

Lesson Quiz 7-1

Competition and Market Structures

DIRECTIONS: Completion Enter the appropriate word(s) to complete the statement.

1. Pure competition is a theoretical _____ that requires three conditions: very large numbers, identical products, and freedom of entry and exit.
2. _____ is a market structure having all conditions of pure competition except for identical products.
3. _____ is based on a product's appearance, quality, or design.
4. A market structure in which a few large sellers dominate and have the ability to affect prices in the industry is called a(n) _____.
5. _____ is an illegal agreement among producers to fix prices, limit output, or divide markets.

DIRECTIONS: Multiple Choice Indicate the answer choice that best completes the statement or answers the question.

- _____ 6. Which of the following do economists use to classify markets?
 - A. number of firms
 - B. size of firms
 - C. type of product
 - D. all of the above
- _____ 7. The market structure called perfect competition is best described as _____.
 - A. theoretical
 - B. commonplace
 - C. small
 - D. natural
- _____ 8. What condition differentiates a market of pure competition from one of monopolistic competition?
 - A. price
 - B. competition
 - C. products
 - D. firms
- _____ 9. If a shoe company pays a professional athlete to wear shoes it makes, it is an example of _____.
 - A. imperfect competition
 - B. product differentiation
 - C. nonprice competition
 - D. all of the above
- _____ 10. Which market structure is defined by a single producer?
 - A. pure competition
 - B. monopolistic competition
 - C. oligopoly
 - D. monopoly

Lesson Quiz 7-2

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Market Failures

DIRECTIONS: Matching Match each item with its description.

- | | |
|---|--------------------------|
| _____ 1. condition that has none of the requirements for a competitive market—adequate competition, knowledge of prices and opportunities, mobility of resources, and competitive profits | A. cost-benefit analysis |
| _____ 2. economic products that are paid for and consumed collectively, such as highways, national defense, police and fire protection | B. externalities |
| _____ 3. unintended side effects that either benefit or harm a third party not involved in the activity that caused it | C. market failure |
| _____ 4. harm suffered by a third party because of the actions of others | D. public good |
| _____ 5. calculation that compares the cost of an action to its benefits | E. negative spillover |

DIRECTIONS: Multiple Choice Indicate the answer choice that best completes the statement or answers the question.

- _____ 6. Which statement is most accurate?
- Markets can sometimes fail.
 - Markets can theoretically fail, but not in reality.
 - Market failure is a myth.
 - Market failure is an unproven hypothesis.
- _____ 7. Which of the following can cause market failure?
- | | |
|---------------------------|---------------------------|
| A. too much mobility | C. not enough information |
| B. too little competition | D. too much information |
- _____ 8. A plant in a small town closes, leaving hundreds of people unemployed. There are jobs available at a similar plant in another state, but many of the unemployed workers are unwilling to move or cannot afford to move. An economist might use this example to _____.
- describe what happens when there is not enough competition
 - define resource immobility
 - define a public good
 - explain an externality
- _____ 9. What happens when some of the costs or benefits associated with production and consumption fall on someone other than the producers or consumers of a product?
- | | |
|--|--|
| A. Competition is reduced. | C. The public good is reduced. |
| B. There is a loss of resource mobility. | D. There are unintended effects or spillovers. |
- _____ 10. What do externalities indicate?
- | | |
|---------------------|--------------------------|
| A. public goods | C. a lack of information |
| B. a market failure | D. resource immobility |

Lesson Quiz 7-3

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The Role of Government

DIRECTIONS: Modified True/False In the blank, indicate whether the statement is true (T) or false (F). If false, edit the statement to make it a true statement.

- _____ 1. Laws and regulations have been adopted in the United States to promote competition among firms.

- _____ 2. In the United States, the federal government enforces antitrust laws and regulations to try to maintain effective levels of competition.

- _____ 3. Price discrimination is the practice of setting prices to maximize profit.

- _____ 4. A mortgage is a process in which a lender reclaims a property due to a lack of payment by the borrower.

- _____ 5. Because private business is involved in certain aspects of our economy, it is a modified version of free enterprise.

DIRECTIONS: Multiple Choice Indicate the answer choice that best completes the statement or answers the question.

- _____ 6. Which would an economist say best describes a "trust"?
A. a feeling in a market C. an illegal combination
B. a public good D. a federal order
- _____ 7. Which of the following is a benefit for monopolies?
A. economies of scale C. cease and desist order
B. the Federal Trade Commission Act D. foreclosure
- _____ 8. The government does not try to eliminate all monopolies. Why?
A. It would be impossible. C. The government itself is a monopoly.
B. Not all monopolies are bad. D. There aren't any monopolies anymore.
- _____ 9. By promoting transparency, the government can improve _____.
A. market efficiency C. profit margins
B. economies of scale D. zoning
- _____ 10. What level of government is most closely associated with zoning?
A. federal C. state
B. interstate D. local

Chapter 7 Test, Form A

networks

Market Structures

DIRECTIONS: Matching Match each item with its description.

- | | |
|--|------------------------------|
| _____ 1. classification according to number and size of firm, type of product, and type of competition | A. economies of scale |
| _____ 2. market structure in which only a few large sellers dominate and have the ability to affect prices in an industry | B. externalities |
| _____ 3. market structure characterized by a single producer in a market | C. foreclosure |
| _____ 4. philosophy that government should not interfere with business activity | D. laissez-faire |
| _____ 5. condition that lacks any of the requirements for a competitive market—adequate competition, knowledge of prices and opportunities, mobility of resources, and competitive profits | E. market failure |
| _____ 6. economic products that are paid for and consumed collectively, such as highways, national defense, police and fire protection | F. market structure |
| _____ 7. economic side effects that affect an uninvolved third party | G. monopoly |
| _____ 8. illegal combinations of corporations or companies organized to suppress competition | H. oligopoly |
| _____ 9. increasingly efficient use of personnel, plant, and equipment as a firm becomes larger | I. public good |
| _____ 10. process in which a lender reclaims the property due to a lack of payment by the borrower | J. trust |

DIRECTIONS: Multiple Choice Indicate the answer choice that best completes the statement or answers the question.

- _____ 11. Under perfect competition, what sets the equilibrium price in the market?
- A.** nonprice competition
 - B.** supply and demand
 - C.** the government
 - D.** a monopoly

Chapter 7 Test, Form A *cont.***networks****Market Structures**

- _____ 12. In the term economic term oligopoly, the word part *olig-* probably means _____.
A. "few" C. "all"
B. "single" D. "one"
- _____ 13. Pure competition and monopoly _____.
A. are the same C. should not be compared
B. are almost the same D. are opposites
- _____ 14. Which of the following factors contribute to market failure?
A. adequate competition C. mobility of resources
B. knowledge of prices and opportunities D. inadequate competition
- _____ 15. Which is an example of a public good?
A. a rock band C. the army
B. a car D. bread
- _____ 16. When a factory pollutes a river, the resulting water pollution is an example of a _____.
A. technological monopoly C. negative externality
B. public good D. market failure
- _____ 17. How would an economist characterize a local government increasing property taxes to improve the school system?
A. laissez faire in action C. a cease and desist order
B. an example of collusion D. subsidizing a positive externality
- _____ 18. The Sherman Act, the Clayton Act, and the Federal Trade Commission Act were all designed to _____.
A. ensure competition C. create public goods
B. promote trusts D. extend mortgages
- _____ 19. A woman borrows money from a bank to purchase a house. She promises to give the bank the house if she cannot repay the loan. This woman has signed a _____.
A. foreclosure
B. mortgage
C. trust
D. cease and desist order
- _____ 20. We say the United States has a "modified" free enterprise economy because almost everything we do and everything we buy is in some way affected by _____.
A. business
B. money
C. government
D. inventors

Chapter 7 Test, Form B

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Demand

DIRECTIONS: Short Answer Answer each of the following questions on a separate piece of paper.

Figure 7.2 Characteristics of Market Structures

	Number of firms in industry	Barriers to entry	Product differentiation	Price setting	Entry into market	Examples
Pure competition	Many	None	None	None	Easy	Perfect: None Near: Truck farming
Monopolistic competition	Many	Limited	Fair amount	Fair amount	Easy	Gas stations Women's clothing
Oligopoly	Few	Some	Fair amount	Some	Difficult	Automobiles Aluminum
Pure monopoly	One	Extensive	None	None	Almost impossible	Perfect: None Near: Water

1. What is the relationship between the type of market structure and the pattern shown in the "Entry into market" column in the table?
2. Using the table, choose the type of market structure that would apply to electrical power supplied to homes. Explain your answer.

Figure 7.4 Federal Regulatory Agencies

Some Government Regulatory Agencies	
	Regulatory role
Interstate Commerce Commission (ICC)	Enforces laws concerning transport that crosses state lines
Federal Reserve System (FRS)	Manages the money supply, determines and executes monetary policy, regulates some banking activities
Federal Deposit Insurance Corporation (FDIC)	Insures bank deposits, approves bank mergers, audits banks
Securities and Exchange Commission (SEC)	Regulates and supervises the sale of listed and unlisted securities and the brokers, dealers, and bankers who sell them
National Labor Relations Board (NLRB)	Administers federal labor-management relations laws; settles labor disputes; prevents unfair labor practices
Nuclear Regulatory Commission (NRC)	Regulates civilian use of nuclear waste materials and facilities
Federal Energy Regulatory Commission (FERC)	Supervises transmission of various forms of energy
Consumer Financial Protection Bureau (CFPB)	Regulates consumer protection for mortgages, credit cards, debt collectors, payday lenders, other consumer financial products

3. According to the table, which sectors of the American economy are regulated?

Chapter 7 Test, Form B *cont.***networks****Demand**

4. What can you infer from the word "Some" in "Some Government Regulatory Agencies"?
5. Explain how this table is related to the concept of a modified free enterprise economy.

"Microsoft enjoys so much power in the market . . . that if it wished to exercise this power . . . it could charge a price for Windows substantially above that which could be charged in a competitive market."

—Judge Thomas Penfield Jackson

6. Consider the quote above. How is it characterizing Microsoft? (Windows is a PC operating system (software) that the company, Microsoft, developed and sells.)
7. Why would a judge be discussing markets and prices?
8. How is the prosecution of monopolies related to the concept of a modified free enterprise system?

DIRECTIONS: Essay Write a short essay in response to the item.

9. Give one example of a product you and your peers buy in which there is price competition and one in which there is nonprice competition. Explain how market structure plays a role in the pricing of these products.

Answer Key *cont.***networks****CHAPTER 7****LESSON QUIZ 7-1**

1. market structure
2. Monopolistic competition
3. Nonprice competition
4. Oligopoly
5. Collusion
6. D 7. A 8. C 9. D 10. D

LESSON QUIZ 7-2

1. A 2. D 3. E 4. B 5. A
6. A 7. C 8. B 9. D 10. B

LESSON QUIZ 7-3

1. T
2. T
3. F: Price discrimination is practice of charging customers different prices for the same product.
4. F: A foreclosure is a process in which a lender reclaims the property due to a lack of payment by the borrower. OR: A mortgage is a legal document that pledges ownership of a home to a lender as security for repayment of borrowed money.
5. F: Because the government is involved in certain aspects of our economy, it is a modified version of free enterprise.
6. C 7. A 8. B 9. A 10. D

CHAPTER 7 TEST FORM A

1. F 2. H 3. G 4. D 5. E
6. I 7. B 8. J 9. A 10. C
11. B 12. A 13. D 14. D 15. C
16. C 17. D 18. A 19. B 20. C
21. Students should deduce that the bottom row figures are cost-benefit ratios calculated by dividing the benefits by the costs. They indicate that, in all three projects, benefits would outweigh costs. Students should note that Project A has the highest value benefit but that Project B has the largest cost-benefit ratio.
22. Essays will vary but should demonstrate an understanding of positive spillovers (externalities that benefit third parties). They

should include the idea that local governments subsidize projects that create positive spillovers in order to reap them for the communities. Students should demonstrate understanding of how government officials may compare cost-benefit ratios to analyze various approaches to solving a problem, and use this information to determine which competing projects should be subsidized to provide the greatest public good.

23. A modified free enterprise system is an economic free enterprise system that is modified by government participation in the form of taxes, subsidies, regulations, and other actions. Examples from the students' own lives might include taxes on goods they buy, taxes supporting the school they attend, federal regulations ensuring the safety of the food they eat, and public goods such as roads they use every day.

CHAPTER 7 TEST FORM B

1. Students should recognize a continuum from easy to difficult to almost impossible.
2. Monopoly (near), by "water." Electricity is a utility like water and so a near monopoly is advantageous.
3. Answers may vary slightly. Banking, labor, energy, retail.
4. There are many more regulatory agencies than those included in the table.
5. A modified free enterprise economy is noted for government participation in the economy; all of the agencies are examples of government regulation of the economy.
6. Judge Jackson is implying that Microsoft has monopoly power.
7. Most monopolies are illegal. Microsoft was being tried in court.
8. A modified free enterprise system is noted for government participation in the economy; this is an example of government (through the judicial system) opposing a monopoly.
9. Essays will vary but should demonstrate an understanding of price and nonprice competition. Reward essays that identify a type of competition in the context of market structure, such as nonprice competition in markets of monopolistic competition, such as clothing.