Multiple Choice Questions

1. The kinked-demand curve model of oligopoly:
   A. assumes a firm's rivals will ignore a price cut but match a price increase.
   B. embodies the possibility that changes in unit costs will have no effect on equilibrium price and output.
   C. assumes a firm's rivals will match any price change it may initiate.
   D. assumes a firm's rivals will ignore any price change it may initiate.

2. Oligopolistic industries:
   A. are characterized by a relatively large number of small sellers.
   B. may produce either standardized or differentiated products.
   C. always produce differentiated products.
   D. always produce standardized products.

3. Refer to the above diagram for a monopolistically competitive firm in short-run equilibrium. This firm's profit-maximizing price will be:
   A. $10.
   B. $13.
   C. $16.
   D. $19.

4. The larger the number of firms and the smaller the degree of product differentiation the:
   A. greater the divergence between the demand and the marginal revenue curves of the monopolistically competitive firm.
   B. larger will be the monopolistically competitive firm's fixed costs.
   C. less elastic is the monopolistically competitive firm's demand curve.
   D. more elastic is the monopolistically competitive firm's demand curve.
5. Suppose an oligopolistic producer assumes its rivals will ignore a price increase but match a price cut. In this case the firm perceives its:
A. demand curve as being of unit elasticity throughout.
B. supply curve as kinked, being steeper below the going price than above.
C. demand curve as kinked, being steeper below the going price than above.
D. demand curve as kinked, being steeper above the going price than below.

6. Refer to the above diagram where the numerical data show profits in millions of dollars. Beta's profits are shown in the northeast corner and Alpha's profits in the southwest corner of each cell. If Alpha and Beta engage in collusion, the outcome of the game will be at cell:
A. A.
B. B.
C. C.
D. D.

7. If an industry evolves from monopolistic competition to oligopoly, we would expect:
A. the four-firm concentration ratio to decrease.
B. the four-firm concentration ratio to increase.
C. the four-firm concentration ratio to remain the same.
D. barriers to entry to weaken.

8. Suppose the only three existing manufacturers of video game players signed a written contract by which each agreed to charge the same price for products and to distribute their products only in the geographical area assigned them in the contract. This best describes:
A. cost-plus pricing.
B. multiproduct pricing.
C. a cartel.
D. price leadership.
9. Refer to the above diagram where the numerical data show profits in millions of dollars. Beta's profits are shown in the northeast corner and Alpha's profits in the southwest corner of each cell. If both firms follow a high-price policy:
A. Alpha will realize a $10 million profit and Beta a $30 million profit.
B. each will realize a $20 million profit.
C. Beta will realize a $10 million profit and Alpha a $30 million profit.
D. each will realize a $15 million profit.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>20</td>
</tr>
<tr>
<td>B</td>
<td>20</td>
</tr>
<tr>
<td>C</td>
<td>20</td>
</tr>
<tr>
<td>D</td>
<td>20</td>
</tr>
<tr>
<td>E</td>
<td>10</td>
</tr>
<tr>
<td>F</td>
<td>10</td>
</tr>
</tbody>
</table>

10. The Herfindahl Index for the above industry is:
A. 1,600.
B. 1,800.
C. 18,000.
D. 80.

11. Advertising can impede economic efficiency when it:
A. increases entry barriers.
B. reduces brand loyalty.
C. enables firms to achieve substantial economies of scale.
D. increases consumer awareness of substitute products.

12. The kinked-demand curve of an oligopolist is based on the assumption that:
A. competitors will follow a price cut but ignore a price increase.
B. competitors will match both price cuts and price increases.
C. competitors will ignore a price cut but follow a price increase.
D. there is no product differentiation.

13. Prices are likely to be least flexible:
A. in oligopoly.
B. in monopolistic competition.
C. where product demand is inelastic.
D. in pure competition.

14. Clear-cut mutual interdependence with respect to the price-output policies exists in:
A. pure monopoly
B. oligopoly
C. monopolistic competition
D. pure competition
15. Barriers to entry in oligopolistic industries may consist of:
A. diseconomies of scale.
B. diminishing returns.
C. ownership of essential resources.
D. patent expirations.

16. Refer to the above figures. Collusion is most likely to occur in the industry(ies) represented by:
A. Figure A.
B. Figure B.
C. Figure C.
D. both Figures B and D.

17. An industry having a four-firm concentration ratio of 85 percent:
A. approximates pure competition.
B. is monopolistically competitive.
C. is a pure monopoly.
D. is an oligopoly.
Answer the next question(s) on the basis of the following demand and cost data for a specific firm:

![Demand Data Table]

18. If columns (1) and (3) of the demand data shown above are this firm's demand schedule, the profit-maximizing price will be:
   A. $9.
   B. $7.
   C. $11.
   D. $6.

19. In the long-run, a profit-maximizing monopolistically competitive firm sets its price:
   A. above marginal cost.
   B. equal to marginal revenue.
   C. below marginal cost.
   D. equal to marginal cost.
20. Refer to the above diagram for a noncollusive oligopolist. We assume that the firm is initially in equilibrium at point $E$ where the equilibrium price and quantity are $P$ and $Q$. If the firm's rivals will ignore any price increase but match any price reduction, the firm's marginal revenue curve will be:
A. $D_1ED_2$
B. $MR_2abMR_1$
C. $MR_2aMR_2$
D. $MR_1bMR_1$

21. Three major means of collusion by oligopolists are:
A. cartels, tacit understandings, and price leadership.
B. market sharing, mutual interdependence, and product differentiation.
C. cartels, kinked-demand pricing, and product differentiation.
D. tacit understandings, $P = MC$ pricing, and mutual interdependence.

22. The term oligopoly indicates:
A. a one-firm industry.
B. many producers of a differentiated product.
C. a few firms producing either a differentiated or a homogeneous product.
D. an industry whose four-firm concentration ratio is low.

23. Monopolistic competition means:
A. a market situation where competition is based entirely on product differentiation and advertising.
B. a large number of firms producing a standardized or homogeneous product.
C. many firms producing differentiated products.
D. a few firms producing a standardized or homogeneous product.

24. Monopolistic competition is characterized by a:
A. few dominant firms and low entry barriers.
B. large number of firms and substantial entry barriers.
C. large number of firms and low entry barriers.
D. few dominant firms and substantial entry barriers.

25. Which of the following statements is correct?
A. Purely competitive firms, monopolistically competitive firms, and pure monopolies all earn zero economic profits in the long run.
B. Purely competitive firms, monopolistically competitive firms, and pure monopolies all earn positive economic profits in the long run.
C. In the long run purely competitive firms and monopolistically competitive firms earn zero economic profits, while pure monopolies may or may not earn economic profits.
D. Monopolistically competitive firms earn zero economic profits in both the short run and the long run.

26. Refer to the above diagram for a monopolistically competitive firm in short-run equilibrium. The profit-maximizing output for this firm will be:
A. 210.
B. 180.
C. 160.
D. 100.
27. Refer to the above diagram for a monopolistically competitive producer. If this firm were to realize productive efficiency, it would:
A. also realize an economic profit.
B. also achieve allocative efficiency.
C. incur a loss.
D. have to produce a smaller output.

28. A one-firm industry is known as:
A. monopolistic competition
B. oligopoly
C. pure monopoly
D. pure competition

29. Cartels are difficult to maintain in the long run because:
A. they are illegal in all industrialized countries.
B. individual members may find it profitable to cheat on agreements.
C. it is more profitable for the industry to charge a lower price and produce more output.
D. entry barriers are insignificant in oligopolistic industries.

30. One would expect that collusion among oligopolistic producers would be easiest to achieve in which of the following cases?
A. a rather large number of firms producing a differentiated product
B. a very small number of firms producing a differentiated product
C. a rather large number of firms producing a homogeneous product
D. a very small number of firms producing a homogeneous product

Pre-Test Chapter 23 ed17 Key