

Section 1: Guided Reading and Review

Perfect Competition



A. As You Read

As you read Section 1, supply the missing cause or effect in the spaces provided.

The Perfect Market Structure	
1. Cause: _____ _____	1. Effect: The market determines price without influence from suppliers or consumers.
2. Cause: _____ _____	2. Effect: Identical products are key to perfect competition.
3. Cause: Entrepreneurs are less likely to enter a market with high start-up costs.	3. Effect: _____ _____
4. Cause: Sometimes firms cannot make enough to stay in business.	4. Effect: _____ _____
5. Cause: _____ _____	5. Effect: Prices are forced down to the point where they just cover the seller's costs of doing business.
6. Cause: _____ _____	6. Effect: Producers adjust their output decisions based on their most efficient use of available land, labor, and capital.

B. Reviewing Key Terms

Briefly define or identify each of the following.

7. perfect competition _____

8. commodity _____

9. barrier to entry _____

10. start-up costs _____

Section 2: Guided Reading and Review

Monopoly



A. As You Read

As you read Section 2, supply the missing information in the spaces provided.

In the Monopolist Market

Natural Monopolies

1. Why they exist _____

2. Two examples _____

3. Advantage of _____

4. Government role in _____

Government Monopolies

5. Type set up by patents _____

6. Why government grants patented monopolies _____

7. Example of an industrial monopoly _____

8. Two examples of government monopolies by license _____

Production and Pricing

9. Effect of a monopolist's price increase _____

10. Relationship between price and marginal revenue when a monopolist cuts the price to sell more _____

11. How a monopolist maximizes profits _____

B. Reviewing Key Terms

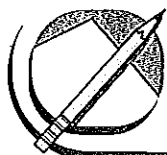
Complete each sentence by writing the correct key term in the blank.

12. In a market with only one seller, that seller has a _____.

13. Characteristics that cause a producer's average cost to drop as production rises are _____.

14. A contract issued by a local authority that gives a single firm the right to sell its goods within an exclusive market is a _____.

15. A monopoly offering targeted discounts is practicing _____.



Section 2: Quiz

Monopoly

A. Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

- _____ 1. a single seller in a market
- _____ 2. a producer's average cost drops as production rises
- _____ 3. a company has exclusive rights to sell a new good or service for a specific time period
- _____ 4. a single seller has the rights to sell goods in an exclusive market
- _____ 5. consumers are divided into groups and each is charged differently

Column II

- a. economies of scale
- b. franchise
- c. monopoly
- d. patent
- e. price discrimination

B. Main Ideas

Write the letter of the correct ending in the blank provided.

- _____ 6. A natural monopoly is
 - a. any situation in which only a single seller is allowed to exist.
 - b. a monopoly in which the goods produced are agricultural resources.
 - c. an industry that runs best when one firm produces all the output.
 - d. an industry in which the government provides all the output.
- _____ 7. A government's purpose in giving an antitrust exemption to sports leagues is to
 - a. increase the league owners' profits.
 - b. prevent other cities from financing competing sports.
 - c. prevent the athletes from starting new teams.
 - d. keep team play orderly and stable.
- _____ 8. A discounted airline fare is a price discrimination that can be offered because
 - a. people do not necessarily want to go where the discounts will allow them to go.
 - b. vacationers are willing to put up with the restrictions that the airlines impose.
 - c. people who fly on business want the price discounts but do not qualify.
 - d. senior citizens qualify for discounts on certain types of flights but not on others.
- _____ 9. Patents are a form of monopoly that society allows because they
 - a. encourage firms to research and develop new products that benefit society as a whole.
 - b. maintain an orderly way for companies to make a lot of money.
 - c. give companies the right to decide who will be allowed to use their products.
 - d. set up a situation in which only a few manufacturers can control an industry.
- _____ 10. The controller of a monopoly sets the price of goods by charging
 - a. as much as possible regardless of the amount sold.
 - b. only a small amount over cost.
 - c. the price at which the profit is maximized.
 - d. less than they would charge if they did not have a monopoly.

Section 3: Guided Reading and Review

Monopolistic Competition and Oligopoly**A. As You Read**

As you read Section 3, fill in the information requested on the charts.

Monopolistic Competition Market Structures	
Defining Conditions	1. _____ 2. _____ 3. _____ 4. _____
Forms of Nonprice Competition	5. _____ 6. _____ 7. _____ 8. _____
Price-Output Relationship	9. _____
Curbs on High Profits	10. _____ 11. _____
Consumer Advantages	12. _____
Oligopoly	
Conditions Encouraging Formation	13. _____ 14. _____ 15. _____
Practices that Concern Government	16. _____ 17. _____ 18. _____

B. Reviewing Key Terms

Read the statements below. In the space provided, write T if the statement is true or F if it is false.

- ____ 19. Firms selling identical products create *monopolistic competition*.
- ____ 20. Providing better customer service, introducing a new lipstick color, and sophisticated advertising are examples of *nonprice competition*.
- ____ 21. *Price fixing* is an outcome of collusion.
- ____ 22. A *cartel* is most successful when each member produces as much product as possible.



Section 3: Quiz

Monopolistic Competition and Oligopoly

A. Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

- _____ 1. many companies in an open market selling similar products
- _____ 2. a market structure dominated by a few large, profitable firms
- _____ 3. an agreement among firms to sell at the same or very similar prices
- _____ 4. a formal organization of producers that agree to coordinate prices and production

Column II

- a. cartel
- b. oligopoly
- c. price fixing
- d. monopolistic competition

B. Main Ideas

Write the letter of the correct ending in the blank provided.

- _____ 5. If two shops sell the same merchandise but one offers a higher level of service, the service distinction is a form of
 - a. price fixing.
 - b. nonprice competition.
 - c. choice among substitute products.
 - d. local competition.
- _____ 6. An agreement among members of an oligopoly to set prices and production levels is called
 - a. price leadership.
 - b. competition.
 - c. collusion.
 - d. imperfect monopoly.
- _____ 7. A major characteristic of monopolistic competition is that prices will be
 - a. higher than in perfect competition.
 - b. lower than in perfect competition.
 - c. higher than in a true monopoly.
 - d. unrelated to the type of competition.
- _____ 8. In monopolistic competition, profits well in excess of costs are unlikely because
 - a. nonprice competition only works for the short term.
 - b. customers always return to the product that is least expensive, even if the quality of that product is much lower.
 - c. excess output can be maintained only for short periods.
 - d. established rivals and new firms would lure customers away with slightly different and/or cheaper products.
- _____ 9. A cartel is able to survive only if
 - a. government regulations permit it.
 - b. every member keeps to the agreed output levels.
 - c. members are scrupulous about where they sell goods.
 - d. members use advertising to differentiate their goods.
- _____ 10. The main difference between perfect competition and monopolistic competition is that
 - a. in perfect competition the prices are set by the government.
 - b. in perfect competition the buyer is free to buy from any seller he or she chooses.
 - c. in monopolistic competition there are fewer sellers and more buyers.
 - d. in monopolistic competition sellers can profit from the differences between their products and other products.

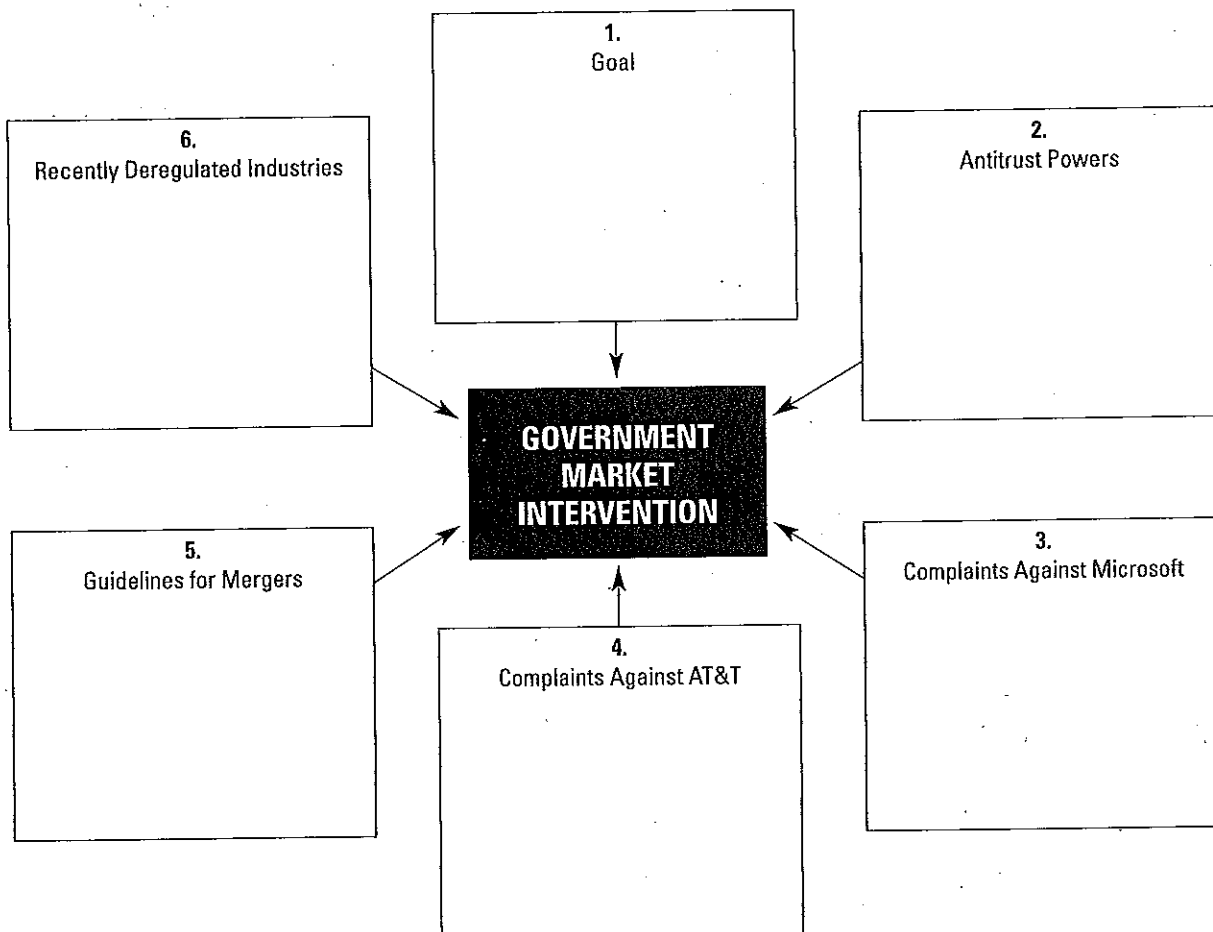
Section 4: Guided Reading and Review

Regulation and Deregulation



A. As You Read

As you read Section 4, supply the missing information about government market intervention in the numbered web boxes.



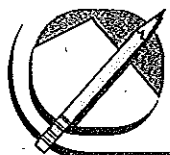
B. Reviewing Key Terms

Use a key term to rewrite each sentence correctly.

7. *Price fixing* is the practice of setting the market price below cost for the short term to drive competitors out of business. _____

8. A *monopoly* occurs when a company joins with another company to form a single firm. _____

9. *Perfect competition* means that the government no longer decides a company's market role and pricing. _____



Section 4: Quiz

Regulation and Deregulation

A. Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

- _____ 1. setting the market price below cost in the short term to drive competitors out of business
- _____ 2. government policies that keep firms from controlling the price and supply of important goods
- _____ 3. the government no longer decides what role each company can play in the market and how much it can charge
- _____ 4. a company joins another company or companies to form a single firm

Column II

- a. antitrust laws
- b. predatory pricing
- c. merger
- d. deregulation

B. Main Ideas

Write the letter of the correct ending in the blank provided.

- _____ 5. Antitrust laws allow the U.S. government to do all of the following except
 - a. watch and regulate industry.
 - b. stop firms from forming monopolies.
 - c. stop firms from selling new products.
 - d. break up existing monopolies.
- _____ 6. The U.S. government's policies to deregulate the banking industry allowed savings and loan (S & L) banks to get into trouble because
 - a. too many S & L banks made large, risky loans.
 - b. S & L banks were unable to compete with other types of banks.
 - c. too many S & L banks opened too many branches.
 - d. people withdrew their money from too many S & L banks.
- _____ 7. The government claimed that, to illegally extend its control over the market, Microsoft had used
 - a. predatory pricing and mergers.
 - b. predatory pricing and forming a cartel with other companies.
 - c. predatory pricing and buying out competitors.
 - d. predatory pricing and requiring customers to buy other products.
- _____ 8. Before government approves a merger, companies must prove that the merger would
 - a. be beneficial by creating an artificial monopoly.
 - b. lower costs and consumer prices or lead to a better product.
 - c. be good for certain consumers but not others.
 - d. actually raise the number of competitors in the market.
- _____ 9. Inventions like cellular phones can affect the government's antitrust policies because
 - a. people using the technology do not want antitrust regulations.
 - b. government rules can allow higher charges than competition.
 - c. the technology causes the need for more strict regulation than before.
 - d. they can mean that the need for regulation no longer exists.
- _____ 10. The purpose of both deregulation and antitrust laws is to
 - a. promote competition.
 - b. promote government control.
 - c. prevent inefficient commerce.
 - d. prevent monopolies.