

Chapter 16 Practice Test Oligopoly

Multiple Choice

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

- _____ 1. Markets with only a few sellers, each offering a product similar or identical to the others, are typically referred to as
- monopolistically competitive markets.
 - oligopoly markets.
 - monopoly markets.
 - competitive markets.
- _____ 2. A special kind of imperfectly competitive market that has only two firms is called
- a doublet.
 - a duopoly.
 - a two-tier competitive structure.
 - an incidental monopoly.
- _____ 3. One characteristic of an oligopoly market structure is:
- Firms in the industry are typically characterized by very diverse product lines.
 - Products typically sell at a price that reflects their marginal cost of production.
 - The actions of one seller can have a large impact on the profitability of other sellers.
 - Since markets are typically large, the actions of one seller largely go unnoticed by its competitors.
- _____ 4. One key difference between an oligopoly market and a competitive market is that
- oligopolistic firms are interdependent while competitive firms are not.
 - oligopolistic firms sell completely unrelated products while competitive firms do not.
 - oligopolistic firms sell their product at a price equal to marginal cost while competitive firms do not.
 - oligopolistic firms are price takers while competitive firms are not.
- _____ 5. Typical firms in our economy are classified as
- imperfectly competitive.
 - perfectly competitive.
 - oligopolists.
 - duopolists.
- _____ 6. Crude oil is supplied to the world market primarily by a few Middle Eastern countries. Such a market is an example of a(n)
- monopoly market.
 - oligopoly market.
 - imperfectly competitive market.
- (i) and (ii)
 - (ii) and (iii)
 - (i) and (iii)
 - (i) only

- _____ 7. As a group, oligopolists would always be better off collectively if they would
 - a. limit production.
 - b. increase production.
 - c. decrease prices.
 - d. operate according to their own self-interest.
- _____ 8. When firms have agreements among themselves on the quantity to produce and the price to sell output they are organized as
 - a. a Nash arrangement.
 - b. competitive scale firms.
 - c. competitive oligopolists.
 - d. a cartel.
- _____ 9. Equilibrium quantity in markets characterized by oligopoly are
 - a. lower than in monopoly markets and higher than in perfectly competitive markets.
 - b. lower than in monopoly markets and lower than in perfectly competitive markets.
 - c. higher than in monopoly markets and higher than in perfectly competitive markets.
 - d. higher than in monopoly markets and lower than in perfectly competitive markets.
- _____ 10. A situation in which economic actors interacting with one another each choose their best strategy given the strategies the others have chosen is called a(n)
 - a. socially optimal solution.
 - b. Nash equilibrium.
 - c. competitive equilibrium.
 - d. open market solution.
- _____ 11. As the number of firms in an oligopoly grows larger, an oligopolistic market looks more and more like
 - a. a monopoly.
 - b. a duopoly.
 - c. a competitive market.
 - d. none of the above.

Graph 16-3

Use the information below to answer the following questions.

Two discount superstores (Ultimate Saver and SuperDuper Saver) in a growing urban area are interested in expanding their market share. Both are interested in expanding the size of their store and parking lot to accommodate potential growth in their customer base. The following game depicts the strategic outcomes that result from the game. Growth related profits of the two discount superstores under two scenarios are reflected in the table below.

		SuperDuper Saver	
		Increase the size of store and parking lot	Do not increase the size of store and parking lot
Ultimate Saver	Increase the size of store and parking lot	SuperDuper Saver = \$50 Ultimate Saver = \$65	SuperDuper Saver = \$25 Ultimate Saver = \$275
	Do not increase the size of store and parking lot	SuperDuper Saver = \$250 Ultimate Saver = \$35	SuperDuper Saver = \$85 Ultimate Saver = \$135

- _____ 12. Refer to Graph 16-3. If both stores follow a dominant strategy, Ultimate Saver's growth related profits will be
- \$35.
 - \$135.
 - \$275.
 - \$65.
- _____ 13. Refer to Graph 16-3. If both stores follow a dominant strategy, SuperDuper Saver's growth related profits will be
- \$85.
 - \$250.
 - \$50.
 - \$25.
- _____ 14. Refer to Graph 16-3. When this game reaches a Nash equilibrium, the dollar value of growth related profits will be
- Ultimate Saver \$275 and SuperDuper Saver \$25.
 - Ultimate Saver \$65 and SuperDuper Saver \$50.
 - Ultimate Saver \$35 and SuperDuper Saver \$250.
 - Ultimate Saver \$135 and SuperDuper Saver \$85.
- _____ 15. Refer to Graph 16-3. If the owners of SuperDuper Saver and Ultimate Saver meet for a friendly game of golf one afternoon and happen to discuss a strategy to optimize growth related profit. They should both agree to
- share the context of their conversation with the Federal Trade Commission.
 - be more competitive in capturing market share.
 - not increase their store sizes or parking lots.
 - increase their store sizes and parking lots.

- _____ 16. Refer to Graph 16-3. Noncooperative outcomes typically imply an outcome
- a. that is worse for both parties to the "game."
 - b. that is better for both parties to the "game."
 - c. in which society is always worse off.
 - d. in which society is always better off.