

## Review 7

### Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_\_\_ 1. When is a buyer NOT willing to spend a lot of time and energy researching the market?
- when buying a large quantity of goods
  - when there are many identical products available
  - when the savings to be made are small
  - when prices vary but quality is the same
- \_\_\_\_\_ 2. What kind of market runs most efficiently when one large firm supplies all of the output?
- a natural monopoly
  - a network
  - perfect competition
  - imperfect competition
- \_\_\_\_\_ 3. What is one kind of monopoly that the U.S. government generally permits?
- the telephone company
  - professional sports leagues
  - low-price gasoline
  - certain kinds of medications
- \_\_\_\_\_ 4. How does a company arrange to sell its products to people who are unwilling to pay the top price for them?
- by allowing rebates to some preferred customers who buy a lot of goods
  - by charging each customer the maximum amount they are willing to pay
  - by charging different prices according to the group to which the buyer belongs
  - by changing the product and selling a lesser one to people who are unwilling to pay for the top product
- \_\_\_\_\_ 5. What is monopolistic competition?
- one company selling the identical product under different names
  - one company selling several different products under different names
  - a very few companies selling identical products
  - many companies selling similar but not identical products
- \_\_\_\_\_ 6. Which of the following is NOT a form of nonprice competition?
- location
  - physical characteristics
  - advertising
  - discounts
- \_\_\_\_\_ 7. What happens to a monopolistically competitive firm that begins to charge an excessive price for its product?
- The firm will go out of business.
  - Consumers will substitute a rival's product.
  - Consumers will boycott the product.
  - The government will regulate the price.
- \_\_\_\_\_ 8. When the government deregulates a product or service, what happens to it?
- The product or service is available to more people.
  - The product or service becomes cheaper.
  - Some government regulations over the industry are eliminated.
  - Government control over the industry is stopped.
- \_\_\_\_\_ 9. Cartels are difficult to operate for which of the following reasons?
- They work only if members keep to their agreed output.
  - They are illegal worldwide.
  - Firms in a cartel are likely to lose money.
  - The products are perfectly competitive.
- \_\_\_\_\_ 10. Why does the government sometimes give monopoly power to a company by issuing a patent?
- The government does not want competition for the product.

- b. The company makes a product better than anyone else's.
  - c. The company pays the government for the patent.
  - d. The company can then profit from their research without competition.
- \_\_\_ 11. Which of the following is NOT a condition for perfect competition?
- a. Many buyers and sellers participate in the market.
  - b. Sellers offer a wide variety of products.
  - c. Buyers and sellers are well informed about products.
  - d. Sellers are able to enter and exit the market freely.
- \_\_\_ 12. How does a natural monopoly function?
- a. A few firms are in perfect competition.
  - b. Imperfect competition makes it difficult for firms to do business.
  - c. A single firm supplies all the output.
  - d. The government supplies all buyers with the product.
- \_\_\_ 13. Which of the following industries have been deregulated in recent years?
- a. low-cost housing
  - b. pharmaceuticals
  - c. airlines
  - d. steel
- \_\_\_ 14. Which of the following is a product that is considered a commodity?
- a. automobiles
  - b. feed corn for cattle
  - c. writing paper
  - d. apples
- \_\_\_ 15. What is the definition of an oligopoly?
- a. one firm producing 95 percent of the output
  - b. two to four firms producing 70 percent to 80 percent of the output
  - c. eight to ten firms producing 60 percent to 70 percent of the output
  - d. eight to ten firms producing 90 percent of the output
- \_\_\_ 16. What is one of the effects that the Internet has had on business?
- a. It has led to new monopolies in many industries.
  - b. It has decreased the kinds of goods that are available to individual buyers.
  - c. It has increased the prices of goods that are not bought on the Internet.
  - d. It has reduced start-up costs for many businesses.
- \_\_\_ 17. Sunshine Island has three large supermarkets that supply most of the groceries for the island's population. A gas station also sells a very small selection of groceries. How would you describe the market for groceries on Seaside Island?
- a. perfect competition
  - b. monopolistic competition
  - c. oligopoly
  - d. monopoly
- \_\_\_ 18. What was the chief effect of the Sherman Antitrust Act?
- a. The federal government repealed regulations that controlled the airline and trucking industries.
  - b. Microsoft required personal computer manufacturers to include its web browser with the Microsoft Windows operating system.
  - c. John D. Rockefeller formed the Standard Oil Trust as a protected natural monopoly.
  - d. The federal government won the power to prevent monopolies and mergers that interfered with trade between states.
- \_\_\_ 19. Which of these industries has NOT been considered a natural monopoly in the past 30 years?
- a. diamonds
  - b. water
  - c. electricity
  - d. phone service
- \_\_\_ 20. Which of these is an example of economies of scale?
- a. A shoe store finds it can increase profits by hiring high school students who are willing to work for minimum wage.
  - b. A ranch increases its profits by expanding from 400 to 800 cattle without buying or

renting additional land.

- c. A restaurant charges customers \$1 a glass for water that was once provided for free.
- d. An Internet access company charges customers different rates for using the Internet at different times of day.

- \_\_\_\_\_ 21. A monopolist will set its production at a level where marginal cost is equal to
- a. marginal revenue.
  - b. the equilibrium market price.
  - c. total revenue.
  - d. quantity supplied.
- \_\_\_\_\_ 22. Which of the following markets is an example of monopolistic competition?
- a. water
  - b. oranges
  - c. bookbags
  - d. bus tickets
- \_\_\_\_\_ 23. Which of these will NOT lead to a monopoly?
- a. a franchise
  - b. a patent
  - c. antitrust laws
  - d. a license
- \_\_\_\_\_ 24. Which of the following is NOT an example of barriers to entry?
- a. Cable companies must lay miles of underground cable before they can serve a single customer in a new market.
  - b. In some counties, laws require retail stores to be closed on Sundays.
  - c. An entrepreneur wishing to own a clothing store must rent a building, hire workers, and buy clothing for sale.
  - d. A person who wishes to practice medicine is required to attend medical school, complete an internship, and pass a state exam.
- \_\_\_\_\_ 25. How much control over price do companies in a perfectly competitive market have?
- a. none
  - b. very little
  - c. some
  - d. total control
- \_\_\_\_\_ 26. Why do companies practice price discrimination?
- a. Price discrimination enables companies to charge all consumers the same price for a good or service.
  - b. Price discrimination allows companies to defend an illegal monopoly against free market competition.
  - c. Price discrimination provides individual producers with an advantage in perfectly competitive markets.
  - d. Price discrimination recognizes that groups of consumers are willing and able to pay different amounts and maximizes profits by charging each group a different price.
- \_\_\_\_\_ 27. Which of the following statements is true about profits in a monopolistically competitive market?
- a. Most firms will earn substantial profits from year to year.
  - b. Many firms will earn profit in the short term, but they must constantly innovate and compete to earn profits in the long term.
  - c. Profits are rare in monopolistically competitive markets.
  - d. Monopolistically competitive firms are as profitable as monopoly firms.
- \_\_\_\_\_ 28. Which of these companies has NOT been forced to split up by the federal government?
- a. Microsoft
  - b. AT&T
  - c. American Tobacco Company
  - d. Standard Oil Trust
- \_\_\_\_\_ 29. Complete this sentence: In a monopoly market, the market price will be \_\_\_\_\_ the price in a perfectly competitive market.
- a. greater than
  - b. less than
  - c. greater than or less than
  - d. equal to
- \_\_\_\_\_ 30. Complete this sentence: In a monopoly market, the market quantity sold will be \_\_\_\_\_ the quantity sold in a perfectly competitive market.
- a. greater than
  - c. greater than or less than



	Perfect Competition	Monopolistic Competition	Monopoly
Number of firms	Many	Many	One
Barriers to entry & exit	None	High	Complete
Control over prices	None	Little	Complete
Variety of goods	None	Some	None

**Figure 7.1**

48. According to Figure 7.1, what kind of variety is available in a monopolistically competitive market?
49. According to Figure 7.1, what are the barriers to entry in a monopoly?
50. According to Figure 7.1, in what kind of market do firms have the least control over prices?
51. According to Figure 7.1, what are the barriers to entry for a firm that wants to sell goods in a situation of perfect competition?
52. According to Figure 7.1, in which market structure do firms have the greatest control over price?
53. According to Figure 7.1, what variety of goods is available in a situation where the sellers are in perfect competition?

## Essay

### Critical Thinking

54. **Identifying Alternatives** Does a merger of two companies leave the consumer better or worse off?
55. **Distinguishing False from Accurate Images** Give an example of the way that the Internet has reduced start-up costs for some businesses.
56. **Determining Relevance** How can the invention of new technology alter a market structure?
57. **Expressing Problems Clearly** What are economies of scale, and how can they help create a monopoly?
58. **Identifying Central Issues** How do the four types of market structures differ?
59. **Analyzing Information** Why does price discrimination work best for services that are consumed immediately?