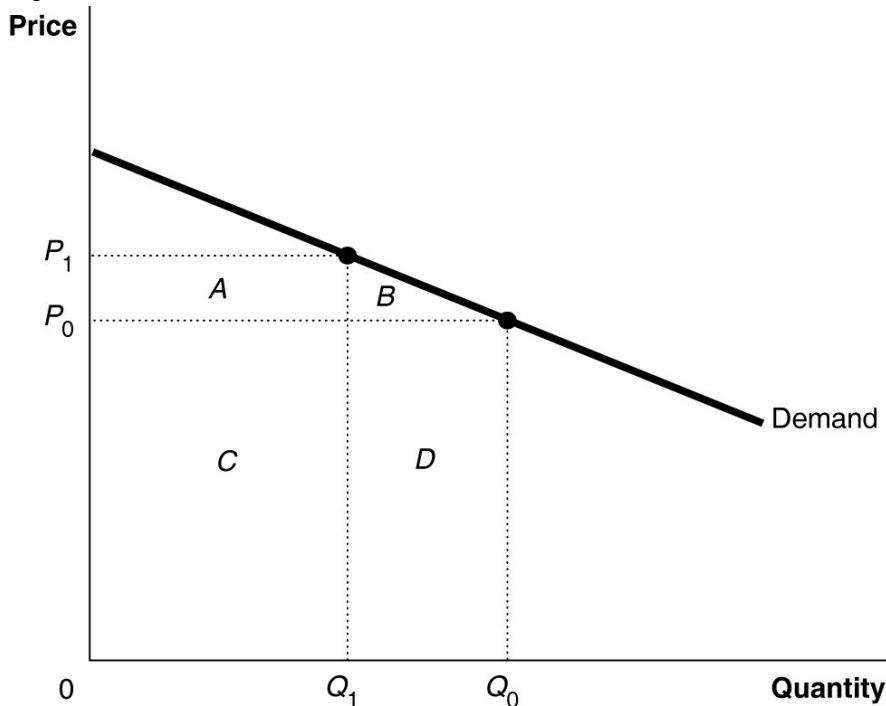


Name \_\_\_\_\_

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following characteristics is common to monopolistic competition and perfect competition? 1) \_\_\_\_\_
  - A) Firms produce identical products.
  - B) Each firm faces a downward-sloping demand curve.
  - C) Firms take market prices as given.
  - D) Entry barriers into the industry are low.
  
- 2) The key characteristics of a monopolistically competitive market structure include 2) \_\_\_\_\_
  - A) sellers selling similar but differentiated products.
  - B) sellers acting to maximize revenue.
  - C) high barriers to entry.
  - D) few sellers.
  
- 3) In monopolistic competition there is/are 3) \_\_\_\_\_
  - A) a few sellers who each face a downward-sloping demand curve.
  - B) only one seller who faces a downward-sloping demand curve.
  - C) many sellers who each face a perfectly elastic demand curve.
  - D) many sellers who each face a downward-sloping demand curve.

Figure 13-1



- 4) Refer to Figure 13-1. The marginal revenue from the increase in price from  $P_0$  to  $P_1$  equals 4) \_\_\_\_\_
  - A) the area  $(A - D)$ .
  - B) the area  $A$ .
  - C) the area  $(C - B)$ .
  - D) the area  $(B + D - A)$ .

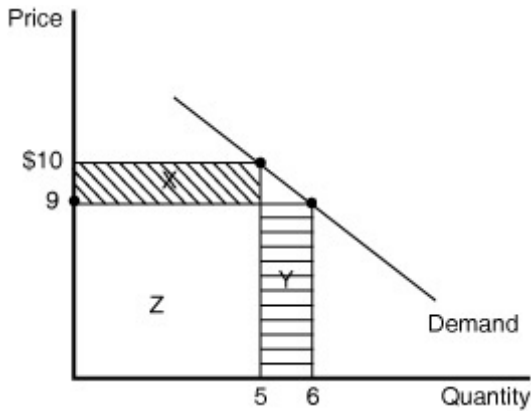
5) Because the monopolistically competitive firm faces a \_\_\_\_\_ demand curve for its product, it \_\_\_\_\_ the price of its output.

- A) horizontal; can influence  
C) horizontal; cannot influence

- B) downward-sloping; can influence  
D) downward-sloping; cannot influence

5) \_\_\_\_\_

Figure 13-3



6) Refer to Figure 13-3. The marginal revenue from one additional unit sold is the sum of the gain in revenue from selling the additional unit and the loss in revenue from having to charge a lower price to sell the additional unit. Based on the diagram in the figure,

- A)  $X + Z$  represents the loss (output effect) and  $Y$  the gain (price effect).  
B)  $X$  represents the loss (price effect) and  $Y + Z$  the gain (output effect).  
C)  $X$  represents the gain (price effect) and  $Y$  the loss (output effect).  
D)  $Y$  represents the gain (output effect) and  $X$  the loss (price effect).

6) \_\_\_\_\_

7) Refer to Figure 13-3. What is the marginal revenue of the sixth unit of output?

- A) \$4                      B) \$5                      C) \$9                      D) \$54

7) \_\_\_\_\_

Figure 13-4

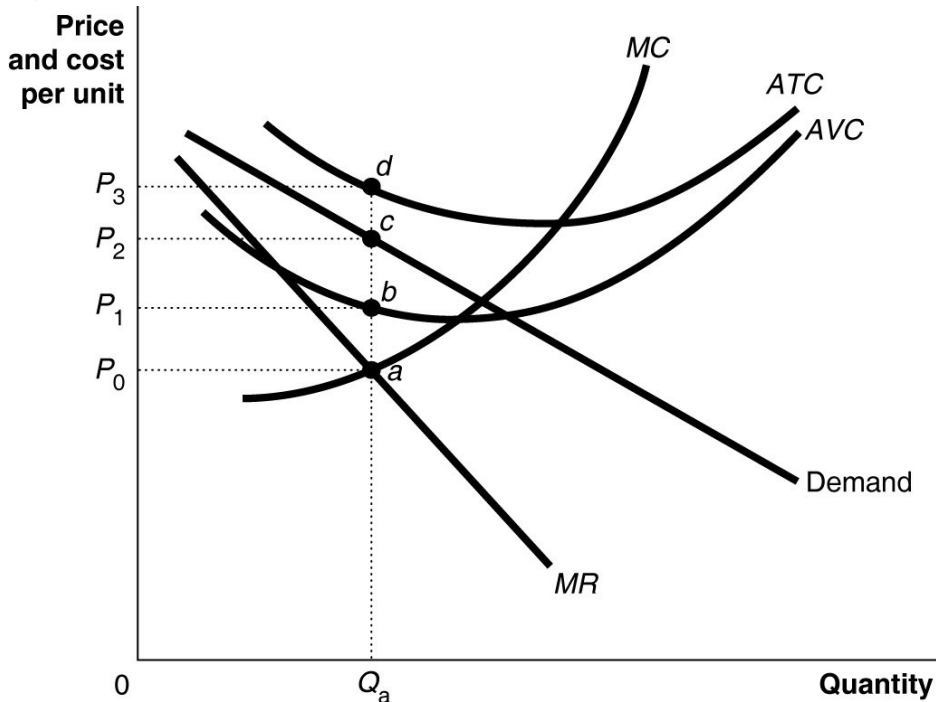


Figure 13-4 shows short-run cost and demand curves for a monopolistically competitive firm in the market for designer watches.

- 8) Refer to Figure 13-4. If the firm represented in the diagram is currently producing and selling  $Q_a$  units, what is the price charged? 8) \_\_\_\_\_  
 A)  $P_0$  B)  $P_1$  C)  $P_2$  D)  $P_3$
- 9) Refer to Figure 13-4. What is the area that represents the total revenue made by the firm? 9) \_\_\_\_\_  
 A)  $0P_3dQ_a$  B)  $0P_2cQ_a$  C)  $0P_1bQ_a$  D)  $0P_0aQ_a$
- 10) Refer to Figure 13-4. What is the area that represents the total variable cost of production? 10) \_\_\_\_\_  
 A)  $P_1bdP_3$  B)  $0P_1bQ_a$  C)  $0P_0aQ_a$  D)  $P_0abP_1$
- 11) Refer to Figure 13-4. What is the area that represents the total fixed cost of production? 11) \_\_\_\_\_  
 A)  $P_0adP_3$   
 B)  $P_1bdP_3$   
 C)  $0P_1aQ_a$   
 D) That information cannot be determined from the graph.
- 12) Refer to Figure 13-4. What is the area that represents the loss made by the firm? 12) \_\_\_\_\_  
 A) the area  $P_0acP_2$  B) the area  $P_0adP_3$  C) the area  $P_1bcP_2$  D) the area  $P_2cdP_3$

- 13) Refer to Figure 13-4. Should the firm represented in the diagram continue to stay in business despite its losses?
- A) No, it is not able to cover its fixed cost.
  - B) No, it should shut down.
  - C) Yes, it should increase its revenue by raising its price.
  - D) Yes, its total revenue covers its variable cost.

13) \_\_\_\_\_

Table 13-3

Quantity	Price (dollars)	Total Revenue (dollars)	Total Variable Cost (dollars)	Total Cost (dollars)
0	\$21	\$0	\$0	\$50
1	20	20	16	66
2	19	38	31	81
3	18	54	45	95
4	17	68	59	109
5	16	80	75	125
6	15	90	93	143
7	14	98	112	162
8	13	104	140	190
9	12	108	180	230
10	11	110	230	280

Table 13-3 shows the demand and cost schedules for a monopolistically competitive firm.

- 14) Refer to Table 13-3. What are the profit-maximizing/loss-minimizing output level and price?
- A)  $Q = 0$  (firm should not produce)
  - B)  $Q = 3$ ;  $P = \$18$
  - C)  $Q = 4$ ;  $P = \$17$
  - D)  $Q = 5$ ;  $P = \$16$
- 15) Refer to Table 13-3. What is the amount of the firm's loss at its optimal output level?
- A) \$0
  - B) \$41
  - C) \$45
  - D) \$50
- 16) Refer to Table 13-3. What is its average variable cost of production at its optimal output level?
- A) \$0 (because its optimal output = 0)
  - B) \$15
  - C) \$14.75
  - D) \$29
- 17) Refer to Table 13-3. What is the best course of action for the firm in the short run?
- A) It should not cut its price but it should increase its sales by advertising.
  - B) It should increase its sales by lowering its price.
  - C) It should shut down.
  - D) It should stay in business because it covers some of its fixed cost.
- 18) Refer to Table 13-3. If this firm continues to produce, what is likely to happen to the product's price in the long run?
- A) It will fall.
  - B) It will remain constant.
  - C) It will increase.
  - D) It cannot be determined without information on its long run demand curve.

14) \_\_\_\_\_

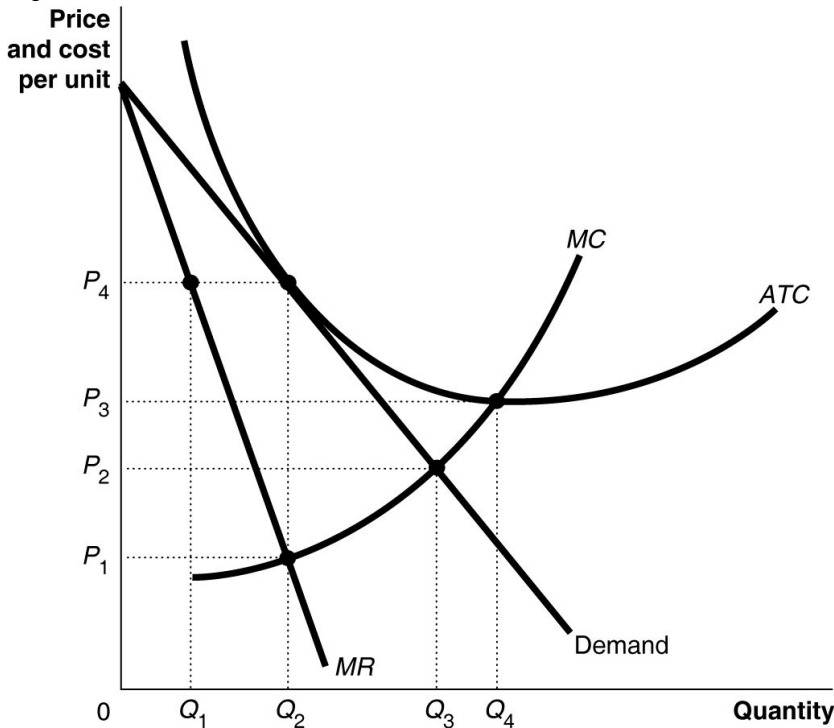
15) \_\_\_\_\_

16) \_\_\_\_\_

17) \_\_\_\_\_

18) \_\_\_\_\_

Figure 13-11



- 19) Refer to Figure 13-11. What is the monopolistic competitor's profit maximizing output? 19) \_\_\_\_\_  
 A)  $Q_1$  units B)  $Q_2$  units C)  $Q_3$  units D)  $Q_4$  units
- 20) Refer to Figure 13-11. What is the monopolistic competitor's profit maximizing price? 20) \_\_\_\_\_  
 A)  $P_1$  B)  $P_2$  C)  $P_3$  D)  $P_4$
- 21) Refer to Figure 13-11. The firm represented in the diagram 21) \_\_\_\_\_  
 A) makes zero economic profit.  
 B) should exit the industry.  
 C) should expand its output to take advantage of economies of scale.  
 D) makes zero accounting profit.
- 22) Refer to Figure 13-11. What is the productively efficient output for the firm represented in the diagram? 22) \_\_\_\_\_  
 A)  $Q_1$  units B)  $Q_2$  units C)  $Q_3$  units D)  $Q_4$  units
- 23) Refer to Figure 13-11. What is the allocatively efficient output for the firm represented in the diagram? 23) \_\_\_\_\_  
 A)  $Q_1$  units B)  $Q_2$  units C)  $Q_3$  units D)  $Q_4$  units

TRUE/FALSE. Write 'A' if the statement is true and 'B' if the statement is false.

- 24) When a monopolistically competitive firm cuts its price to increase its sales, it experiences a loss in revenue due to the income effect and a gain in revenue due to the substitution effect. 24) \_\_\_\_\_
- 25) New firms are able to enter monopolistically competitive markets because there are low barriers to entry. 25) \_\_\_\_\_

## Answer Key

Testname: UNTITLED1

- 1) D
- 2) A
- 3) D
- 4) A
- 5) B
- 6) D
- 7) A
- 8) C
- 9) B
- 10) B
- 11) B
- 12) D
- 13) D
- 14) C
- 15) B
- 16) C
- 17) D
- 18) C
- 19) B
- 20) D
- 21) A
- 22) D
- 23) C
- 24) FALSE
- 25) TRUE