Multiple Choice

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

1. Use the following two statements about monopolistic competition to answer this question.
   I. In the long run, the price of the good will equal the minimum of the average cost.
   II. In the short run, firms may earn a profit.
      a. I and II are true.
      b. I is true, and II is false.
      c. I is false, and II is true.
      d. I and II are false.

2. Which of the following statements is correct for a monopolist?
   i) The firm maximizes profits by equating marginal revenue with marginal cost.
   ii) The firm maximizes profits by equating price with marginal cost.
   iii) Demand equals marginal revenue.
   iv) Average revenue equals price.
      a. i), iii), and iv) only
      b. i) and iv) only
      c. i), ii), and iv) only
      d. i), ii), iii), and iv)

3. The Sherman Antitrust Act prohibits executives of competing companies from
   a. fixing prices, but it does not prohibit them from talking about fixing prices.
   b. even talking about fixing prices.
   c. sharing with one another their knowledge of game theory.
   d. failing to stand by agreements that they had made with one another.

4. At a price of $1.20, a local coffee shop is willing to supply 100 cinnamon rolls per day. At a price of
   $1.40, the coffee shop would be willing to supply 150 cinnamon rolls per day. Using the midpoint
   method, the price elasticity of supply is
      a. 0.15
      b. 0.375
      c. 2.5
      d. 2.60

5. John lives in an apartment building and gets a benefit from playing his stereo. Mary, who lives next door
   to John and often loses sleep due to the loud music coming from John's stereo, bears a cost from the noise.
   Mary is threatening to call the police to force John to turn down his stereo. Under which of the following
   conditions would John be able to offer Mary some amount of money to keep her from calling the police
   and to allow him to continue to play his stereo loudly?
      a. The cost of the noise to Mary must exceed the benefit of the music to John.
      b. The benefit of the music to John must exceed the cost of the noise to Mary.
      c. The Coase Theorem guarantees that Mary and John will always be able to come to an
         agreement that keeps Mary from calling the police regardless of the individual benefits
         and cost.
      d. The cost of the noise to Mary must exceed the benefit of the music to John by an amount
         greater than the transaction costs associated with the agreement.

6. Which one of the following industries is not a monopolistic competition in Taiwan?
   a. newspaper.
   b. restaurant.
   c. grocery store.
   d. shoe store.
7. Suppose a competitive market is comprised of firms that face identical cost curves. The firms experience an increase in demand that results in positive profits for the firms. Which of the following events are then most likely to occur?

(i) New firms will enter the market.
(ii) In the short run, price will rise; in the long run, price will rise further.
(iii) In the long run, all firms will be producing at their efficient scale.

a. (i) and (ii) only 

b. (i) and (iii) only 

c. (ii) and (iii) only 

d. (i), (ii) and (iii) 

8. When price is greater than marginal cost for a firm in a competitive market, 

a. marginal cost must be falling. 

b. the firm must be minimizing its losses. 

c. there are opportunities to increase profit by increasing production. 

d. the firm should decrease output to maximize profit. 

9. The substitution effect from an increase in wages is evident in a 

a. decrease in labor demand 

b. desire to consume less leisure. 

c. desire to consume more leisure. 

d. backward-bending labor supply curve. 

10. Suppose that for a particular firm the only variable input into the production process is labor and that output equals zero when no workers are hired. In addition, suppose that when the firm hires 4 workers, the firm produces 50 units of output. If the fixed cost of production is $4, the variable cost per unit of labor is $20, and the marginal product of labor for the fifth unit of labor is 2, what is the average total cost of production when the firm hires 5 workers? 

a. $2.00 

b. $4.00 

c. $5.00 

d. $20.00 

11. In which of the following situation should a profit-maximizing firm leave its output unaltered? 

a. MR > MC and TR > TC. 

b. MR = MC and TR > TVC. 

c. MR > MC and TR = TC. 

d. MR - MC is at a maximum level. 

12. The efficient scale of the firm is the quantity of output that 

a. maximizes marginal product. 

b. maximizes profit. 

c. minimizes average total cost. 

d. minimizes average variable cost.
13. Suppose a firm operating in a competitive market has the following cost curves:

- \( MC \)
- \( ATC \)
- \( AVC \)

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If the market price is \( P_3 \), in the short run the firm will earn
  a. positive economic profits.
  b. negative economic profits but will try to remain open.
  c. negative economic profits and will shut down.
  d. zero economic profits.

14. A monopolistically competitive firm in short-run equilibrium:
  a. will make negative profit (lose money).
  b. will make zero profit (break-even).
  c. will make positive profit.
  d. Any of the above are possible.

15. If government officials break a natural monopoly up into several smaller firms, then
  a. competition will force firms to attain economic profits rather than accounting profits.
  b. competition will force firms to produce surplus output, which drives up price.
  c. the average costs of production will increase.
  d. the average costs of production will decrease.

16. The monopolist faces the following demand curve:

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If the monopolist has total fixed costs of \$40 and a constant marginal cost of \$5, what is the profit-maximizing level of output?
  a. 7 units
  b. 16 units
  c. 23 units
  d. 31 units
17. An important feature that distinguishing monopolistic competition from perfect competition is that
   a. monopolistic competitors sell a differentiated product rather than a homogeneous one.
   b. the monopolistic competitor's demand curve is the same as the market demand curve.
   c. in long-run equilibrium, monopolistic competitors earn economic profits, whereas
      perfectly competitive firms do not.
   d. there are important barriers to entry in monopolistic competition.

18. When a restaurant stays open for lunch service even though few customers patronize the restaurant for
   lunch, which of the following principles is (are) best demonstrated?
   (i) Fixed costs are sunk in the short run.
   (ii) In the short run, only fixed costs are important to the decision to stay open for lunch.
   (iii) If revenue exceeds variable cost, the restaurant owner is making a smart decision to remain open for
   lunch.
   a. (i) and (ii) only
   b. (ii) and (iii) only
   c. (i) and (iii) only
   d. (i), (ii), and (iii)

19. The following diagram shows two budget lines: A and B.

![Budget Lines Diagram]

Which of the following could explain the change in the budget line from A to B?
   a. a decrease in income and a decrease in the price of X
   b. a decrease in income and an increase in the price of X
   c. an increase in income and a decrease in the price of X
   d. an increase in income and an increase in the price of X

20. Suppose when a monopolist produces 75 units its average revenue is $10 per unit, its marginal revenue is
    $5 per unit, its marginal cost is $6 per unit, and its average total cost is $5 per unit. What can we conclude
    about this monopolist?
    a. The monopolist is currently maximizing profits, and its total profits are $375.
    b. The monopolist is currently maximizing profits, and its total profits are $300.
    c. The monopolist is not currently maximizing profits; it should produce more units and
       charge a lower price to maximize profits.
    d. The monopolist is not currently maximizing profits; it should produce fewer units and
       charge a higher price to maximize profits.

21. A family on a trip budgets $800 for meals and hotel accommodations. Suppose the price of a
    meal is $40. In addition, suppose the family could afford a total of 8 nights in a hotel if they don't
    buy any meals. How many meals could the family afford if they gave up two nights in the hotel?
    a. 1
    b. 2
    c. 5
    d. 8
22. What will happen to the equilibrium price and quantity of traditional camera film if traditional cameras become more expensive, digital cameras become cheaper, the cost of the resources needed to manufacture traditional film falls, and more firms decide to manufacture traditional film?
   a. Price will fall and the effect on quantity is ambiguous.
   b. Price will rise and the effect on quantity is ambiguous.
   c. Quantity will fall and the effect on price is ambiguous.
   d. Quantity will rise and the effect on price is ambiguous.

23. Bev is opening her own court-reporting business. She financed the business by withdrawing money from her personal savings account. When she closed the account, the bank representative mentioned that she would have earned $300 in interest next year. If Bev hadn't opened her own business, she would have earned a salary of $25,000. In her first year, Bev's revenues were $30,000. Which of the following statements is correct?
   a. Bev's total explicit costs are $25,300.
   b. Bev's total implicit costs are $300.
   c. Bev's accounting profits exceed her economic profits by $300.
   d. Bev's economic profit is $4,700.

24. The Chicken Game is named for a contest in which drivers test their courage by driving straight at each other. John and Paul have a common interest to avoid crashing into each other, but they also have a personal, competing interest to not turn first to demonstrate their courage to those observing the contest. The payoff table for this situation is provided below. The payoffs are shown as (John, Paul).

<table>
<thead>
<tr>
<th></th>
<th>Turn</th>
<th>Drive Straight</th>
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<tbody>
<tr>
<td>John</td>
<td>(10, 10)</td>
<td>(5, 20)</td>
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<tr>
<td></td>
<td>(20, 5 )</td>
<td>(0, 0)</td>
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</table>

What is Paul's dominant strategy?
   a. Paul has no dominant strategy.
   b. Paul should always choose Turn.
   c. Paul should always choose Drive Straight.
   d. Paul has more than one dominant strategy.

25. If the marginal cost is rising,
   a. average variable cost must be falling.
   b. average fixed cost must be rising.
   c. marginal product must be falling.
   d. marginal product must be rising.

26. A firm that practices resale price maintenance
   a. has incentive to reduce competition between its retailers. Resale price maintenance can lead to more service.
   b. has incentive to reduce competition between its retailers. Resale price maintenance cannot lead to more service.
   c. has no incentive to reduce competition between its retailers. Resale price maintenance can lead to more service.
   d. has no incentive to reduce competition between its retailers. Resale price maintenance cannot lead to more service.

27. Suppose a market is initially perfectly competitive with many firms selling an identical product. Over time, however, suppose the merging of firms results in the market being served by only three or four firms selling this same product. As a result, we would expect
   a. an increase in market output and an increase in the price of the product.
   b. an increase in market output and an decrease in the price of the product.
   c. a decrease in market output and a decrease in the price of the product.
   d. a decrease in market output and an increase in the price of the product.
28. Suppose that when the price of good X falls from $10 to $8, the quantity demanded of good Y rises from 20 units to 25 units. Using the midpoint method,
a. the cross-price elasticity of demand is -1.0, and X and Y are complements.
b. the cross-price elasticity of demand is -1.0, and X and Y are substitutes.
c. the cross-price elasticity of demand is 1.0, and X and Y are complements.
d. the cross-price elasticity of demand is 1.0, and X and Y are substitutes.

29. What happens to the price and quantity sold of a drug when its patent runs out?

(i) The price will fall.
(ii) The quantity sold will fall.
(iii) The marginal cost of producing the drug will rise.
   a. (i) only.
b. (i) and (ii).
c. (ii) and (iii).
d. (i), (ii) and (iii).

30. An important prediction of monopolistic competition is that the long-run equilibrium output of the firm occurs at an output
   a. where price exceeds average total cost.
b. less than the one at which average total cost is at a minimum.
c. less than the one at which average total cost equals average revenue.
d. less than the one at which marginal cost equals marginal revenue.

31. A meditation class meets on the second floor of a building; the first floor is a nightclub. The loud music from the club disturbs the classes. The club could be soundproofed for a cost of $5,000 or move at a cost of $8,000. The class can't soundproof enough to overcome the music, but could be moved for $4,000. According to Coase,
a. the club should be soundproofed so both businesses can stay open.
b. the club should be soundproofed because it is the one generating the externality.
c. the club should move rather than be soundproofed because eliminating an externality is better than compensating for it.
d. the class should move because it can eliminate the externality at a lower cost than can the nightclub.

32. Which of the following could be the price elasticity of demand for a good for which an increase in price would increase revenue?
   a. 0.2
   b. 1
   c. 1.5
   d. All of the above could be correct.

33. Very often, the reason that players can solve the prisoners' dilemma and reach the most profitable outcome is that
   a. each player tries to capture a large portion of the market share.
b. the players play the game not once but many times.
c. the game becomes more competitive.
d. self interest results in the Nash equilibrium which is the best outcome for the players.

34. Which of these assumptions is often realistic for a firm in the short run?
   a. The firm can vary both the size of its factory and the number of workers it employs.
b. The firm can vary both the size of its factory but not the number of workers it employs.
c. The firm can vary the number of workers it employs, but not the size of its factory.
d. The firm can vary neither the size of its factory nor the number of workers it employs.

35. Predatory pricing occurs when a firm
   a. exercises its oligopoly power by raising its price through the formation of a cartel.
b. exercises its monopoly power by raising its price.
c. cuts its prices in order make itself more competitive.
d. cuts its prices temporarily in order to drive out any competition.
36. If corn farmers know that the demand for corn is inelastic, and they want to increase their total revenue, they should all
   a. plant more corn so that they would be able to sell more each year.
   b. increase spending on fertilizer in an attempt to produce more corn on the acres they farm.
   c. reduce the number of acres they plant in corn.
   d. contribute to a fund that promotes technological advances in corn production.

37. Angelo is a wholesale meatball distributor. He sells his meatballs to all the finest Italian restaurants in town. Nobody can make meatballs like Angelo. As a result, his is the only business in town that sells meatballs to restaurants. Assuming that Angelo is maximizing his profit, which of the following statements is true?
   a. Meatball prices will be less than marginal cost.
   b. Meatball prices will equal marginal cost.
   c. Meatball prices will exceed marginal cost.
   d. Costs are irrelevant to Angelo because he is a monopolist.

38. People have little incentive to produce a public good because
   a. the social benefit is less than the private benefit.
   b. the social benefit is less than the social cost.
   c. there is a free-rider problem.
   d. there is a Tragedy of the Commons.

39. Which of the following costs of publishing a book is a fixed cost?
   a. author royalties of 5% per book
   b. the costs of paper and binding
   c. shipping and postage expenses
   d. composition, typesetting, and jacket design for the book

40. A firm that wants to achieve economies of scale could do so by
   a. assigning limited tasks to its employees, so they can master those tasks.
   b. employing a smaller number of workers.
   c. producing a smaller quantity of output.
   d. producing an output level higher than the efficient scale.

41. Which of the following statements is correct?
   a. Internalizing a negative externality will cause an industry to decrease the quantity it supplies to the market and decrease the price of the good produced.
   b. Internalizing a negative externality will cause an industry to decrease the quantity it supplies to the market and increase the price of the good produced.
   c. Internalizing a negative externality will cause an industry to increase the quantity it supplies to the market and decrease the price of the good produced.
   d. Internalizing a negative externality will cause an industry to increase the quantity it supplies to the market and increase the price of the good produced.

42. For a monopoly firm, the shape and position of the demand curve play a role in determining
   (i) the profit-maximizing price.
   (ii) the shape and position of the marginal cost curve.
   (iii) the shape and position of the marginal revenue curve.
   a. (i) and (ii).
   b. (ii) and (iii)
   c. (i) and (iii)
   d. (i), (ii) and (iii).
43. The profit-maximization problem for a monopolist differs from that of a competitive firm in which of the following ways?
   a. A competitive firm maximizes profit at the point where marginal revenue equals marginal cost; a monopolist maximizes profit at the point where marginal revenue exceeds marginal cost.
   b. A competitive firm maximizes profit at the point where average revenue equals marginal cost; a monopolist maximizes profit at the point where average revenue exceeds marginal cost.
   c. For a competitive firm, marginal revenue at the profit-maximizing level of output is equal to marginal revenue at all other levels of output; for a monopolist, marginal revenue at the profit-maximizing level of output is smaller than it is for larger levels of output.
   d. For a profit-maximizing competitive firm, thinking at the margin is much more important than it is for a profit-maximizing monopolist.

44. The optimal level of air quality
   a. is 100 percent, which creates a pollution-free environment.
   b. is smaller the lower the marginal social cost of air quality.
   c. is greater the lower the marginal social benefit of air quality.
   d. is greater the lower the marginal social cost of air quality.

45. Cost-benefit analysts often encounter the problem that those who would benefit from government provision of a public good tend to
   a. overstate the benefit they would receive from the public good and those who would be harmed by government provision of a public good tend to overstate the costs they would incur from the public good.
   b. overstate the benefit they would receive from the public good and those who would be harmed by government provision of a public good tend to understate the costs they would incur from the public good.
   c. understate the benefit they would receive from the public good and those who would be harmed by government provision of a public good tend to overstate the costs they would incur from the public good.
   d. understate the benefit they would receive from the public good and those who would be harmed by government provision of a public good tend to understate the costs they would incur from the public good.

46. Equilibrium price will unambiguously decrease when
   a. demand increases and supply does not change, when demand does not change and supply decreases, and when demand decreases and supply increases simultaneously.
   b. demand increases and supply does not change, when demand does not change and supply decreases, and when demand increases and supply decreases simultaneously.
   c. demand decreases and supply does not change, when demand does not change and supply increases, and when demand decreases and supply increases simultaneously.
   d. demand decreases and supply does not change, when demand does not change and supply increases, and when demand increases and supply decreases simultaneously.

47. For a particular good, a 2 percent increase in price causes a 12 percent decrease in quantity demanded. Which of the following statements is most likely applicable to this good?
   a. There are no close substitutes for this good.
   b. The market for the good is broadly defined.
   c. The good is a luxury.
   d. The relevant time horizon is short.

48. When marginal cost is rising, average variable cost
   a. must be rising.
   b. must be falling.
   c. must be constant.
   d. could be rising or falling.
49. Your younger sister needs $50 to buy a new bike. She has opened a lemonade stand to make the money she needs. Your mother is paying for all of the ingredients. She currently is charging 25 cents per cup, but she wants to adjust her price to earn the $50 faster. If you know that the demand for lemonade is elastic, what is your advice to her?
   a. Leave the price at 25 cents and be patient.
   b. Raise the price to increase total revenue.
   c. Lower the price to increase total revenue.
   d. There isn't enough information given to answer this question.

50. The short-run supply curve of a firm in a perfect competitive market is
   a. identical to the firm's AVC curve above its MC curve.
   b. derived from the market supply curve.
   c. identical to the firm's MC curve above its AVC curve.
   d. the same line as the firm's demand curve.
MULTIPLE CHOICE

1. ANS: C REF: 6-3-2 TOP: 6-3. 獨占性競爭
2. ANS: B REF: 6-1-1 TOP: 6-1. 獨占
3. ANS: B REF: 6-2-1 TOP: 6-2. 寡占
4. ANS: D REF: 2-2 TOP: 2. 供需彈性與比較靜態分析
5. ANS: B REF: 7-1 TOP: 7. 公共財與外部性
6. ANS: A REF: 6-3-1 TOP: 6-3. 獨占性競爭
7. ANS: B REF: 5-1 TOP: 5. 完全競爭市場
8. ANS: C REF: 5-1 TOP: 5. 完全競爭市場
9. ANS: B REF: 3-1 TOP: 3. 消費者選擇(與需求曲線的導出)
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