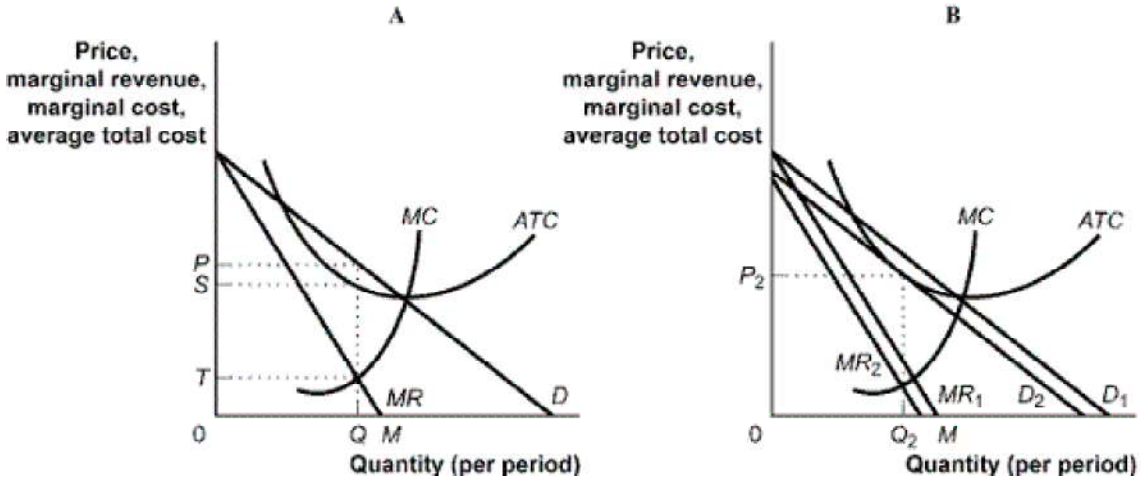
DO NOT WRITE ON THIS TEST!

Unit 13 AP Economics - Practice

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. A natural monopoly exists whenever a single firm:
   a. is owned and operated by the federal or local government.
   b. is investor-owned but has been granted the exclusive right by the government to operate in a market.
   c. earns economic profits in the long run.
   d. has gained control over a strategic input of an important production process.
   e. experiences economies of scale over the entire range of production that is relevant to its market.

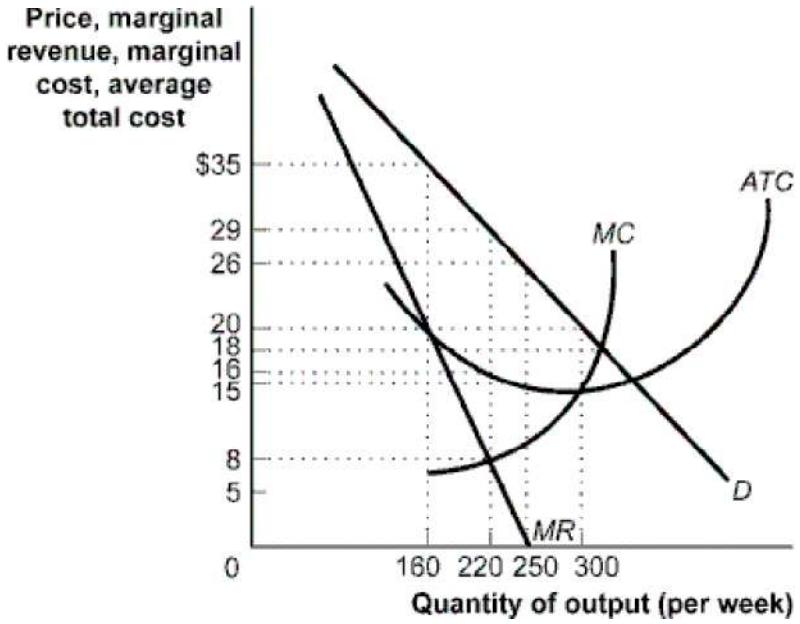
Figure 67-5: Profit Maximization in Monopolistic Competition



2. (Figure 67-5: Profit Maximization in Monopolistic Competition) In panel A, the profit-maximizing price and quantity are _____ and _____.
   a. *S; M*
   b. *P; M*
   c. *P; Q*
   d. *T; Q*
   e. *S; Q*
3. (Figure 67-5: Profit Maximization in Monopolistic Competition) In panel A, the firm in monopolistic competition may experience short-run economic profits as shown by:
   a. *P - S.*
   b. *(P - S)* times the quantity *M.*
   c. *(P - S)* times the quantity *Q.*
   d. *(P*T)* times the quantity *Q.*
   e. *P*M.*
4. The following are four statements about monopoly and perfect competition. Which of these is *correct*?
   a. A monopolist has market power while a perfect competitor does not.
   b. Like a perfectly competitive firm, a monopoly can make positive economic profits in the long run.
   c. A monopoly will charge a higher price and produce a larger quantity than a competitive market with the same demand and cost structure.
   d. Monopoly profits cannot continue to exist in the long run, because there are no barriers to entry.
   e. The demand for the monopolist's product is highly elastic due to many available substitutes.

5. Compared to perfect competition:
   a. monopoly produces more at a lower price.
   b. monopoly produces where *MR* > *MC,* and a perfectly competitively firm produces where *P* = *MC.*
   c. monopoly may have economic profits in the long run, but in perfect competition economic profits are zero in the long run.
   d. perfect competition may have economic profits in the long run, but in monopoly economic profits are zero in the long run.
   e. monopoly produces where *MR* = *MC,* and a perfectly competitively firm produces where *P* = *MR* > *MC.*
6. Because monopoly firms are the only firm in the market:
   a. they can maximize total revenue, but cannot maximize profit.
   b. they sell more at higher prices than at lower prices.
   c. they take the market-determined price as given and sell all they can at that price.
   d. they charge the highest possible price.
   e. they can only sell more by lowering price.
7. Mr. Magic has a monopoly on magic hats. The large barriers to entry in the magic hat industry are the reason why Mr. Magic's monopoly:
   a. is one of several firms competing for customers in this market.
   b. produces at the minimum average total cost in the long run.
   c. produces with no fixed costs in the short run.
   d. maximizes its profits by producing where *P* = *MC.*
   e. earns an economic profit in the long run.
8. Wendy has a monopoly in the retailing of motor homes. She can sell five per week at $21,000 each. If she wants to sell six, she must charge $20,000 each. The quantity effect of selling the sixth motor home is:
   a. $20,000.
   b. $10,000.
   c. $15,000.
   d. $21,000.
   e. $1,000.
9. The demand curve for a monopoly is:
   a. the *MR* curve above the *AVC* curve.
   b. the *MR* curve above the horizontal axis.
   c. the entire *MR* curve.
   d. the *MC* curve above the *AVC* curve.
   e. above the *MR* curve.
10. A demand curve that is downward-sloping will ensure that:
    a. *P* = *MR.*
    b. *P* > *MR.*
    c. *P* < *MR.*
    d. *P* = *MC.*
    e. economic profit is zero.
11. Which of the following is true?
    a. Instead of applying the marginal decision rule, monopoly firms just set the price as high as possible.
    b. If demand is downward-sloping, *P* = *MR.*
    c. If demand is downward-sloping, *P* = *ATC.*
    d. If demand is downward-sloping, *P* > *MR.*
    e. Marginal revenue is greater than zero at all levels of output.
12. If a monopolist is producing a quantity that generates *MC* = *P,* then profit:
    a. is maximized.
    b. is maximized only if *MR* = *P.*
    c. can be increased by increasing production.
    d. is equal to zero and cannot be changed.
    e. can be increased by decreasing production.

Figure 61-3: A Profit-Maximizing Monopoly Firm



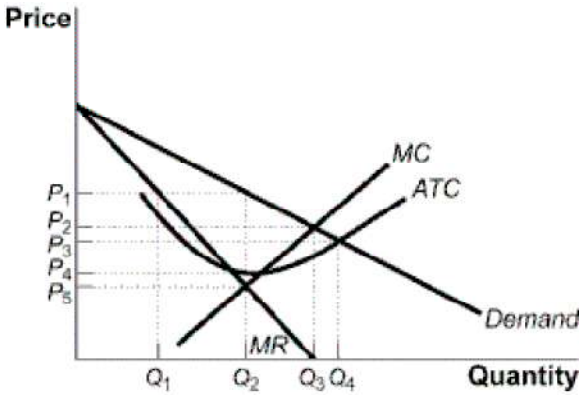
13. (Figure 61-3: A Profit-Maximizing Monopoly Firm) The profit-maximizing firm in this figure will produce _____ units of output per week.
    a. 160
    b. 220
    c. 250
    d. 300
    e. 0

14. (Figure 61-3: A Profit-Maximizing Monopoly Firm) This profit-maximizing monopoly firm's cost per unit at its profit-maximizing quantity is:
    a. $8.
    b. $15.
    c. $16.
    d. $18.
    e. $35.

15. (Figure 61-3: A Profit-Maximizing Monopoly Firm) This profit-maximizing monopoly firm's price per unit is:
    a. $20.
    b. $26.
    c. $29.
    d. $35.
    e. $16.

16. (Figure 61-3: A Profit-Maximizing Monopoly Firm) This profit-maximizing monopoly firm's profit per unit is:
    a. $5.
    b. $13.
    c. $14.
    d. $20.
    e. $2.

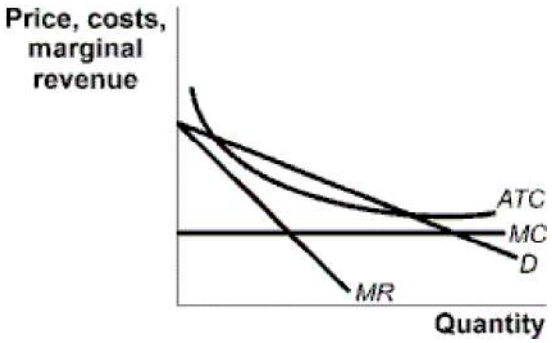
Figure 61-5: A Gadget Monopoly



17. (Figure 61-5: A Gadget Monopoly) The graph shows a monopoly firm that sells gadgets. If the firm acts to maximize profit, the firm will sell _____ units at a price of _____ per unit.
    a. Q_2; P_1
    b. Q_2; P_5
    c. Q_3; P_2
    d. Q_4; P_3
    e. Q_4; P_2

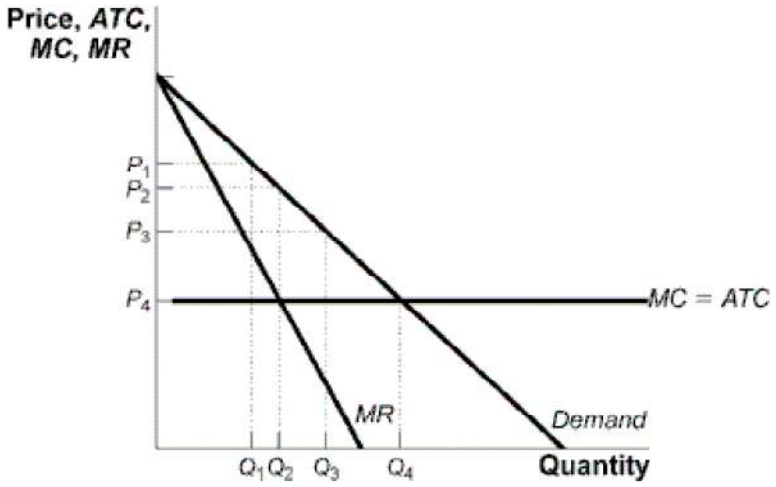
18. (Figure 61-5: A Gadget Monopoly) The graph shows a monopoly firm that sells gadgets. If the firm acts to maximize profit, the firm will earn profit equal to:
    a. $(P_1 - P_5)*Q_2$
    b. $(P_1 - P_4)*Q_2$
    c. $(P_4 - P_5)*Q_2$
    d. $(P_2 - P_3)*Q_3$
    e. $(P_1 - P_5)*Q_2$

19.



In the figure, the natural monopoly:
    a. would incur an economic profit if regulated to produce where price is less than marginal cost.
    b. would incur an economic profit if regulated to charge a price equal to average total cost.
    c. creates more consumer surplus if regulated to produce either where price equals marginal cost or price equals average total cost.
    d. creates more consumer surplus if regulated to produce where price is above the average total cost.
    e. eliminates consumer surplus if regulated to produce where price is above the average total cost.

20.



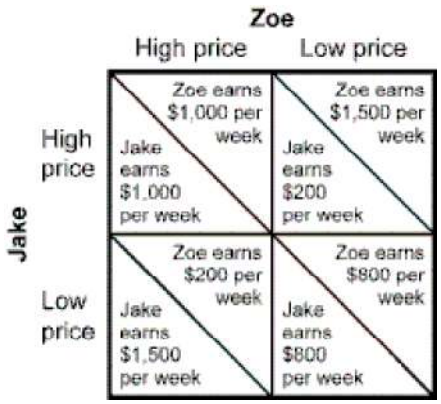
The deadweight loss associated with this monopoly can be measured as the area:

a. $1/2(P_1 - P_2)(Q_2 - Q_1)$.
b. $1/2(P_2 - P_4)(Q_4 - Q_2)$.
c. $1/2(P_1 - P_3)Q_3$.
d. $1/2(P_1 - P_3)Q_2$.
e. P_4Q_4

21. The practice of selling the same product at different prices in different markets, without corresponding differences in costs, is:
    a. price discrimination.
    b. privatizing.
    c. monopolizing.
    d. output prioritizing.
    e. discounting.
22. To practice effective price discrimination, a monopolist must be able to:
    a. estimate its own production and cost functions.
    b. avoid detection by government regulatory agencies.
    c. prevent the resale of goods among groups of buyers.
    d. calculate the utility level of each buyer in the market.
    e. equate the price charged to each group to the marginal cost of producing the product to each group.
23. The market structure characterized by a few interdependent firms and in which there are barriers to entry is called:
    a. monopolistic competition.
    b. perfect competition.
    c. oligopoly.
    d. monopoly.
    e. game theory.
24. An industry that consists of two firms is:
    a. a duopoly.
    b. a monopoly.
    c. a monopsony.
    d. monopolistic competition.
    e. perfect competition.
25. If the only two firms in an industry agree to fix the price at a given level, this is an example of:
    a. collusion.
    b. satisfying demand.
    c. price extortion.
    d. price leadership.
    e. price discrimination.

26. An extreme case of oligopoly in which firms collude to raise joint profits is known as a:
    a. duopoly.
    b. cartel.
    c. dominant producer.
    d. price war.
    e. price leadership.

Figure 65-1: Payoff Matrix for Jake and Zoe



27. (Figure 65-1: Payoff Matrix for Jake and Zoe) Jake and Zoe are the only producers of slushies in Vacatown. Each week, each firm decides whether to price high or price low for the following week. The figure shows the profit per week earned by the two firms. What is the Nash equilibrium for Jake and Zoe?
    a. Jake prices high; Zoe prices high
    b. Jake prices high; Zoe prices low
    c. Jake prices low; Zoe prices high
    d. Jake prices low; Zoe prices low
    e. This game does not have a Nash equilibrium.

28. (Figure 65-1: Payoff Matrix for Jake and Zoe) Jake and Zoe are the only producers of slushies in Vacatown. Every week, each firm decides whether to price high or price low for the following week. The figure shows the profit per week earned by the two firms. Suppose the firms each decide to price high initially, and adopt a tit-for-tat strategy for the following weeks. After a few weeks, how much profit would each firm make per week?
    a. Jake's profit = $800; Zoe's profit = $800
    b. Jake's profit = $1,000; Zoe's profit = $1,000
    c. Jake's profit = $1,500; Zoe's profit = $200
    d. Jake's profit = $200; Zoe's profit = $1,500
    e. Jake's profit = $900; Zoe's profit = $900

29. Unwritten or unspoken understandings through which firms collude to restrict competition are called:
    a. cartelization.
    b. oligopolization.
    c. overt collusion.
    d. tacit collusion.
    e. prisoners' dilemmas.

30. The study of behavior in situations of interdependence is known as:
    a. dominant strategies.
    b. microeconomics.
    c. Nash equilibrium.
    d. tacit collusion.
    e. game theory.

Scenario 65-1: Payoff Matrix for Firms X and Y
Use the following payoff matrix which depicts the profits for Firms X and Y who are trying to decide whether to choose a high or low price in their competitive strategy with each other. They are the only two firms in this oligopolistic industry.

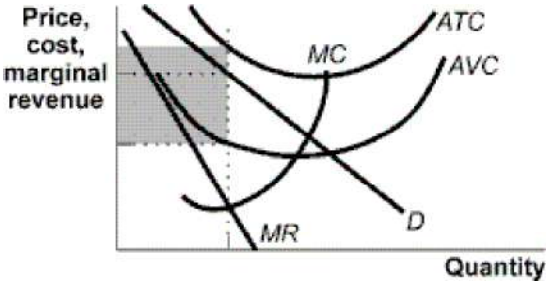
		Firm Y	
		Low Price	**High Price**
Firm X	**Low Price**	Firm X's profit: $1,600 Firm Y's profit: $2,500	Firm X's profit: $1,800 Firm Y's profit: $2,800
	High Price	Firm X's profit: $1,800 Firm Y's profit: $2,200	Firm X's profit: $2,000 Firm Y's profit: $2,400

31. (Scenario 65-1: Payoff Matrix for Firms X and Y) If Firm Y were to choose its dominant strategy, it would:
    a. choose a low price.
    b. choose a high price.
    c. choose a high price only when Firm X chose a low price.
    d. make no choices and allow Firm X to dominate the industry.
    e. choose a low price only when Firm X chose a high price.

32. (Scenario 65-1: Payoff Matrix for Firms X and Y) If Firm X were to choose its dominant strategy, it would:
    a. choose a low price.
    b. choose a low price only when Firm Y chose a high price.
    c. choose a high price only when Firm Y chose a low price.
    d. make no choices and allow Firm Y to dominate the industry.
    e. choose a high price.

33. A market structure characterized by many competitors, each producing differentiated products, with free entry and exit into the industry, is described as:
    a. monopolistic competition.
    b. oligopoly.
    c. perfect competition.
    d. monopoly.
    e. duopoly.

34. Suppose a monopolistically competitive firm is producing the profit-maximizing level of output and is earning an economic profit in the short run. Then:
    a. price is less than average total costs.
    b. price is less than marginal cost.
    c. marginal revenue is greater than marginal cost.
    d. marginal revenue equals marginal cost.
    e. average total cost is at its minimum point.

35. 

The monopolistic competitor in the figure is producing at the output level that maximizes profits (minimizes losses). The shaded rectangle depicts the level of:
    a. profit.
    b. loss.
    c. fixed cost.
    d. variable cost.
    e. total revenue.

36. If a monopolistically competitive firm is in long-run equilibrium, we can assume that price _____.
    a. equals marginal revenue.
    b. equals average total cost.
    c. is greater than average total cost.
    d. equals marginal cost.
    e. equals total cost.

Unit 13 AP Economics - Practice
Answer Section

MULTIPLE CHOICE

1.	ANS: E	PTS: 1	MSC: Definitional
2.	ANS: C	PTS: 1	MSC: Critical Thinking
3.	ANS: C	PTS: 1	MSC: Critical Thinking
4.	ANS: A	PTS: 1	MSC: Fact-Based
5.	ANS: C	PTS: 1	MSC: Concept-Based
6.	ANS: E	PTS: 1	MSC: Concept-Based
7.	ANS: E	PTS: 1	MSC: Concept-Based
8.	ANS: A	PTS: 1	MSC: Critical Thinking
9.	ANS: E	PTS: 1	MSC: Concept-Based
10.	ANS: B	PTS: 1	MSC: Concept-Based
11.	ANS: D	PTS: 1	MSC: Fact-Based
12.	ANS: D	PTS: 1	MSC: Analytical Thinking
13.	ANS: B	PTS: 1	MSC: Critical Thinking
14.	ANS: C	PTS: 1	MSC: Critical Thinking
15.	ANS: C	PTS: 1	MSC: Critical Thinking
16.	ANS: B	PTS: 1	MSC: Critical Thinking
17.	ANS: A	PTS: 1	MSC: Analytical Thinking
18.	ANS: B	PTS: 1	MSC: Analytical Thinking
19.	ANS: C	PTS: 1	MSC: Critical Thinking
20.	ANS: B	PTS: 1	MSC: Critical Thinking
21.	ANS: A	PTS: 1	MSC: Definitional
22.	ANS: C	PTS: 1	MSC: Fact-Based
23.	ANS: C	PTS: 1	MSC: Definitional
24.	ANS: A	PTS: 1	MSC: Definitional
25.	ANS: A	PTS: 1	MSC: Definitional
26.	ANS: B	PTS: 1	MSC: Definitional
27.	ANS: D	PTS: 1	MSC: Critical Thinking
28.	ANS: B	PTS: 1	MSC: Critical Thinking
29.	ANS: D	PTS: 1	MSC: Definitional
30.	ANS: E	PTS: 1	MSC: Definitional
31.	ANS: B	PTS: 1	MSC: Critical Thinking
32.	ANS: E	PTS: 1	MSC: Critical Thinking
33.	ANS: A	PTS: 1	MSC: Definitional
34.	ANS: D	PTS: 1	MSC: Concept-Based
35.	ANS: C	PTS: 1	MSC: Concept-Based
36.	ANS: B	PTS: 1	MSC: Concept-Based