Chapter 13

MONOPOLISTIC COMPETITION AND OLIGOPOLY

■ Monopolistic Competition

Topic: Monopolistic Competition
Skill: Recognition
1) Which of the following is a characteristic of the market structure for monopolistic competition?
   A) Barriers to entry.
   B) A large number of firms compete.
   C) Each firm produces a differentiated product.
   D) Both answers B and C are correct.

Answer: D

Topic: Monopolistic Competition
Skill: Recognition
2) Which characteristic is associated with monopolistic competition?
   A) Collusion
   B) Product differentiation
   C) Small number of firms
   D) Awareness of rival firms in the market

Answer: B

Topic: Monopolistic Competition
Skill: Recognition
3) Monopolistic competition is a market structure in which
   A) firms face barriers to entry.
   B) a large number of firms compete.
   C) firms produce and sell an identical product.
   D) firms face perfectly elastic demand for their product.

Answer: B

Topic: Monopolistic Competition
Skill: Recognition
4) Which of the following is NOT a characteristic of monopolistic competition?
   A) A large number of firms compete.
   B) Entry and exit is restricted.
   C) Firms compete on product quality.
   D) Firms compete on price.

Answer: B

Topic: Monopolistic Competition
Skill: Recognition
5) Which of the following is NOT a characteristic of monopolistic competition?
   A) There are many firms in the market.
   B) The firms act as price-taking firms.
   C) The firm might advertise its product.
   D) The product of one firm is somewhat different from that of another firm.

Answer: B

Topic: Monopolistic Competition
Skill: Recognition
6) Which of the following is NOT a characteristic of monopolistic competition?
   A) There are a large number of competing firms.
   B) There are significant barriers to entry.
   C) Each firm produces a differentiated product.
   D) Collusion is impossible

Answer: B

Topic: Monopolistic Competition
Skill: Recognition
7) In a monopolistically competitive market there are
   A) Many firms.
   B) One firm.
   C) A very small number of firms.
   D) Two firms.

Answer: A

Topic: Monopolistic Competition
Skill: Recognition
8) Within a monopolistically competitive industry,
   A) each firm faces a downward sloping demand curve.
   B) firms can charge a higher price for a higher quality product.
   C) firms are not able to collude because there are too many of them.
   D) All of the above answers are correct.

Answer: D
9) In monopolistically competitive markets, products are ____ and entry is ____.
   A) identical; free
   B) differentiated; free
   C) identical; hard
   D) differentiated; hard
   **Answer: B**

10) Within a monopolistically competitive industry,
   A) firms can freely enter and exit and economic profits are zero in the long run.
   B) firms can freely enter and exit and economic profits are greater than zero in the long run.
   C) there are some barriers to entry and exit but economic profits are zero in the long run.
   D) there are some barriers to entry and exit and economic profits are greater than zero in the long run.
   **Answer: A**

11) In monopolistic competition, when firms make an economic profit,
   A) the existing firms continue to make an economic profit in the long run because of product differentiation.
   B) new firms enter the industry and so the price falls and the economic profit eventually decreases to zero.
   C) new firms enter the industry and so output decreases and the economic profit increases.
   D) new firms enter the industry and so output increases and the economic profit increases.
   **Answer: B**

12) A monopolistically competitive firm has ____ power to set the price of its product because ____.
   A) no; there are no barriers to entry
   B) some; there are barriers to entry
   C) no; of product differentiation
   D) some; of product differentiation
   **Answer: D**

13) One difference between perfect competition and monopolistic competition is that
   A) a perfectly competitive industry has fewer firms.
   B) in perfect competition, firms produce slightly differentiated products.
   C) monopolistic competition has barriers to entry.
   D) firms in monopolistic competition face a downward-sloping demand curve.
   **Answer: D**

14) When comparing perfect competition and monopolistic competition, we find that
   A) firms in monopolistic competition produce identical products just as do firms in perfect competition.
   B) firms in monopolistic competition face barriers to entry, unlike firms in perfect competition.
   C) advertising plays a large role in monopolistic competition, unlike in perfect competition.
   D) firms in monopolistic competition are price takers just as is the case for firms in perfect competition.
   **Answer: C**

15) In monopolistically competitive industries,
   A) non-price competition through product differentiation is vigorous.
   B) the amount of variety in products is the same as in perfectly competitive industries.
   C) firms are not sensitive to changes in consumer demand.
   D) firms produce where marginal cost exceeds the marginal benefit to consumers.
   **Answer: A**
16) Firms in monopolistic competition make products that are
A) perfect complements.
B) close but not perfect complements.
C) perfect substitutes.
D) close but not perfect substitutes.
Answer: D

17) A characteristic of monopolistic competition is
A) product differentiation.
B) a high capital-output ratio.
C) a low ratio of fixed to variable costs.
D) the absence of advertising.
Answer: A

18) Product differentiation is a defining characteristic of
A) perfectly elastic demand.
B) oligopoly.
C) perfect competition.
D) monopolistic competition.
Answer: D

19) A monopolistically competitive industry has
A) significant barriers to entry.
B) differentiated products.
C) mutually dependent firms.
D) a small number of large firms.
Answer: B

20) Firms in monopolistic competition can achieve product differentiation by
A) expanding plant size.
B) exploiting economies of scale in production.
C) advertising special characteristics.
D) setting the price equal to average revenue.
Answer: C

21) An example of a monopolistically competitive industry is
A) wheat farming.
B) the automobile industry.
C) phone service.
D) the restaurant industry.
Answer: D

22) A characteristic of monopolistic competition is that each firm
A) faces perfectly elastic demand.
B) faces a downward-sloping demand curve.
C) has a perfectly elastic supply.
D) has a perfectly inelastic supply.
Answer: B

23) In monopolistic competition, each firm has a demand curve with
A) a negative slope, and there are no barriers to entry into the market.
B) a slope equal to zero, and there is are no barriers to entry into the market.
C) negative slope, and there are barriers to entry into the market.
D) a slope equal to zero, and there are barriers to entry into the market.
Answer: A

24) If an industry lacks barriers to entry and each of the many firm faces a demand curve with a negative slope, the industry is
A) perfectly competitive.
B) monopolistically competitive.
C) an oligopoly.
D) a monopoly.
Answer: B
CHAPTER 13

Topic: Monopolistic Competition; Demand Curve
Skill: Recognition
25) One important difference between monopoly and monopolistic competition is that the firms face
A) slope of the demand curve that the firms face.
B) point there are no barriers to entry in monopolistic competition.
C) greater restriction of output in monopolistic competition.
D) point that the marginal revenue and demand curves are the same for a monopoly.
Answer: B

Topic: Monopolistic Competition; Demand Curve
Skill: Conceptual
26) In monopolistic competition, each firm’s marginal revenue curve lies ___ its demand curve because of ___.
A) below; barriers to entry
B) below; product differentiation
C) above; barriers to entry
D) above; product differentiation
Answer: B

Topic: Monopolistic Competition; Demand Curve
Skill: Conceptual
27) In monopolistic competition, each firm’s marginal revenue curve has
A) a slope equal to zero, and so does its demand curve.
B) a slope equal to zero, but its demand curve has a negative slope.
C) a negative slope, but its demand curve has zero slope.
D) a negative slope, and so does its demand curve.
Answer: D

Topic: Monopolistic Competition; Demand Curve
Skill: Analytical
28) A firm in monopolistic competition has some degree of price-setting power because
A) in the long run it earns a normal profit.
B) it can never earn less than normal profit.
C) the price it charges is never more than its marginal cost.
D) it must lower its price in order to sell a greater quantity.
Answer: D

Topic: Monopolistic Competition; Cost Curves
Skill: Analytical
29) For a firm in monopolistic competition, the marginal cost curve intersects the average total cost curve
A) at the minimum average total cost.
B) to the left of the minimum average total cost.
C) to the right of the minimum average total cost.
D) at no point.
Answer: A

Topic: Monopolistic Competition; Price
Skill: Analytical
30) Firms in monopolistic competition always will
A) earn an economic profit.
B) set their price equal to their marginal cost.
C) set their price above their marginal cost.
D) produce at the minimum average total cost.
Answer: C

Topic: Monopolistic Competition; Price
Skill: Conceptual
31) Firms in monopolistic competition have rivals that
A) match their price increases.
B) match their price decreases.
C) agree on a common price.
D) set their prices according to the demand curves they face.
Answer: D

Topic: Monopolistic Competition; Short-Run Profit Maximization
Skill: Conceptual
32) In the short run, a monopolistically competitive firm chooses
A) both its price and its quantity.
B) its price but not its quantity.
C) its quantity but not its price.
D) neither its price nor its quantity.
Answer: A
Topic: Monopolistic Competition; Short-Run Profit Maximization
Skill: Recognition
33) In monopolistic competition, in the short run a firm maximizes its profit by selecting an output at which marginal cost equals
A) average total cost.
B) marginal revenue.
C) price.
D) zero.
Answer: B

Topic: Monopolistic Competition; Short-Run Economic Profit
Skill: Recognition
37) If firms in a monopolistically competitive industry are earning an economic profit, then
A) some customers will exit the market.
B) some workers will leave the industry’s labor force.
C) some firms will leave the industry.
D) new firms will enter the industry.
Answer: D

Topic: Monopolistic Competition; Profit Maximization
Skill: Analytical
34) If a monopolistically competitive firm’s marginal cost curve shifts upward, then its level of output will
A) increase.
B) stay the same.
C) decrease.
D) could increase, decrease, or stay the same but more information is needed.
Answer: C

Topic: Monopolistic Competition; Short-Run Economic Loss
Skill: Analytical
35) When firms in monopolistic competition incur an economic loss, some firms will
A) enter the industry and produce more products.
B) exit the industry, and demand will increase for the firms that remain.
C) exit the industry, and demand will decrease for the firms that remain.
D) enter the industry, and demand will become more elastic for the original firms.
Answer: B

Topic: Monopolistic Competition; Short-Run Economic Profit
Skill: Analytical
36) When firms in monopolistic competition are earning an economic profit, firms will
A) enter the industry, and demand will increase for the original firms.
B) exit the industry, and demand will increase for the firms that remain.
C) exit the industry, and demand will decrease for the firms that remain.
D) enter the industry, and demand will decrease for the original firms.
Answer: D

Topic: Monopolistic Competition; Short-Run Profit Maximization
Skill: Analytical
39) In the above figure, if the firm is in monopolistic competition, it will produce
A) 40 units.
B) 60 units.
C) between 60 and 80 units.
D) 100 units.
Answer: A
**Topic: Monopolistic Competition; Short-Run Profit Maximization**
**Skill: Analytical**

40) In the above figure, if the firm is in monopolistic competition, its price will be

A) $1.
B) $2.
C) $3.
D) $4.

Answer: C

**Topic: Monopolistic Competition; Short-Run Economic Profit**
**Skill: Analytical**

41) In the above figure, the monopolistically competitive firm earns an economic profit of

A) $0.
B) between $0 and $50 per day.
C) between $50.01 and $100 per day.
D) greater than $100.01 per day.

Answer: B

**Topic: Monopolistic Competition; Long-Run and Short-Run Economic Profit**
**Skill: Conceptual**

42) The above figure is for a firm in monopolistic competition. The diagram represents the short run rather than the long run because

A) the MR curve cuts the ATC curve from below.
B) the MR curve and the D curve do not coincide.
C) the firm is incurring an economic loss.
D) the firm is earning an economic profit.

Answer: D

**Topic: Monopolistic Competition; Long-Run Equilibrium**
**Skill: Analytical**

44) If all firms in a monopolistically competitive industry faced the same demand and cost curves pictured in the above figure,

A) new firms will enter the industry.
B) some firms will exit the industry.
C) their economic profit would be zero.
D) they would produce 60 units in total.

Answer: A

**Topic: Monopolistic Competition; Long-Run Economic Profit**
**Skill: Analytical**

45) In the above figure, the firm is a monopolistically competitive firm. In the long run, its economic profit will be

A) zero.
B) between zero and $50 per day.
C) greater than $50 per day.
D) some amount that cannot be determined without more information.

Answer: A

**Topic: Monopolistic Competition; Long-Run Profit Maximization**
**Skill: Recognition**

46) The figure above could represent the long-run equilibrium for a

A) perfectly competitive firm.
B) monopolistically competitive firm.
C) monopoly.
D) firm facing inelastic demand at all outputs.

Answer: C
47) In the figure above, assuming that the firm does not shut down, the firm will produce
A) fewer than 20 units.
B) 20 units.
C) 30 units.
D) 40 units.
Answer: B

48) In the figure above, assuming that the firm does not shut down, it will charge a price of
A) $1.
B) $2.
C) $3.
D) $4.
Answer: C

49) In the figure above, the firm’s economic loss will be
A) greater than $30 per day.
B) $30 or less per day.
C) profit will be between $0 and $30 per day.
D) profit will be greater than $30.01 per day.
Answer: B

50) The figure above shows a firm in monopolistic competition. If all firms in the industry have the demand and cost curves illustrated in the figure,
A) some firms will exit the industry in the long run.
B) some firms will enter the industry in the long run.
C) firms will neither enter nor exit the industry in the long run.
D) we cannot tell if firms will enter or exit the industry in the long run.
Answer: A

51) If the market served by a monopolistically competitive industry expands, a likely result in the long run will be
A) less elastic demand curves facing each firm.
B) a higher ratio of price to average cost.
C) a larger number of firms producing a similar product.
D) a transition from monopolistic competition to oligopoly.
Answer: C

52) In the long run, a firm in a monopolistically competitive industry produces where its marginal cost
A) is less than its average cost.
B) equals its average cost.
C) exceeds its average cost.
D) equals its price.
Answer: A

53) In the long run, a firm in monopolistic competition produces where the slope of the average total cost curve is
A) negative.
B) zero.
C) positive.
D) equal to the marginal cost.
Answer: A
54) In the long run, a monopolistically competitive firm can earn
A) an economic profit, and so can a monopoly.
B) an economic profit, but a monopoly cannot.
C) no economic profit, but a monopoly might.
D) no economic profit, and neither can a monopoly.
Answer: C

55) In monopolistically competitive industries,
A) entry and exit push economic profits toward zero.
B) there is no diversity of products.
C) firms are not sensitive to changes in consumer demand.
D) firms produce where marginal cost equals the marginal benefit to the consumers.
Answer: A

56) In long-run equilibrium, a firm in monopolistic competition earns
A) an economic profit but the economic profit is less than it would be if the firm was a monopoly.
B) an economic profit that is higher than what it would be if the firm was a monopoly.
C) a normal profit.
D) an economic profit that is the same amount as it would be if the firm was a monopoly.
Answer: C

57) In the long run, a firm in monopolistic competition will
A) earn a negative economic profit, that is, an economic loss.
B) earn zero economic profit, that is, a normal profit.
C) earn a positive economic profit.
D) None of the above answers is necessarily correct because the amount of the profit or loss depends on the slope of the demand curve.
Answer: B

58) In the long run, all firms in a monopolistically competitive industry earn
A) negative accounting profit.
B) zero accounting profit.
C) an economic profit.
D) zero economic profit.
Answer: D

59) In monopolistic competition, in the long run customers pay a price that is
A) less than the minimum $ATC$.
B) more than the minimum $ATC$.
C) equal to both the minimum $ATC$ and the minimum $AVC$.
D) equal to the minimum $ATC$, but not equal to the minimum $AVC$.
Answer: B

60) In the long run, a monopolistically competitive firm’s price equals its
A) average total cost and its marginal cost.
B) average total cost but not its marginal cost.
C) marginal cost but not its average total cost.
D) neither marginal cost nor its average total cost.
Answer: B
**Topic: Monopolistic Competition; Long-Run Price**

**Skill: Conceptual**

61) In long-run equilibrium, a firm’s price definitely equals its average total cost in both
A) perfect competition and monopoly.
B) oligopoly and monopoly.
C) perfect competition and monopolistic competition.
D) oligopoly and monopolistic competition.

**Answer: C**

**Topic: Monopolistic Competition; Long-Run Price**

**Skill: Recognition**

62) In the long run, a firm in a monopolistically competitive industry has its price equal to its
A) average total cost.
B) marginal cost.
C) marginal revenue.
D) elasticity of demand.

**Answer: A**

**Topic: Monopolistic Competition; Long-Run Price**

**Skill: Conceptual**

63) In the long-run, a firm in monopolistic competition has
A) a price that exceeds its average total cost.
B) a price that exceeds its marginal cost.
C) an average total cost that exceeds its price.
D) a marginal cost that exceeds its price.

**Answer: B**

**Topic: Monopolistic Competition; Long-Run Price**

**Skill: Conceptual**

64) In the long-run equilibrium, a firm’s price definitely equals its average total cost in
A) both monopoly and monopolistic competition.
B) neither monopoly nor monopolistic competition.
C) monopoly but not monopolistic competition.
D) monopolistic competition but not monopoly.

**Answer: D**

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**Topic: Monopolistic Competition; Long-Run Profit Maximization**

**Skill: Analytical**

65) The firm in the figure above is in monopolistic competition. It will set a price equal to
A) $1.
B) $2.
C) $3.
D) more than $3.

**Answer: C**

**Topic: Monopolistic Competition; Long-Run Profit Maximization**

**Skill: Analytical**

66) The firm in the figure above is in monopolistic competition. It will produce
A) 10 units.
B) 20 units.
C) 30 units.
D) 40 units.

**Answer: B**

**Topic: Monopolistic Competition; Long-Run Excess Capacity**

**Skill: Analytical**

67) The firm in the figure above is in monopolistic competition. The firm has
A) no excess capacity.
B) excess capacity of 10 units.
C) excess capacity of 20 units.
D) excess capacity of 30 units.

**Answer: C**
68) In monopolistic competition, in the long run firms have
A) a capacity shortage.
B) excess capacity.
C) an economic profit.
D) an economic loss.
Answer: B

69) In monopolistic competition, in the long run firms produce
A) less output than that which minimizes their ATC.
B) more output than that which minimizes their ATC.
C) the amount of output that minimizes their ATC and their AVC.
D) the amount of output that minimizes their ATC but not their AVC.
Answer: A

70) The above figure depicts a firm in monopolistic competition. What is the profit maximizing level of output the firm will produce?
A) 4 units per day.
B) 8 units per day.
C) 10 units per day.
D) 16 units per day.
Answer: B

71) The above figure depicts a firm in monopolistic competition. What price should the firm charge?
A) $12.
B) $24.
C) $36.
D) None of the above answers is correct.
Answer: C
72) The above figure depicts a firm in monopolistic competition. At the profit maximizing level of output,
A) the firm is making economic profit.
B) the firm incurs an economic loss.
C) the firm is making zero economic profit.
D) this firm would choose to shut down in the short run.
Answer: C

73) The above figure depicts a firm in monopolistic competition. At the profit maximizing level of output, excess capacity for the firm is equal to
A) 0 units per day.
B) 4 units per day.
C) 8 units per day.
D) 16 units per day.
Answer: C

74) In the above figure, the monopolistically competitive firm produces
A) $Q_3$ and sets the price at $P_3$.
B) $Q_2$ and sets the price at $P_2$.
C) $Q_1$ and sets the price at $P_1$.
D) $Q_1$ and sets the price at $P_5$.
Answer: D

75) In the above figure of a monopolistically competitive firm, the marginal cost of the last unit produced is
A) equal to $P_2$ and is greater than marginal revenue.
B) equal to $P_3$ and is greater than marginal revenue.
C) equal to $P_1$ and is greater than marginal revenue.
D) equal to $P_1$ and is equal to marginal revenue.
Answer: D
76) In the above figure of a monopolistically competitive firm, the area of economic profit is
A) $ADB$.  
B) $ABC$.  
C) $P_2 AD P_4$. 
D) $P_2^EFP_5^E$. 
**Answer: D**

77) The above figure shows a monopolistically competitive firm. The figure
A) is only a short-run illustration, because the firm is earning an economic profit. 
B) could be either a short-run or long-run illustration because monopolistically competitive firms can earn an economic profit in the long-run. 
C) is only a long-run illustration because the firm is earning only a normal profit. 
D) is neither a short- nor a long-run illustration. 
**Answer: A**

78) In the above figure, in the long run, this monopolistically competitive firm will
A) produce more output at a higher price, assuming no change in costs of production.  
B) produce less output at a lower price, assuming no change in costs of production. 
C) produce the same quantity at the same price. 
D) Any of the above are possible. 
**Answer: B**

79) When the monopolistically competitive firm shown in the above figure is at its long-run equilibrium, it will be
A) producing the efficient scale of output and is at point $A$ on the $ATC$ curve. 
B) producing more than the efficient scale of output and is at point $C$ on the $ATC$ curve. 
C) producing at less than the efficient scale of output and is at a point such as $F$ on the $ATC$ curve. 
D) producing the efficient scale of output and is at point $B$ on the $MC$ curve. 
**Answer: C**

**Product Development and Marketing**

80) Under monopolistic competition, product improvement and development
A) is valued by the consumer as the increase in price that consumers are willing to pay.  
B) yields a marginal benefit to the producer equal to marginal revenue. 
C) is less than its efficient amount. 
D) All of the above answers are correct. 
**Answer: D**

81) “It is clear from the theory of monopolistic competition that product development is not pushed to its efficient level.” This statement is
A) false because there is so much product differentiation in monopolistic competition. 
B) true because there really is little incentive to innovate in monopolistic competition. 
C) false because there are so many wasteful innovations in monopolistic competition that are merely cosmetic. 
D) true because price exceeds marginal revenue in monopolistic competition. 
**Answer: D**
82) Selling costs, such as advertising, are likely to be a large share of total cost in an industry that is
A) perfectly competitive.
B) monopolistically competitive.
C) a monopoly.
D) non-profit.
Answer: B

83) Excess capacity and high advertising expenditures are encountered in
A) perfect competition.
B) monopolistic competition.
C) monopoly.
D) non-profit competition.
Answer: B

84) Advertising by firms in monopolistic competition
A) provides consumers with no useful information.
B) does not occur.
C) can persuade customers that product differentiation exists.
D) wastes resources because the entry of rivals forces firms to be price takers.
Answer: C

85) Product variety and information for consumers are gains from
A) perfect competition.
B) monopolistic competition.
C) monopoly.
D) oligopoly.
Answer: B

86) The loss of efficiency that occurs in monopolistic competition has to be weighed against the gain of
A) higher wages for employees.
B) an increase in employment.
C) greater product variety.
D) reduced environmental damage.
Answer: C

87) When only a small number of producers compete with each other is a defining characteristic of
A) inelastic supply.
B) monopolistic competition.
C) efficient competition.
D) oligopoly.
Answer: D

88) An example of oligopoly is
A) wheat farming.
B) the restaurant industry.
C) long-distance telephone service.
D) the clothing industry.
Answer: C

89) In oligopolistic markets,
A) there are many firms.
B) there are no barriers to entry.
C) there are only a few firms.
D) all firms are price takers.
Answer: C

90) One difference between oligopoly and monopolistic competition is that
A) a monopolistically competitive industry has fewer firms.
B) in monopolistic competition, the products are identical.
C) monopolistic competition has barriers to entry.
D) fewer firms compete in oligopoly than in monopolistic competition.
Answer: D
91) Of the following market structures, which has the fewest number of firms competing against each other?
A) Monopolistic competition.
B) Oligopoly.
C) Perfect competition.
D) Both answers A and C are correct.
Answer: B

92) Which of the following market structure might have a kinked demand curve?
A) Monopoly.
B) Monopolistic competition.
C) Oligopoly.
D) Perfect competition.
Answer: C

93) The kinked demand model is based on the assumption that each firm believes that
A) if it raises its price, other firms will follow.
B) if it cuts its price, other firms will not follow.
C) if it cuts its price, the other firms will follow.
D) it is unable to ever raise its price.
Answer: C

94) According to the kinked demand curve theory of oligopoly, each firm believes that if it raises its price,
A) the government will impose price controls.
B) other firms will not raise their prices.
C) the overall price level will rise by the same percentage.
D) its profits will rise by the same percentage.
Answer: B

95) The kinked demand curve model of oligopoly is based on the assumption that each firm believes that
A) if it raises or lowers its price other firms will follow.
B) if it raises its price other firms will not follow, and if it lowers its price other firms will follow.
C) if it raises or lowers its price other firms will not follow.
D) if it raises its price other firms will follow, and if it lowers its price other firms will not follow.
Answer: B

96) According to the kinked demand curve theory of oligopoly, each firm thinks that the demand curve just below the existing price is
A) flatter than the curve just above the existing price.
B) has the same slope as the curve just above the existing price.
C) steeper than the curve just above the existing price.
D) None of the above, because in the kinked demand curve theory, the firms are concerned with how the kink in their supply curve affects their consumers’ demands.
Answer: C

97) According to the kinked demand curve theory of oligopoly, each firm believes that if it lowers its price,
A) the government will impose price floors.
B) the government will impose price ceilings.
C) other firms will not lower theirs.
D) other firms will also lower theirs.
Answer: D
98) Which of the following is a basic assumption of the kinked demand curve oligopoly model?
A) If a firm raises its price, other firms will not raise their prices.
B) If a firm raises its price, other firms will raise their prices.
C) If a firm cuts its price, other firms will raise their prices.
D) A firm always produces at an output level where marginal revenue is increasing.
Answer: A

99) In the kinked-demand curve model of oligopoly, the firm’s marginal revenue curve
A) is kinked at the output level at which the demand curve is kinked.
B) is kinked at an output level that is greater than that at which the demand curve is kinked.
C) has a gap at the output level at which the demand curve is kinked.
D) has a gap at an output level that is greater than that at which the demand curve is kinked.
Answer: C

100) The kinked demand curve model of oligopoly predicts that
A) the price the firm sets does not change if there are small changes in the firm’s marginal costs.
B) the price the firm sets does not change if there are large changes in the firm’s marginal costs.
C) price wars in the industry are common.
D) the prices charged by any of the firms in the industry never change.
Answer: A

101) The kinked-demand curve model predicts that
A) dominant firms in oligopolistic markets will frequently change their prices.
B) small firms will look to larger firms for price leadership.
C) oligopolies often show no change in price although costs have changed.
D) the law of demand doesn’t work for oligopolies.
Answer: C

102) In the figure above, if the firm’s marginal cost is MC0, then the firm will produce
A) less than 30 units per day.
B) 30 units per day.
C) more than 30 but less than 40 units per day.
D) 40 units per day.
Answer: B

103) In the figure above, if the firm’s marginal cost curve is MC0 then it will charge a price of
A) $5.
B) more than $5 and less than $15 dollars.
C) $15.
D) $20.
Answer: D
104) In the figure above, if the firm’s marginal cost curve is $MC_0$ then its economic profit
A) is 0.
B) is $150 per day.
C) is $600 per day.
D) cannot be determined.
Answer: D

105) The figure above illustrates the kinked demand curve model of oligopoly. In this figure, if the firm’s marginal cost curve shifts from $MC_0$ to $MC_1$, then the firm’s output level
A) will increase.
B) will decrease.
C) will not change.
D) could increase, decrease, or stay the same.
Answer: C

106) The figure above illustrates the kinked demand curve model of oligopoly. In this figure, if the firm’s marginal cost curve shifts from $MC_0$ to $MC_1$, then the price the firm charges
A) will rise.
B) will fall.
C) will not change.
D) could rise, fall, or stay the same depending on other factors not illustrated.
Answer: C

107) In the kinked demand curve model of oligopoly, if the marginal cost curve shifts upward, then output
A) will always decrease.
B) will always stay the same.
C) will decrease if the shift is small, but stay the same if the shift is large.
D) will stay the same if the shift is small, but decrease if the shift is large.
Answer: D

108) A problem with the kinked demand curve model of oligopoly is that
A) firms’ beliefs about the demand curve are not always correct and firms can figure out that these beliefs are not correct.
B) it assumes that oligopolists can price discriminate.
C) it implies that firms ignore the actions of each other.
D) it assumes that the largest firm has a lower average cost than the other firms.
Answer: A

109) In the dominant firm model of oligopoly
A) the demand curve facing the dominant firm is the same as the demand curve of the entire market.
B) the demand curve facing the dominant firm equals the demand curve of the entire market minus the supply of the smaller firms.
C) the marginal revenue curve is kinked.
D) the marginal revenue curve has a gap.
Answer: B

110) The table above outlines the market demand and small firm supply in the situation of a dominant firm oligopoly. If there are ten identical small firms, then when the price is $30 per case, the quantity demanded from the dominant firm at this price is
A) 0 cases.
B) 60 cases.
C) 540 cases.
D) 600 cases.
Answer: A
Topic: Dominant Firm Oligopoly Model
Skill: Analytical
111) The table above outlines the market demand and small firm supply in the situation of a dominant firm oligopoly. If there are ten identical small firms, then when the price is $20 per case, the quantity demanded from the dominant firm at this price is
A) 40 cases.
B) 500 cases.
C) 860 cases.
D) 900 cases.
Answer: B

Topic: Dominant Firm Oligopoly Model
Skill: Analytical
112) In the dominant firm model of oligopoly, the dominant firm charges
A) a lower price than the smaller firms.
B) the same price as the smaller firms.
C) a higher price than the smaller firms.
D) a price equal to its marginal revenue.
Answer: B

Topic: Dominant Firm Oligopoly Model
Skill: Analytical
113) In the dominant firm model of oligopoly, the dominant firm
A) has lower costs than the smaller firms.
B) has higher costs than the smaller firms.
C) charges a lower price than the smaller firms.
D) charges a higher price than the smaller firms.
Answer: A

Topic: Dominant Firm Oligopoly Model
Skill: Conceptual
115) In the dominant firm model of oligopoly, the smaller firms act as if they were
A) perfect competitors.
B) monopolistic competitors.
C) oligopolists.
D) monopolists.
Answer: A

Topic: Dominant Firm Oligopoly Model
Skill: Conceptual
116) In the dominant firm model of oligopoly, the dominant firm produces the quantity at which its marginal revenue equals
A) the price of the product.
B) its marginal cost.
C) its average total cost.
D) zero.
Answer: B

■ Oligopoly Games

Topic: Game Theory
Skill: Conceptual
117) Game theory proves most useful for analyzing
A) perfect competition.
B) monopolistic competition.
C) oligopoly.
D) monopoly.
Answer: C

Topic: What Is A Game?
Skill: Conceptual
118) Game theory is distinctive in that its elements are
A) costs, prices, and profits.
B) revenues, elasticity, and profits.
C) rules, strategies, payoffs, and outcomes.
D) patents, copyrights, and barriers to entry.
Answer: C
119) The prisoners’ dilemma describes a single-play game that features
A) an outcome in which the participants collude.
B) a large number of rivals cooperating with each other.
C) a situation in which one player has better odds than the other.
D) two players who are unable to communicate with each other.
Answer: D

120) In the prisoners’ dilemma game, each player
A) has only one possible strategy.
B) can choose from two strategies.
C) can choose from three strategies.
D) can choose from four strategies.
Answer: B

121) The simplest prisoners’ dilemma is a game that, in part, requires
A) two players who are able to communicate with each other.
B) two players who are unable to communicate with each other.
C) monopolistic competition.
D) an oligopoly with one very large firm.
Answer: B

122) The table above displays the possible outcomes for Bob and Joe, who have been arrested for armed robbery and car theft. Which of the following is true?
A) If Joe confesses, Bob should not confess.
B) If Bob confesses, Joe should confess.
C) The dominant equilibrium is that Joe and Bob both serve 2 years.
D) If Joe does not confess, Bob should not confess.
Answer: B

123) The prisoners’ dilemma has an equilibrium in which
A) both players deny.
B) both players confess.
C) the player who confesses wins.
D) the player who denies wins.
Answer: B

124) The prisoners’ dilemma has an equilibrium that is
A) a Nash equilibrium and both players confess.
B) not a Nash equilibrium and both players confess.
C) a Nash equilibrium and both players deny.
D) not a Nash equilibrium and both players deny.
Answer: A
**Topic: Game Theory**

**Skill: Analytical**

125) Two software firms have developed an identical new software application. They are debating whether to give the new application away free and then sell add-ons or sell the application at $30 a copy. The payoff matrix is above and the payoffs are profits in millions of dollars. What is Firm 1’s best strategy?

A) Give away the application regardless of what Firm 2 does.

B) Sell the application at $30 a copy regardless of what Firm 2 does.

C) Give away the application only if Firm 2 sells the application.

D) Give away the application only if Firm 2 gives away the application.

**Answer: A**

**Topic: Game Theory, Nash Equilibrium**

**Skill: Conceptual**

126) Two software firms have developed an identical new software application. They are debating whether to give the new application away free and then sell add-ons or sell the application at $30 a copy. The payoff matrix is above and the payoffs are profits in millions of dollars. What is the Nash equilibrium of the game?

A) Both Firm 1 and 2 will sell the software application at $30 a copy.

B) Both Firm 1 and 2 will give the software application away free.

C) Firm 1 will give the application away free and Firm 2 will sell it at $30.

D) There is no Nash equilibrium to this game.

**Answer: B**

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**Topic: Game Theory**

**Skill: Analytical**

127) Firms A and B can conduct research and development (R&D) or not conduct it. R&D is costly but can increase the quality of the product and thus possibly increase sales. The payoff matrix is the economic profits of the two firms and is given above, where the numbers are millions of dollars. A’s best strategy is to

A) conduct R&D regardless of what B does.

B) not conduct R&D regardless of what B does.

C) conduct R&D only if B conducts R&D.

D) conduct R&D only if B does not conduct R&D.

**Answer: A**

**Topic: Game Theory, Nash Equilibrium**

**Skill: Conceptual**

128) Firms A and B can conduct research and development (R&D) or not conduct it. R&D is costly but can increase the quality of the product and thus possibly increase sales. The payoff matrix is the economic profits of the two firms and is given above, where the numbers are millions of dollars. The Nash equilibrium occurs when

A) both A and B conduct R&D.

B) only A conducts R&D.

C) only B conducts R&D.

D) neither A nor B conduct R&D.

**Answer: A**
129) Disney and Fox must decide when to release their next films. The revenues received by each studio depends on when the other studio releases its film. Each studio can release its film at Thanksgiving or at Christmas. The revenues received by each studio, in millions of dollars, are depicted in the payoff matrix above. Which of the following statements correctly describes Fox’s strategy given what Disney’s release choice may be?

A) If Disney chooses a Thanksgiving release, Fox should choose a Christmas release.
B) If Disney chooses a Christmas release, Fox should choose a Thanksgiving release.
C) Fox should release on Christmas regardless of what Disney does.
D) Both answers A and B are correct.

Answer: D

130) Disney and Fox must decide when to release their next films. The revenues received by each studio depends on when the other studio releases its film. Each studio can release its film at Thanksgiving or at Christmas. The revenues received by each studio, in millions of dollars, are depicted in the payoff matrix above. Which of the following statements correctly describes Disney’s strategy given what Fox’s release choice may be?

A) If Fox chooses a Thanksgiving release, Disney should choose a Christmas release.
B) If Fox chooses a Christmas release, Disney should choose a Thanksgiving release.
C) Disney should release on Thanksgiving regardless of what Fox does.
D) Both answers A and B are correct.

Answer: D

131) Libertyville has two optometrists, Dr. Smith and Dr. Jones. Each optometrist can choose to advertise his service or not. The net revenue to each optometrist, in thousands of dollars, is depicted in the payoff matrix above. Which of the following statements correctly describes Dr. Smith’s strategy given what Dr. Jones may do?

A) Dr. Smith should advertise no matter what Dr. Jones does.
B) Dr. Smith should not advertise no matter what Dr. Jones does.
C) Dr. Smith should advertise only if Dr. Jones doesn’t advertise.
D) Dr. Smith should advertise only if Dr. Jones advertises.

Answer: A

132) Libertyville has two optometrists, Dr. Smith and Dr. Jones. Each optometrist can choose to advertise his service or not. The net revenue to each optometrist, in thousands of dollars, is depicted in the payoff matrix above. Which of the following statements correctly describes Dr. Jones’ strategy given what Dr. Smith may do?

A) Dr. Jones should advertise no matter what Dr. Smith does.
B) Dr. Jones should not advertise no matter what Dr. Smith does.
C) Dr. Jones should advertise only if Dr. Smith doesn’t advertise.
D) Dr. Jones should advertise only if Dr. Smith advertises.

Answer: A
Topic: Nash Equilibrium  
Skill: Analytical  
133) Libertyville has two optometrists, Dr. Smith and Dr. Jones. Each optometrist can choose to advertise his service or not. The net revenue to each optometrist, in thousands of dollars, is depicted in the payoff matrix above. Which of the following statements correctly categorizes the Nash equilibrium for the game?

A) The game has a Nash equilibrium in which both optometrists advertise.  
B) The game has a Nash equilibrium in which both optometrists do not advertise.  
C) The game has a Nash equilibrium in which Dr. Smith advertises and Dr. Jones does not advertise.  
D) The game has a Nash equilibrium in which Dr. Smith does not advertise and Dr. Jones does advertise.

Answer: A

Topic: Price-Fixing Game  
Skill: Recognition  
134) In an oligopoly price-fixing game, each player tries to

A) minimize the market shares of its opponents.  
B) maximize its own market share.  
C) minimize the profits of its opponents.  
D) maximize its own profit.

Answer: D

Topic: Price-Fixing Game  
Skill: Recognition  
135) In the oligopoly price-fixing game, the payoffs are the

A) profits of the firms.  
B) market shares of the firms.  
C) sales of the firms.  
D) reputations of the firms.

Answer: A

Topic: Price-Fixing Game  
Skill: Conceptual  
136) A duopoly is a form of

A) perfect competition.  
B) monopolistic competition.  
C) oligopoly.  
D) monopoly.

Answer: C

Topic: Cartel  
Skill: Recognition  
137) A cartel usually has a collusive agreement to

A) restrict output.  
B) boost output.  
C) lower the price.  
D) increase the number of firms in the industry.

Answer: A

Topic: Cartel  
Skill: Recognition  
138) A cartel is a group of firms that

A) produce differentiated products.  
B) produce products that are complements.  
C) agree to restrict output to boost their profit.  
D) agree to boost output to boost their profit.

Answer: C

Topic: Colluding To Maximize Profits  
Skill: Conceptual  
139) If there is a collusive agreement in a duopoly to maximize profit, then the price will

A) equal the marginal cost of production.  
B) equal the average total cost of production.  
C) be the same as the price set by a monopoly.  
D) be the same as the price set by a competitive industry.

Answer: C

Topic: Colluding To Maximize Profits  
Skill: Recognition  
140) The maximum total economic profit that can be made by colluding duopolists

A) is less than the economic profit made by a monopolist.  
B) equals the economic profit made by a monopolist.  
C) exceeds the economic profit made by a monopolist.  
D) bears no necessary relation to the economic profit made by a monopolist.

Answer: B
CHAPTER 13

**Topic: Cartel; Incentive To Cheat**

**Skill: Conceptual**

141) Once a cartel determines the profit-maximizing price,
A) each firm faces the temptation to cheat by raising its price.
B) each firm faces the temptation to cheat by lowering its price.
C) changes in the output of any member firm will not affect the market price.
D) entry into the industry by rival firms will not affect the profit of the cartel.

**Answer:** B

**Topic: Cartel; Incentive To Cheat**

**Skill: Conceptual**

142) In a cartel,
A) each firm has an incentive to decrease its own output below the level set by the cartel.
B) the firms’ marginal cost equals the price set by the cartel.
C) each firm has an incentive to lower its price below the level set by the cartel.
D) each firm has an incentive to raise its price above the level set by the cartel.

**Answer:** C

**Topic: Colluding To Maximize Profits**

**Skill: Conceptual**

146) Sears and Wal-Mart must decide whether to lower their prices, based on the potential economic profits shown in the table above. Which of the following is true?
A) This situation is not a prisoners’ dilemma.
B) If Sears lowers its prices and Wal-Mart does not, Sears will earn a $20 million economic profit.
C) If Wal-Mart lowers its prices, Sears should keep its prices high.
D) Both Sears and Wal-Mart would jointly be better off if they could each keep their prices high.

**Answer:** D

**Topic: Equilibrium of the Duopolists’ Dilemma**

**Skill: Analytical**

147) Refer to the payoffs in the table above. Sears and Wal-Mart must decide whether to lower their prices based on the potential profits shown in the table. This game has
A) no Nash equilibrium.
B) a Nash equilibrium: Sears keeps its prices high and Wal-Mart lowers its prices.
C) a Nash equilibrium: both Sears and Wal-Mart keep prices high.
D) a Nash equilibrium: both Sears and Wal-Mart lower prices.

**Answer:** D
Repeated Games and Sequential Games

Topic: Repeated Games
Skill: Analytical
148) A tit-for-tat strategy can be used in
A) a single-play game or a repeated game.
B) a single-play game but not a repeated game.
C) a repeated game but not a single-play game.
D) neither a repeated game nor a single-play game.
Answer: C

Topic: Repeated Games
Skill: Recognition
149) A trigger strategy can be used in
A) a single-play game or a repeated game.
B) a single-play game but not a repeated game.
C) a repeated game but not a single-play game.
D) neither a single-play game nor a repeated game.
Answer: C

Topic: Repeated Games
Skill: Recognition
150) A strategy in which a player cooperates in the current period if the other player cooperated in the previous period, but the player cheats in the current period if the other player cheated in the previous period is called a
A) tit-for-tat strategy.
B) trigger strategy.
C) duopoly strategy.
D) dominant firm strategy.
Answer: A

Topic: Repeated Games
Skill: Recognition
151) A trigger strategy is one in which
A) a player cooperates in the current period if the other player cooperated in the previous period, but cheats in the current period only if the other player cheated in the previous period.
B) a player cheats in the current period if the other player cooperated in the previous period, but cooperates in the current period if the other player cheated in the previous period.
C) a player cooperates in the current period if the other player has always cooperated, but cheats forever if the other player ever cheats.
D) a player cheats in the current period if the other player has always cheated, but cooperates forever if the other player has ever cooperated.
Answer: C

Topic: Repeated Games
Skill: Recognition
152) In a repeated game,
A) tit-for-tat and trigger strategies are both mild.
B) tit-for-tat and trigger strategies are both severe.
C) a tit-for-tat strategy is mild and a trigger strategy is severe.
D) a tit-for-tat strategy is severe and a trigger strategy is mild.
Answer: C

Topic: Repeated Games
Skill: Analytical
153) A cooperative equilibrium is most likely to arise in
A) a single-play game with a large number of players.
B) a single-play game without communication.
C) a repeated game with a large number of players.
D) a repeated game with a small number of players.
Answer: D

Topic: Games And Price Wars
Skill: Analytical
154) With barriers to the entry of new firms,
A) a cartel is guaranteed to earn an economic profit.
B) a cartel’s members have no incentive to cheat.
C) the cartel might earn an economic profit.
D) industry supply will expand.
Answer: C
**Topic: Games And Price Wars**
**Skill: Conceptual**

155) Price wars are
A) most likely when there is a monopoly.
B) most likely when there is oligopoly.
C) most likely when there is perfect competition.
D) equally likely in the cases of monopoly, oligopoly, and perfect competition.

*Answer: B*

**Topic: Contestable Market**
**Skill: Conceptual**

156) An example of someone who could operate in a contestable market is
A) a cable TV company.
B) a wheat farmer.
C) a ship owner operating on a major waterway.
D) a private college operating in a state with many public colleges.

*Answer: C*

157) In a contestable market the Herfindahl-Hirschman Index is
A) low and the market behaves as if it is perfectly competitive.
B) low but the market behaves as if it is a monopoly.
C) high but the market behaves as if it is perfectly competitive.
D) high and the market behaves as if it is a monopoly.

*Answer: C*

158) A contestable market is one in which
A) there are one or a few firms and entry into the market is costly.
B) there are one or a few firms and entry into the market is not costly.
C) there are many firms and entry into the market is costly.
D) there are many firms and entry into the market is not costly.

*Answer: B*

**Topic: Contestable Market**
**Skill: Conceptual**

159) In a contestable market
A) two or more firms are competing.
B) the Herfindahl-Hirschman Index exceeds 1,800.
C) the four-firm concentration ratio exceeds 50 percent.
D) potential entry holds down prices.

*Answer: D*

**Topic: Entry-Deterrence Game**
**Skill: Analytical**

160) Adkins Air is the only seller offering service directly from Milwaukee to Greensboro. The market is contestable. Thus the Nash Equilibrium for a game between Adkins Air and a potential entrant is when
A) the potential entrant enters and Adkins earns a normal profit.
B) the potential entrant enters and Adkins earns an economic profit.
C) the potential entrant does not enter and Adkins earns a normal profit.
D) the potential entrant does not enter and Adkins earns an economic profit.

*Answer: C*

**Topic: Limit Pricing**
**Skill: Recognition**

161) The practice of the only seller in a market charging a price less than the monopoly price in order to scare away potential entrants is called
A) limit pricing.
B) collusive pricing.
C) agile pricing.
D) trigger pricing.

*Answer: A*

**Study Guide Questions**

**Topic: Study Guide Question; Monopolistic Competition**
**Skill: Recognition**

162) The type of industry structure that has many firms, each producing a differentiated product, with no barriers to entry or exit is called
A) perfect competition.
B) monopolistic competition.
C) oligopoly.
D) monopoly.

*Answer: B*
163) A monopolistically competitive firm has excess capacity because in the 
A) short run its MR exceeds its MC. 
B) short run its ATC is less than its AVC. 
C) long run its ATC exceeds its minimum ATC. 
D) long run it earns an economic profit. 
Answer: C

164) A monopolistically competitive firm is like a perfectly competitive firm insofar as both 
A) have negatively sloping demand curves. 
B) can earn no economic profit in the long run. 
C) have horizontal MR curves. 
D) are protected by high barriers to entry. 
Answer: B

165) Which of the following is characteristic of oligopoly, but NOT of monopolistic competition? 
A) The choices made by one firm have a significant effect on other firms. 
B) Each firm faces a downward-sloping demand curve. 
C) Firms are profit-maximizers. 
D) There is more than one firm in the industry. 
Answer: A

166) A monopolistically competitive firm is like an oligopolistic firm insofar as 
A) both face perfectly elastic demand. 
B) both can earn an economic profit in the long run. 
C) both have MR curves that lie beneath their demand curves. 
D) neither is protected by high barriers to entry. 
Answer: C

167) When a cartel maximizes its profit, 
A) each firm necessarily produces the same amount. 
B) the industry level of output is efficient. 
C) industry marginal revenue equals industry marginal cost at the level of total output. 
D) total output is greater than it would be without collusion. 
Answer: C

168) In an oligopoly with a collusive agreement, the total industry profits will be smallest when 
A) all firms comply with the agreement. 
B) one firm cheats on the agreement and the other firms do not cheat. 
C) all firms cheat on the agreement. 
D) the firms act as a monopoly. 
Answer: C

169) Price wars can be the result of 
A) a cooperative equilibrium. 
B) a firm playing a tit-for-tat strategy in which last period the competitors complied with a collusive agreement. 
C) new firms entering the industry and immediately agreeing to abide by a collusive agreement. 
D) new firms entering the industry and all firms then finding themselves in a prisoners’ dilemma. 
Answer: D

170) In a contestable market, 
A) the HHI is usually quite low. 
B) the firm in the market usually earns a large economic profit. 
C) the firm in the market may play an entry-deterrence game. 
D) there are high barriers to entry. 
Answer: C
MyEconLab Questions

Topic: Monopolistic Competition
Level 1: Definitions and Concepts
171) Monopolistic competition is a market in which _____ firms produce _____ goods and services.
A) many; identical
B) many; differentiated
C) few; differentiated
D) few; identical
Answer: B

Topic: Product Differentiation
Level 1: Definitions and Concepts
172) The Netscape, Internet Explorer, and Opera browsers are an example of ____.
A) monopoly industries
B) perfectly competitive industries
C) product differentiation
D) identical products
Answer: C

Topic: Innovation and Product Development
Level 1: Definitions and Concepts
173) A monopolistically competitive firm can increase its economic profit by ____.
A) developing new products
B) producing at the efficient quantity
C) eliminating excess capacity
D) advertising less
Answer: A

Topic: Marketing
Level 1: Definitions and Concepts
174) Advertising costs of a monopolistically competitive firm are ____.
A) greater than a monopoly and the same as a competitive firm
B) greater than a competitive firm
C) less than a competitive firm
D) the same as a monopoly
Answer: B

Topic: Oligopoly
Level 1: Definitions and Concepts
175) A market structure in which a small number of firms compete is called ____.
A) a monopoly
B) a small-number market
C) an oligopoly
D) monopolistic competition
Answer: C

Topic: Game Theory
Level 1: Definitions and Concepts
176) In game theory, strategies include ____.
A) all possible actions of each player
B) only the winning action of each player
C) all possible actions and payoffs of each player
D) the payoff matrix
Answer: A

Topic: Game Theory
Level 1: Definitions and Concepts
177) A table that shows the payoffs for every possible action by each player for every possible action by each other player is called the ____.
A) strategy table
B) game matrix
C) payoff matrix
D) strategy matrix
Answer: C

Topic: Nash Equilibrium
Level 1: Definitions and Concepts
178) In the prisoners’ dilemma game, when each player takes the best possible action given the action of the other player, ____.
A) a competitive equilibrium is reached
B) one player denies and one player confesses
C) both players deny
D) a Nash equilibrium is reached
Answer: D

Topic: Prisoners’ dilemma
Level 1: Definitions and Concepts
179) The outcome of a prisoners’ dilemma game with a Nash equilibrium is that ____.
A) both players deny
B) one player denies and one player confesses
C) both players confess
D) there is no equilibrium
Answer: A
Topic: Duopoly
Level 1: Definitions and Concepts
180) A duopoly occurs when ____.
A) there are only two producers of a particular good
competing in the same market
B) there are two producers of two goods competing
in an oligopoly market
C) there are numerous producers of two goods
competing in a competitive market
D) the one producer of two goods sells the goods in
a monopoly market
Answer: A

Topic: Monopolistic Competition; Long-Run Excess Capacity
Level 2: Using Definitions and Concepts
181) In monopolistic competition in the long run, firms ____.
A) make a normal profit and require more capacity
B) incur an economic loss and require more capacity
C) make an economic profit and have excess capacity
D) make a normal profit and have excess capacity
Answer: D

Topic: Marketing
Level 2: Using Definitions and Concepts
182) Advertising costs are ____ costs and the per unit
cost ____ as production increases.
A) fixed; increases
B) variable; increases
C) fixed; decreases
D) variable; does not change
Answer: C

Topic: Game Theory
Level 2: Using Definitions and Concepts
183) John von Neumann and Oskar Morgenstern are the inventors of ____.
A) duopoly theory
B) game theory
C) oligopoly theory
D) the Nash equilibrium
Answer: B

Topic: Cartel
Level 2: Using Definitions and Concepts
184) When producers agree to restrict output, raise the price, and increase profits, the agreement is called ____.
A) a pricing agreement
B) an oligopoly agreement
C) a collusive agreement
D) a monopoly agreement
Answer: C

Topic: Cooperative Equilibrium
Level 2: Using Definitions and Concepts
185) ____ is a group of firms that have made a collusive agreement.
A) A cartel
B) An oligopoly
C) A strategy
D) A duopoly
Answer: A

Topic: Limit Pricing
Level 2: Using Definitions and Concepts
187) Limit pricing sets the price at the highest level that ____.
A) maximizes the profit of an entrant
B) maximizes the profit of the existing firm
C) maximizes the profit of both the existing firm
and the entering firm
D) inflicts a loss on the entrant
Answer: D
Topic: Monopolistic Competition; Long-Run Equilibrium
Level 3: Calculations and Predictions
188) If in monopolistic competition in the short run, firms make ____ profits, then in the long run, new firms will enter the market. The ____ each individual firm’s product will ____. In the new long-run equilibrium firms will make ____ profit.
A) economic; demand for; decrease; a normal
B) normal; demand for; increase; a normal
C) economic; supply of; decrease; an economic
D) economic; supply of; increase; a normal
Answer: A

Topic: Innovation and Product Development
Level 3: Calculations and Predictions
189) At a monopolistically competitive firm’s current level of product development, marginal revenue is greater than the marginal cost. The firm will ____.
A) sell only new products
B) increase product development only if the consumer benefits
C) decrease product development
D) increase product development
Answer: D

Topic: Marketing
Level 3: Calculations and Predictions
190) Expenditures on advertising ____.
A) can lower average total cost if the advertising increases the quantity sold by a large enough amount
B) cannot lower average total cost because when a firm advertises it increases its costs
C) always lower average total cost because whenever a firm advertises, it increases the quantity sold
D) are variable costs so do not affect the average total cost
Answer: A

Topic: Prisoners’ Dilemma
Level 3: Calculations and Predictions
191) Ann and Lynn have been arrested by the police, who have evidence that will convict them of robbing a bank. If convicted, each will receive a sentence of 6 years for the robbery. During questioning, the police suspect that Ann and Lynn are responsible for a series of bank robberies. If both confess to the series, each will receive 12 years in jail. If only one confesses, she will receive 4 years and the one who does not confess will receive 14 years. What is the equilibrium for this game?
A) both confess
B) Ann confesses and Lynn does not confess
C) Lynn confesses and Ann does not confess
D) neither confess
Answer: A

Topic: Game Theory
Level 3: Calculations and Predictions
192) Game theory is a tool for studying ____.
A) Nash behavior
B) payoff dilemmas
C) rational dilemmas
D) strategic behavior
Answer: D

Topic: Colluding To Maximize Profits
Level 3: Calculations and Predictions
193) The maximum economic profit that can be made by a duopoly that colludes is equal to the ____.
A) economic profit made by duopolists who cheat
B) normal profit made by an oligopoly
C) economic profit made by a monopoly
D) normal profit made by firms in perfect competition
Answer: C

Topic: Colluding To Maximize Profits
Level 3: Calculations and Predictions
194) In a duopoly with a collusive agreement, a firm’s profit is largest if it ____ and if the other firm ____.
A) complies; complies
B) complies; cheats
C) cheats; complies
D) cheat; cheats
Answer: C
Topic: Contestable Market

Level 3: Calculations and Predictions

195) The Herfindahl-Hirschman Index will indicate that a contestable market is ____.
   A) a sequential market
   B) competitive
   C) uncompetitive
   D) a prisoners’ dilemma

Answer: C

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Topic: Monopolistic Competition; Short-Run Profit Maximization

Level 4: Advanced Calculations and Predictions

196) The figure above shows the cost, marginal revenue, and demand curves of Golden Chow, a producer of dog food. The market for dog food is monopolistic competition. In the short run, Golden Chow sells 400 cans of dog food per day and makes ____. Other firms have ____ incentive to enter the industry.
   A) an economic profit of $200 a day; an
   B) an economic profit of $400 a day; an
   C) normal profit of $200 a day; no
   D) an economic profit of $400 a day; no

Answer: A

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Topic: Monopolistic Competition; Long-Run Equilibrium

Level 4: Advanced Calculations and Predictions

197) The figure above shows the cost, marginal revenue, and demand curves of Golden Chow, a producer of dog food. The market for dog food is monopolistic competition. In the long run as new firms enter, Golden Chow cuts its output to 200 cans per day. Its excess capacity is ____ cans per day.
   A) 0
   B) between 0 and 200
   C) between 201 and 400
   D) more than 401

Answer: C

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Topic: Game Theory

Level 4: Advanced Calculations and Predictions

199) Game theory is most useful for determining the outcome when ____.
   A) the market structure is oligopoly
   B) monopolistic competition exists
   C) prison terms are involved
   D) the market is dominated by a monopoly

Answer: A

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Topic: Colluding To Maximize Profits

Level 4: Advanced Calculations and Predictions

200) When two firms collude to maximize profit the total quantity produced by both firms taken together is determined at the quantity where ____.
   A) excess capacity is minimized
   B) industry marginal cost equals industry marginal revenue
   C) the price equals the industry’s marginal cost
   D) excess capacity is as large as possible zero

Answer: B
Oscar and Felix are the only firms that clean offices in a large city. They agree to operate as a cartel. The payoff matrix above gives the economic profit that each firm can make. If Felix cheats on the agreement but Oscar complies, Felix makes an economic profit of ____ and Oscar makes an economic profit of ____.

A) $10 million; $10 million  
B) $1 million; $1 million  
C) $−2 million; $12 million  
D) $12 million; $−2 million

Answer: D

Topic: Game Theory  
Level 4: Advanced Calculations and Predictions

202) Oscar and Felix are the only firms that clean offices in a large city. They agree to operate as a cartel. The payoff matrix above shows the economic profit that each firm can make. If the game is played only once, then ____.

A) Felix and Oscar will each make $10 million profit  
B) Felix will comply and Oscar will make $12 million profit  
C) Felix will make $−2 million and Oscar will cheat  
D) Felix and Oscar will each make $10 million profit

Answer: C

Topic: Game Theory  
Level 4: Advanced Calculations and Predictions

203) Oscar and Felix are the only firms that clean offices in a large city. They agree to operate as a cartel. The payoff matrix shows the economic profit that each firm can make. If the game is played repeatedly and Felix and Oscar both use a tit-for-tat strategy, then ____.

A) Felix will make $10 million and Oscar will cheat  
B) Felix and Oscar will each make $1 million profit  
C) Felix will make $−2 million and Oscar will cheat  
D) Felix and Oscar will each make $10 million profit

Answer: D