

## Chapter 17 Practice Test

### Multiple Choice

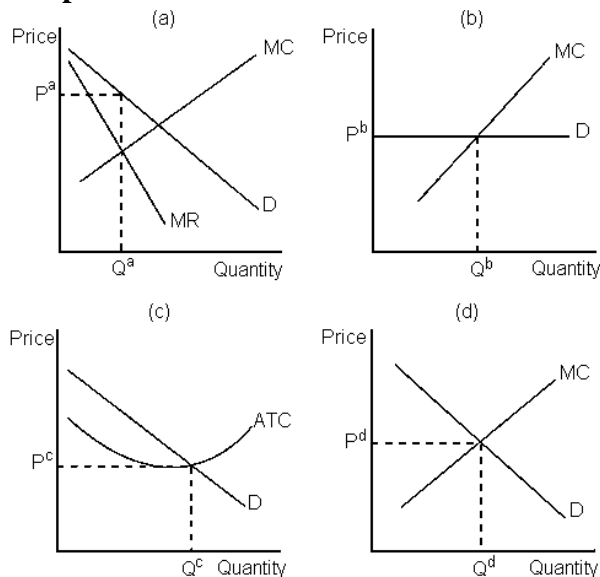
Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_\_\_ 1. Monopolistic competition is characterized by which of the following attributes?
- (i) many sellers
  - (ii) product differentiation
  - (iii) barriers to entry
- a. (i) and (iii) only
  - b. (i) and (ii) only
  - c. (ii) and (iii) only
  - d. all of the above
- \_\_\_\_\_ 2. One way in which monopolistic competition differs from oligopoly is
- a. there are no barriers to entry in oligopolies.
  - b. all oligopoly firms eventually earn zero economic profits.
  - c. strategic interactions between firms are rarely evident in oligopolies.
  - d. in oligopoly markets there are only a few sellers.
- \_\_\_\_\_ 3. A profit-maximizing firm in a monopolistically competitive market differs from a firm in a perfectly competitive market because the firm in the monopolistically competitive market
- a. faces a downward-sloping demand curve for its product.
  - b. faces a horizontal demand curve at the market clearing price.
  - c. is characterized by market share maximization.
  - d. has no barriers to entry.
- \_\_\_\_\_ 4. A profit-maximizing firm in a monopolistically competitive market is characterized by which of the following?
- a. Revenue is always maximized along with profit.
  - b. Average revenue exceeds marginal revenue.
  - c. Marginal revenue exceeds average revenue.
  - d. Average revenue is equal to marginal revenue.
- \_\_\_\_\_ 5. A monopolistically competitive firm chooses
- a. price, but output is determined by cartel production quota.
  - b. the quantity of output to produce and the price at which it will sell its output.
  - c. the quantity of output to produce, but the market determines price.
  - d. the price, but competition in the market determines the quantity.
- \_\_\_\_\_ 6. If firms in a monopolistically competitive market are incurring economic losses, which of the following scenarios would best reflect the change facing incumbent firms (who are able to stay in the market) as the market adjusts to its new equilibrium?
- a. a downward shift in their marginal cost curve
  - b. an upward shift in their marginal cost curve
  - c. an increase in demand
  - d. a decrease in demand

- \_\_\_ 7. As some incumbent firms exit a monopolistically competitive market, profits of existing firms
- decline and product diversity in the market decreases.
  - rise and product diversity in the market increases.
  - rise and product diversity in the market decreases.
  - decline and product diversity in the market increases.
- \_\_\_ 8. A monopolistically competitive market could be considered inefficient because
- marginal cost exceeds average revenue.
  - excess capacity is a short-run problem.
  - mark-up pricing does not occur in any other market structure.
  - price exceeds marginal cost.
- \_\_\_ 9. When consumers are exposed to additional choices that result from the introduction of a new product,
- a product-variety externality is said to occur.
  - an advertising externality is said to occur.
  - their satisfaction is likely to be lowered as a result of facing additional choices.
  - consumers are likely to experience negative consumption externalities.
- \_\_\_ 10. If advertising reduces a consumer's price sensitivity between identical goods, it is likely to
- encourage the consumption of all homogenous goods.
  - enhance elasticity of demand for differentiated products.
  - enhance competition, and encourage more product diversity.
  - impede competition and reduce social well-being.
- \_\_\_ 11. In differentiated product markets that are characterized by advertising, evidence suggests that
- markets are less efficient.
  - consumers make better choices.
  - in general, firms are less profitable.
- (ii) only
  - (i) and (iii) only
  - (ii) and (iii) only
  - All of the above are true.
- \_\_\_ 12. Because a monopolistically competitive firm has some market power, in the long-run the price of its good exceeds its
- marginal cost.
  - average cost
  - total cost.
  - average revenue.
- \_\_\_ 13. Monopolistically competitive markets differ from perfectly competitive markets because of
- the number of sellers.
  - product differentiation among the sellers.
  - barriers to entry.
- (i) and (ii)
  - (i) and (iii)
  - (i) only
  - (ii) only

- \_\_\_ 14. In a monopolistically competitive market structure, each firm sells a good that is
- slightly different from goods sold by other firms.
  - produced at minimum average cost.
  - identical to other goods sold in the market.
  - produced at minimum marginal cost.
- \_\_\_ 15. When free entry is one of the attributes of a market structure, economic profits are
- eventually driven to zero.
  - negative for all firms.
  - never above or below zero.
  - always positive.

**Graph 17-1**



Use the figures shown to answer the following questions.

- \_\_\_ 16. Refer to Graph 17-1. Which of the following graphs would most likely represent a profit-maximizing firm in a monopolistically competitive market?
- panel a
  - panel b
  - panel c
  - panel d
- \_\_\_ 17. Refer to Graph 17-1. If a firm in a monopolistically competitive market was producing the level of output depicted as  $Q_d$  in panel d, it would
- be minimizing its losses.
  - be losing market share to other firms in the market.
  - be operating at excess capacity.
  - not be maximizing its profit.

- \_\_\_\_\_ 18. Refer to Graph 17-1. The firm depicted in panel b faces a horizontal demand curve. If panel b depicts a profit-maximizing firm,
- it would not be operating in a monopolistically competitive market.
  - it would not have excess capacity in its production as long as it is earning zero economic profit.
  - it is not able to choose the price at which it sells its product.
  - all of the above.
- \_\_\_\_\_ 19. In monopolistically competitive markets, economic profits will eventually lead to
- rightward shifts of the demand curve of incumbent firms.
  - leftward shifts of the demand curve of incumbent firms.
  - barriers to entry.
  - economic losses.
- \_\_\_\_\_ 20. Because of product differentiation, a firm in a monopolistically competitive market
- always has some market power.
  - is very similar to a perfectly competitive firm.
  - does not face the elastic portion of its demand curve.
  - is unaffected by the elasticity of demand.