1. **T/F** For a perfectly competitive firm, the profit-maximizing output level occurs where marginal cost equals price.

True

2. In a perfectly competitive market, the demand curve faced by an individual firm is:

A. perfectly inelastic.
B. relatively inelastic.
C. perfectly elastic.
D. relatively elastic.

C

3. Long run competitive equilibrium requires:

A. average costs to be zero for all firms in the industry.
B. price to be zero for all firms in the industry.
C. economic profits are zero for all firms in the industry.
D. accounting profits are zero for all firms in the industry.

C

4. Suppose there is an improvement in the technology of producing TVs and the production of TVs is a competitive industry. Assuming that the TV industry is initially in equilibrium, the long run effect of this improvement is:

A. higher TV prices and greater TV production.
B. lower TV prices and greater TV production.
C. higher TV prices and lower TV production.
D. lower TV prices and lower TV production.

B

5. In a perfectly competitive market: A. price does more of the adjusting in the long run and quantity does more of the adjusting in the short run. B. price does more of the adjusting in the short run and quantity does more of the adjusting in the long run. C. only price adjusts in both the short run and the long run. D. only quantity adjusts in both the short run and the long run. B	6. **T/F** A price-discriminating monopolist will make less in profit than one that does not price-discriminate. False
7. In a perfectly competitive decreasing-cost industry: A. factor prices do not change as industry output increases. B. factor prices rise as industry output increases. C. factor prices fall as industry output increases. D. there is no way to predict what will happen to factor prices as industry output increases C	8. The demand for clothing increases. As a result, the price of clothing increases above the minimum average cost of producing it. In the long run, if the clothing industry is perfectly competitive and is a constant-cost industry: A. the supply of clothing and the price of clothing will increase. B. the supply of clothing will increase but the price will not. C. the price of clothing will increase but the supply will not. D. neither the price nor the supply of clothing will increase. B

9. If MR = MC, the monopolist should: A. maintain the same level of production. B. increase production. C. decrease production. D. stop producing. a	10. The DeBeers Company is a profit-maximizing monopolist that exercises monopoly power in the distribution of diamonds. If the company earns positive economic profits this year, then the price of diamonds will: A. be equal to the marginal cost of diamonds. B. be equal to the average total cost of diamonds. C. exceed the marginal cost of diamonds but be equal to the average total cost of diamonds. D. exceed both the marginal cost and the average total cost of diamonds. D
11. All of the following can be barriers to entry *except*: A. economies of scale. B. a firm's superior production ability. C. patents. D. price discrimination. d	12. Patents do all of the following *except*: A. increase quantity produced above its competitive level. B. increase research and development. C. generate monopoly profits. D. raise market price above its competitive level. A

13. **T/F** When a monopolistically competitive firm is in long-run equilibrium, average total cost is at its minimum.

False

14. **T/F** The central element of the oligopoly model is that each firm produces a differentiated product.

False

15. A monopolistic competitive industry has:

A. a few firms producing identical products.
B. many firms producing differentiated products.
C. many firms producing identical products.
D. a few firms producing differentiated products.

b

16. If a monopolistically competitive market became perfectly competitive, output would likely:

A. rise.
B. fall.
C. not change.
D. rise, then fall.

A

	18. As firms leave a monopolistically competitive industry that is sustaining economic losses: A. the demand curves facing the remaining firms in the industry shifts to the right. B. the demand curves facing the remaining firms in the industry shifts to the left. C. total quantity demanded increases for the industry. D. the market supply curve shifts to the right. a
19. The difference between a perfectly competitive firm and a monopolistically competitive firm is that a monopolistically competitive firm faces a: A. horizontal demand curve and price equals marginal cost in equilibrium. B. horizontal demand curve and price exceeds marginal cost in equilibrium. C. downward-sloping demand curve and price equals marginal cost in equilibrium. D. downward-sloping demand curve and price exceeds marginal cost in equilibrium. D	20. In the European Union Microsoft case, the court ordered A. Microsoft to enter a consent decree with the Union. B. Microsoft to share or license technical information about its operating system with competing software developers. C. Microsoft to reimburse purchasers of the software for fifty percent of the cost of the software. D. Microsoft to allow anyone to use their software. b

21. In which of the following models of firm behavior do firms make strategic pricing decisions and also charge a perfectly competitive price?

A. Cartel model of oligopoly.
B. Contestable market model of oligopoly.
C. Perfectly competitive model.
D. Monopoly model.

B

22. **T/F** Natural monopolies are mostly regulated industries because otherwise too many firms would enter the market and price would be driven too low for any firm to offer goods for a profit.

False

23. The profit-maximization assumption of economic theory does *not* fit reality because:

A. all real firms want to maximize long-term profits rather than short-run profits.
B. all real firms want to maximize their share of the market.
C. real-world firms have a single goal, but this goal has nothing to do with profits.
D. real-world firms have many goals which depend upon the incentive structure embodied in the firm's organization.

d

24. Dynamic efficiency refers to a market's ability to:

A. respond to increased foreign competition.
B. react to changes in government regulation.
C. shift the burden of taxation to consumers.
D. promote cost-reducing or product-enhancing technological change.

D

25. What is the law of supply? As price goes up, quantity supplied goes up.	26. What is the law of demand? As price goes up quantity demanded goes down.
27. What are the three normative arguments against monopolies? 1. Restricts Freedom 2. Too much politics 3. Poor income distribution.	28. How do companies (specifically monopolists) attempt to reduce the welfare lose. Through price discrimination they gain both consumers with inelastic and elastic demand.

29. What is a network externality? Think Microsoft Office, Windows, tablets, etc. The more people that use it the more the product benefits everyone.	30. GameStop has just a few competitors locally. Because of this, it is possible they consider prices to be "sticky" and assume their demand curve is kinked. Therefore, what do they assume will happen if they raise their price for games above the current level? They will assume demand is elastic and they will lose business. (However, they also assume lowering their price won't really increase demand because the curve becomes inelastic)
31. What are three possible reasons why conglomerates exist? economies of scope, good buy, to diversify, ward of takeovers, strengthen political influences.	31. Why was the Clayton Act put into place? Fill in the loopholes of the Sherman Act – Prevent price discrimination, tie-in contracts, interlocking directorships, buying competitors stock.

32. Standard Oil often participated in contracts and practices that many did not consider fair competitive practices. Was standard oil being judged on performance or structure? Performance	33. Why did AT&T argue it should maintain exclusive rights to supply telephone service? They argued they were a natural monopoly and because of economies of scale it was necessary.
34. What does the cartel model assume? Oligopolies act lick a monopolist, often assigning output quotas. Ex: OPEC	35. Give an example of a horizontal merger? two similar businesses merging (Ex:KFC, Taco Bell, and Pizza Hut)