**Micro Economics**

**Home Work 4**

**Chapters 13-16**

**PART III: MARKET IMPERFECTIONS AND THE ROLE OF GOVERNMENT**

Following are 40 multiple choice questions, each worth 2.5 points. Choose the answer you think most correct. If you are uncertain about an answer, write next to the question why you think your choice is correct.

**Chapter 13: Monopoly and Antitrust Policy**

1) In imperfectly competitive markets

A) there is no competition in the markets.

B) some competition may exist in the markets.

C) some competition may exist but only on price and not in other ways.

D) some competition may exist but only in other ways and not on price.

2) A firm must be able to \_\_\_\_\_\_\_\_ competition if it is to exercise control over the price of its product.

A) maximize

B) increase

C) not change

D) limit

3) In an imperfectly competitive industry

A) a single firm has no control over the price of its output.

B) a single firm has some control over the price of its output.

C) a single firm will be able to sell all of its output at whatever price it wants to charge.

D) the government will always regulate the output price.

4) Imperfect competition

A) means there is no competition in the market.

B) results in less efficient market outcomes.

C) should always be regulated by the government

D) is a major cause of externalities in the market.

5) Monopolies, oligopolies, and monopolistic competitive industries all

A) earn positive profits in the long run.

B) have market power.

C) are completely unconstrained in their pricing.

D) raise price and quantity over what would occur in perfect competition in order to maximize their profits.

6) Imperfect competition and market power

A) are major sources of inefficiency.

B) result in higher output than in perfect competition.

C) are always the result of product differentiation.

D) result from diseconomies of scale.

7) A monopoly is an industry with

A) a single firm in which the entry of new firms is blocked.

B) a small number of firms each large enough to impact the market price of its output.

C) many firms each able to differentiate their product.

D) many firms each too small to impact the market price of its output.

8) An oligopoly is an industry market structure with

A) a single firm in which the entry of new firms is blocked.

B) a small number of firms each large enough to impact the market price of its output.

C) many firms each able to differentiate their product.

D) many firms each too small to impact the market price.

9) Monopolistic competition is an industry market structure with

A) a single firm in which the entry of new firms is blocked.

B) a small number of firms each large enough to impact the market price of its output.

C) many firms each able to differentiate their product.

D) many firms each too small to impact the market price of its output.

10) Market power refers to a firm's ability to

A) raise price without losing all sales of its product.

B) charge any price it likes.

C) sell any amount of output it desires at the market-determined price.

D) monopolize a market completely.

**Chapter 14 Oligopoly**

1) The airline industry is an example of a(n) \_\_\_\_\_\_\_\_ industry.

A) perfectly competitive

B) monopolistic

C) monopolistically competitive

D) oligopolistic

2) In which of the four oligopolistic markets below is there considerable price competition?

A) music production industry

B) stent industry

C) airline industry

D) high-definition DVD industry

3) In general, oligopolists compete

A) on price alone.

B) on many dimensions except for price.

C) on price, R&D, and marketing and advertising.

D) None of the above. There is no competition in oligopolistic industries.

4) One thing oligopolists must do in order to determine their optimal strategy is

A) anticipate the reaction of their customers to their strategy.

B) ignore the reaction of their rivals to their strategy.

C) ignore the reaction of their customers to their strategy.

D) produce a unique product which has no close substitutes.

5) A(n) \_\_\_\_\_\_\_\_ industry is characterized by strategic behavior.

A) perfectly competitive

B) monopolistic

C) monopolistically competitive

D) oligopolistic

6) A(n) \_\_\_\_\_\_\_\_ industry has a single, unique product and blocked entry.

A) perfectly competitive

B) monopolistically competitive

C) monopolistic

D) oligopolistic

7) A form of industry structure characterized by a few firms each large enough to influence market price is

A) perfect competition.

B) monopolistic competition.

C) oligopoly.

D) monopoly.

8) Of the following, \_\_\_\_\_\_\_\_ is the best example of an oligopolistic industry.

A) retail grocery

B) automobiles production

C) electric power

D) soybean farming

9) Products may be homogeneous or differentiated in the \_\_\_\_\_\_\_\_ market structure.

A) perfectly competitive

B) monopolistic

C) monopolistically competitive

D) oligopolistic

10) A \_\_\_\_\_\_\_\_ industry has a relatively small number of firms that dominate a market.

A) Cournot

B) contestable

C) concentrated

D) monopolistically competitive

**Chapter 15 Monopolistic Competition**

1) The restaurant industry is an example of a(n) \_\_\_\_\_\_\_\_ industry.

A) perfectly competitive

B) monopolistic

C) monopolistically competitive

D) oligopolistic

2) A monopolistically competitive industry has all of the following characteristics *except*

A) there are no barriers to entry.

B) strategic behavior.

C) product differentiation.

D) a large number of firms.

3) A(n) \_\_\_\_\_\_\_\_ industry does not have price as a decision variable.

A) perfectly competitively

B) monopolistic

C) monopolistically competitive

D) oligopolistic

4) There is easy entry into the \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_ industries.

A) perfectly competitive; monopolistically competitive

B) monopolistically competitive; oligopolistic

C) oligopolistic; monopolistic

D) monopolistic; perfectly competitive

5) Monopolistic competition differs from perfect competition primarily because in

A) monopolistic competition, firms can differentiate their products.

B) perfect competition, firms can differentiate their products.

C) monopolistic competition, entry into the industry is blocked.

D) monopolistic competition, there are relatively few barriers to entry.

6) In San Francisco there are many retail clothing stores. Each store is slightly different from every other store. Retail clothing stores are an example of what market structure?

A) perfect competition

B) monopolistic competition

C) oligopoly

D) monopoly

7) Which of the following features distinguishes monopolistically competitive firms from monopolies and oligopolies?

A) Monopolistically competitive firms cannot influence market price by virtue of their size alone while monopolies and oligopolies can.

B) Monopolistically competitive firms are not constrained by market demand while monopolies and oligopolies are.

C) Monopolistically competitive firms are price takers while monopolies and oligopolies are not.

D) Monopolistically competitive firms sell a homogeneous product while monopolies and oligopolies sell a differentiated product.

8) In monopolistic competition, firms can have some market power

A) by virtue of size alone.

B) by producing differentiated products.

C) because of barriers to entry into the industry.

D) because of barriers to exit from the industry.

9) Firms gain control over price in monopolistic competition by

A) blocking entry of other firms into the industry.

B) producing a product for which there are no close substitutes.

C) differentiating their products.

D) colluding with other firms to set prices.

10) The feature that distinguishes monopolistic competition from perfect competition is that monopolistically competitive firms are

A) large relative to the market.

B) price takers.

C) able to block the entry of other firms.

D) able to differentiate their products.

**Chapter 16 Externalities, Public Goods, and Common Resources**

1) The field of environmental economics is concerned with

A) externalities.

B) public goods.

C) government inefficiency.

D) economies of scale.

2) Second hand cigarette smoke is an example of a(n)

A) economy of scale.

B) externality.

C) public good.

D) government failure.

3) Vaccinations convey \_\_\_\_\_\_\_\_ to third parties.

A) positive externalities

B) negative externalities

C) economies of scale

D) public goods

4) The many types of pollution do *not* include \_\_\_\_\_\_\_\_ pollution.

A) air

B) price

C) water

D) sound

5) An externality is

A) a cost or benefit resulting from some activity or transaction that is imposed or bestowed on parties outside the activity or transaction.

B) the total cost to society of producing an additional unit of a good or service.

C) the amount a consumer pays to consume an additional amount of a particular good.

D) a problem intrinsic to public goods: The good or service is so costly that its provision generally does not depend on whether or not any single person pays.

***Refer to the information provided in Figure 16.1 below to answer the questions 6 & 7 that follow.***



 **Figure 16.1**

6) Refer to Figure 16.1. The efficient amount of fertilizer is

A) zero because any level of production involves an external cost.

B) 50 bags.

C) 60 bags.

D) indeterminate from this information.

7) Refer to Figure 16.1. Absent government intervention, how much fertilizer will be produced?

A) Zero because any level of production involves an external cost.

B) 50 bags

C) 60 bags

D) indeterminate from this information

8) Assuming no externalities exist, if a good's price is less than its marginal cost, then the benefits consumers derive are

A) greater than the cost of resources needed to produce it and less should be produced.

B) greater than the cost of resources needed to produce it and more should be produced.

C) less than the cost of resources needed to produce it and less should be produced.

D) less than the cost of resources needed to produce it and more should be produced.

9) Assuming there are no externalities, if a firm is producing at an output level where the benefits to consumers exceed the cost to the suppliers to produce it, then price

A) equals marginal cost.

B) is greater than marginal cost.

C) is less than marginal cost.

D) is less than marginal revenue.

10) Assuming there are no externalities, if a firm is producing at an output level where the benefits to consumers are less than the cost to the suppliers to produce it, then price

A) equals marginal cost.

B) is greater than marginal cost.

C) is less than marginal cost.

D) is less than marginal revenue.