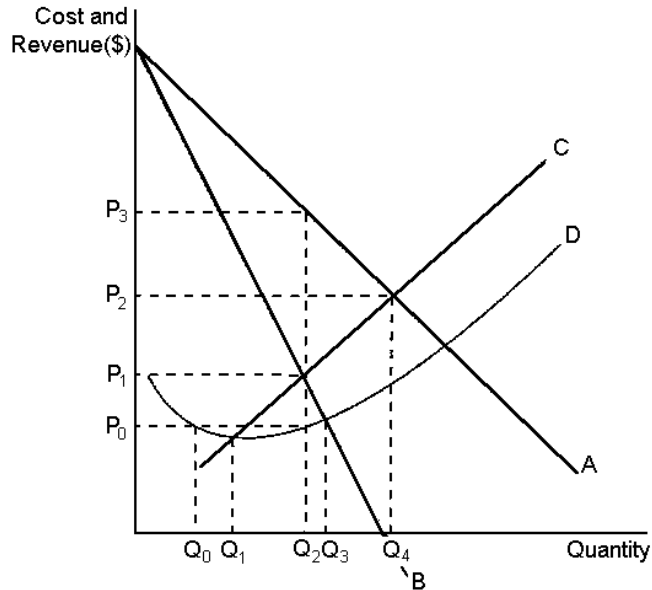
Graph 15-2



The figure shown reflects the cost and revenue structure for a monopoly firm. Use it to answer the following questions.

- _____ 5. Refer to Graph 15-2. Profit can always be increased by decreasing the level of output by one unit if the monopolist is currently operating at a level of output in which
- curve C > curve B.
 - curve B > curve C.
 - curve B > curve D.
 - curve D > curve B.
- _____ 6. Refer to Graph 15-2. If the monopoly firm wants to maximize its profit, it should operate at a level of output equal to
- Q_1 .
 - Q_2 .
 - Q_3 .
 - Q_4 .

Graph 15-3



The figure shown reflects the cost and revenue structure for a monopoly firm. Use it to answer the following questions.

- ___ 7. Refer to Graph 15-3. A profit maximizing monopoly would have a total cost equal to
- $P_0 \times Q_1$.
 - $P_0 \times Q_2$.
 - $P_0 \times Q_3$.
 - $(P_1 - P_0) \times Q_2$.
- ___ 8. Due to the nature of the patent laws on pharmaceuticals, the market for such drugs
- switches from monopolistic to competitive once the firm's patent runs out.
 - switches from competitive to monopolistic once the firm's patent runs out.
 - always remains a monopolistic market.
 - always remains a competitive market.
- ___ 9. Angelo is a wholesale meatball distributor. He sells his meatballs to all the finest Italian restaurants in town. Nobody can make meatballs like Angelo. As a result, his is the only business in town that sells meatballs to restaurants. Assuming that Angelo is maximizing his profit, which of the following statements is true?
- Meatball prices will exceed marginal cost.
 - Meatball prices will equal marginal cost.
 - Meatball prices will be less than marginal cost.
 - Meatball prices will be a function of supply and demand and will therefore oscillate around marginal costs.

- _____ 10. Characteristics of a Monopoly include:
- (i) sole seller of its product.
 - (ii) product does not have close substitutes.
 - (iii) generates large economic profits.
 - (iv) is located in a small geographic market.
- a. (i), (iii), and (iv)
 - b. both (i) and (iii)
 - c. both (i) and (ii)
 - d. all of the above
- _____ 11. An industry is a natural monopoly when
- (i) a single firm will supply a good or service at a socially optimal quantity.
 - (ii) a single firm can supply a fixed number of goods or services at a smaller cost than could two or more firms.
 - (iii) a single firm can produce additional units at a smaller marginal cost.
- a. (i) and (ii)
 - b. (ii) only
 - c. (ii) and (iii)
 - d. (iii) only
- _____ 12. For a profit maximizing monopolist
- a. $P = MR = MC$.
 - b. $P > MR > MC$.
 - c. $P > MR = MC$.
 - d. $P > MR < MC$.
- _____ 13. The monopolist's profit-maximizing quantity of output is determined by the intersection of which of the following two curves?
- a. marginal cost and demand
 - b. average cost and demand
 - c. marginal cost and marginal revenue
 - d. average cost and marginal revenue
- _____ 14. What is the monopolist's profit under the following conditions? The profit-maximizing price charged for goods produced is \$16. The intersection of the marginal revenue and marginal cost curves occurs where output is 10 units and marginal cost is \$8. Average cost for 10 units of output is \$6.
- a. \$80
 - b. \$100
 - c. \$160
 - d. \$10
- _____ 15. If a monopolist sells 100 units at \$8 per unit and realizes an average total cost of \$6 per unit, what is the monopolist's profit?
- a. \$800
 - b. \$200
 - c. \$600
 - d. none of the above

- _____ 16. One method used to control the ability of firms to capture monopoly profit in the United States is through
- a. regulation of firms in highly competitive markets.
 - b. government purchase of products produced by monopolists.
 - c. government distribution of a monopolist's excess production.
 - d. enforcement of antitrust laws.