Multiple Choice Questions

Use Figure 5.1 to answer questions 1-2:

![Figure 5.1](image)

1. In Figure 5.1 above, what output would a perfect competitor produce?
   a. Q1
   B. Q2
   c. Q3
   d. Q4

2. In Figure 5.1 above, what profit would a perfect competitor earn?
   a. A profit of zero
   B. A positive profit
   c. A loss less than its total fixed cost
   d. A loss greater than its total fixed cost
3. In Figure 5.2, what output would a perfect competitor produce?

Figure 5.2
a. Q1
**B. Q2**
c. Q3
d. 0
4. In Figure 5.3, what output would a perfect competitor produce?

Figure 5.3
a. Q1
b. Q2
c. Q3
\[\textbf{D. 0}\]
5. In Figure 5.4, a monopolist would charge which price?

**Figure 5.4**

a. P1  
b. P2  
c. P3  
**D.** P4
Use Figure 5.5 to answer questions 6-7:

6. In Figure 5.5, a monopolist would charge which price?
   a. P1
   b. P2
   c. P3
   d. P4

7. In Figure 5.5, what profit would the monopolist earn?
   a. Zero profit, because it would shut down
   b. A positive profit
   c. A loss less than its total fixed cost
   d. A loss greater than its total fixed cost
Use Figure 5.6 to answer questions 8-9:

8. In Figure 5.6, a monopolist would charge which price?
   A. The monopolist would shutdown so no price would be charged
   b. P2
   c. P3
   d. P4

9. In Figure 5.6, what profit would the monopolist earn? In the figure above, a monopolist would charge which price?
   a. Zero profit
   b. A positive profit
   C. A loss equal to its total fixed cost
   d. A loss greater than its total fixed cost
10. For a market to be characterized by perfect competition, there must be
a. A large number of firms with no one able to influence price
b. Freedom of entry and exit
c. Indistinguishable products being sold
D. All of the above

11. For a market to be characterized by monopoly, there must be
a. A large number of firms with no one able to influence price
b. Freedom of entry and exit
c. Indistinguishable products being sold
D. A single seller

12. For a market to be characterized by monopoly, there must be
a. A large number of firms with no one able to influence price
B. Barriers to entry and exit
c. Indistinguishable products being sold
d. Good information about sales and costs

13. The key difference(s) between perfect competition and monopolistic competition is
a. The products sold are slightly different in perfect competition
B. The products sold are slightly different in monopolistic competition
c. There is poor information about prices in perfect competition
d. There is poor information about prices in monopolistic competition

14. The key difference(s) between monopoly and oligopoly is
A. That there are two in oligopoly rather than one competitor in a monopoly
b. There are no barriers to entry with oligopoly
c. There must be product differences in oligopoly
d. There are no differences between oligopoly and a monopoly
15. Agricultural Products can be modeled best using the model of 
a. Monopolistic competition 
**B.** Perfect competition 
c. Oligopoly 
d. Monopoly

16. Lumber Products can be modeled best using the model of 
a. Monopolistic competition 
**B.** Perfect competition 
c. Oligopoly 
d. Monopoly

17. The fast food industry can be modeled best using the model of 
**A.** Monopolistic competition 
b. Perfect competition 
c. Oligopoly 
d. Monopoly

18. The breakfast cereals industry can be best modeled using the model of 
**A.** Monopolistic competition 
b. Perfect competition 
c. Oligopoly 
d. Monopoly

19. The soft drink (colas in particular) industry can be best modeled using the model of 
a. Monopolistic competition 
b. Perfect competition 
**C.** Oligopoly 
d. Monopoly
20. The personal computer operating systems industry can be best modeled using the model of
   a. Monopolistic competition
   b. Perfect competition
   c. Oligopoly
   D. Monopoly

21. The local residential electrical power industry can be best modeled using the model of
   a. Monopolistic competition
   b. Perfect competition
   c. Oligopoly
   D. Monopoly

22. There are hundreds of local water companies but economists insist that in each community
    they are __________ because consumers have no other choices in the local market in which
    they live.
   a. Perfect competition
   b. Monopolistic competition
   c. Oligopoly
   D. Monopoly

23. If you drive on a rural stretch of highway and come upon an intersection in which there is
    only one gas station and you know it to be the only one for 100 miles, it is a
    A. Monopolist
    b. Perfect competitor
    c. Monopolistic competitor
    d. Oligopolist

24. If you drive on a rural stretch of highway and come upon an intersection in which there are
    two gas stations and you know them to be the only ones for 100 miles, they are
    a. Monopolists
    b. Monopolistic competitors
    c. Perfect competitors
    D. Oligopolists
25. Suppose ten companies begin introducing new genetically engineered apples. Each has their own distinctive taste and brand name. This market would be described by
   a. Perfect competition
   B. Monopolistic competition
   c. Oligopoly
   d. Monopoly

26. Suppose you can get broadband only from your cable company or your phone company. This market would be described by
   a. Perfect competition
   b. Monopolistic competition
   C. Oligopoly
   d. Monopoly

27. Suppose you can get the typical cable channels (ESPN, MTV, Bravo, etc.) from a cable company, from DIRECTV, or from DISH Network. This market would be described by
   a. Perfect competition
   b. Healthy competition
   C. Oligopoly
   d. Monopoly

28. Suppose you can fly from your home city to New York but only one airline provides the service. This market would be described by
   a. Perfect competition
   b. Healthy competition
   c. Oligopoly
   D. Monopoly

29. Suppose you can fly from LA to New York and 15 separate airlines provide the service. This market would be described by
   a. Limited competition
   B. Monopolistic competition
   c. Oligopoly
   d. Monopoly
30. Suppose you can fly from Charlotte to London but only two airlines provide the service. This market would be described by
   a. Limited competition
   b. Monopolistic competition
   C. Oligopoly
   d. Monopoly

31. An industry in which there are many competitors with specific marketing niches is likely to be characterized by
   a. Monopoly
   B. Monopolistic competition
   c. Oligopoly
   d. Perfect competition

32. An industry in which there are just a few large firms is likely to be characterized by
   a. Monopoly
   b. Monopolistic competition
   C. Oligopoly
   d. Perfect competition

33. The usefulness and relative simplicity of the supply and demand model is often used
   a. Because nearly every major industry in the U.S. is governed by perfect competition
   b. Because nearly every major industry in the U.S. is governed by monopoly
   C. Even though, strictly speaking, few industries in the U.S. are governed by perfect competition
   d. Even though it has no connection to economic reality

34. Whether a firm stays in business or shuts down depends heavily on the concept of
   A. Economic profit
   b. Actual profit
   c. Market share
   d. Concentration ratios
35. Economic theory would suggest that the profitability of an industry would be
a. Directly related to the number of firms competing in the industry
B. Inversely related to the number of firms competing in the industry
c. Unrelated to the number of firms competing in the industry
d. Zero in the long run, regardless of market structure

36. An indicator of the degree of competition in an industry is the concentration ratio. It measures
A. The percentage of sales in the industry by the largest firms
b. The percentage of profit in the industry by the smallest firms
c. The sales in the industry as a percentage of all consumption in the U.S
d. The profitability of the industry

37. Local telephone service was once an area in which consumers had no choices. Many young people no longer use "land lines" preferring instead to use their cellular phones. This means that the market has moved toward
a. Monopoly
B. Oligopoly
c. Perfect competition
d. Monopsony
Use Figure 5.7 to answer questions 38-44:

38. In Figure 5.7, assuming perfect competition which price(s) is associated with a loss?
   a. MR1
   b. MR2
   c. MR3
   D. MR1 and MR2

39. In Figure 5.7, assuming perfect competition which price is associated with profit being exactly normal?
   a. MR1
   b. MR2
   C. MR3
   d. MR4
40. In Figure 5.7, assuming perfect competition which price is associated with positive economic profit?
   a. MR1
   b. MR2
   c. MR3
   **D.** MR4

41. In Figure 5.7, assuming perfect competition and at MR1 there will be
   a. Short run pressure on the price to rise
   b. Long run pressure on the price to rise
   c. No pressure on the price to change
   **D.** Short and long run pressure on the price to rise

42. In Figure 5.7, assuming perfect competition and at MR2 there will be
   a. Short run pressure on the price to rise
   **B.** Long run pressure on the price to rise
   c. No pressure on the price to change
   d. Short and long run pressure on the price to rise

43. In Figure 5.7, assuming perfect competition and at MR3 there will be
   a. Short run pressure on the price to rise
   b. Long run pressure on the price to rise
   **C.** No pressure on the price to change
   d. Short and long run pressure on the price to rise

44. In Figure 5.7, assuming perfect competition and at MR4 there will be
   a. Short run pressure on the price to fall
   b. Long run pressure on the price to fall
   c. No pressure on the price to change
   **D.** Short and long run pressure on the price to fall
45. In a diagram of perfect competition, the marginal revenue line moves up and down when there is exit and entry, respectively, because
   a. The market demand for the good rises and falls when there is exit and entry, respectively
   b. The market demand for the good rises and falls when there is entry and exit, respectively
   c. The market supply for the good rises and falls when there is exit and entry, respectively
   **D.** The market supply for the good rises and falls when there is entry and exit, respectively

46. If MR>MC then when an additional unit is sold the firm's
   a. Profit will be positive
   b. Profit will be negative
   **C.** Profit will increase
   d. Profit will decrease

47. Economic Profit exists whenever
   a. A firm makes even one penny
   b. A firm makes more than its competitors
   **C.** A firm makes more than the minimum required to maintain the incentive to remain in the industry
   d. A firm makes enough to that it is required to pay taxes

48. Normal Profit is what a firm
   a. Usually makes
   **B.** Needs to make to maintain the incentive to remain in the industry
   c. Is zero in the long run
   d. A and B

49. The assumption under perfect competition of a "homogeneous product" means that
   **A.** The good one firm produces is exactly the same as the good another firm produces
   b. The good one firm produces is very different than the good another produces
   c. That no firm can charge more than another for its product
   d. That no buyer will pay more for one firm's good than another's
50. The assumption under perfect competition of a firm that has no market power means that
a. Firms are free to leave the market any time and there is no power keeping them there
b. The good one firm produces is very different than the good another produces
c. The good one firm produces is exactly then same as the good another firm produces
D. That no buyer will pay more for one firm's good than another's

51. Under perfect competition, the supply curve is
a. The marginal cost curve for all price quantity combinations
b. The marginal cost curve, but only that portion that is downward sloping
c. The marginal cost curve, but only that portion that is upward sloping
D. The marginal cost curve, but only that portion that is above the minimum of average variable cost

52. There will be short-run pressure on the price to rise whenever
a. P>ATC
b. P=ATC
c. P<ATC
D. P<AVC

53. There will be long-run pressure on the price to rise whenever
a. P>ATC
b. P<ATC
c. P<AVC
D. B and C

54. There will be short-run pressure on the price to fall whenever
A. P>ATC
b. P=ATC
c. P<ATC
d. P<AVC
55. There will be long-run pressure on the price to fall whenever
A. P>ATC
b. P=ATC
c. P<ATC
d. P<AFC

56. Very high concentration ratios characterize the
a. Furniture industry
B. Beer industry
c. Clothing industry
d. Consumer goods industries in general

57. Very low concentration ratios characterize the
a. Breakfast cereal industry
b. Beer industry
C. Furniture industry
d. Consumer goods industries in general