

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) The marginal revenue facing a monopolist 1) _____
 A) is the same as the demand facing the monopolist.
 B) shows the change in the profits level of the firm.
 C) lies below the average revenue.
 D) at first falls to a minimum and then rises as output is increased.
 E) is the same as the average revenue facing the monopolist.
- 2) A monopolist faces a downward-sloping demand curve because 2) _____
 A) its average revenue equals its marginal revenue.
 B) its supply curve is upward sloping.
 C) it sells typically to only one consumer.
 D) its demand curve is the market demand curve.
 E) demand is perfectly inelastic.
- 3) A monopolistic firm faces a downward-sloping demand curve because 3) _____
 A) the monopolistic firm can exploit economies of scale.
 B) the demand for its product is always inelastic.
 C) marginal revenue is negative throughout the feasible range of output.
 D) there are a large number of firms in the industry, all selling the same product.
 E) unlike that of a competitive firm, the amount a monopolistic firm sells affects the market price.
- 4) For a monopolist marginal revenue falls faster than price because 4) _____
 A) the cost of producing extra units of output increases as production is increased.
 B) to sell additional units the price must be lowered on all units sold.
 C) marginal revenue is larger than price.
 D) profits are maximized when marginal cost equals marginal revenue.
 E) the firm has no supply curve.

Market Demand Schedule

Price	\$8	\$7	\$6	\$5	\$4	\$3	\$2
Quantity	5	6	7	8	9	10	11

TABLE 10-12

- 5) Referring to Table 10-1, the marginal revenue associated with increasing sales from 5 to 6 units is 5) _____
 A) -4. B) -2. C) 0. D) 2. E) 4.
- 6) Referring to Table 10-1, the marginal revenue associated with increasing sales from 6 to 7 units is 6) _____
 A) 0. B) -4. C) 4. D) -2. E) 2.

- 7) Referring to Table 10-1, the marginal revenue associated with increasing sales from 8 to 9 units is 7) _____
A) 2. B) -4. C) 4. D) -2. E) 0.
- 8) In a monopoly firm, the revenue-maximizing level of output occurs where 8) _____
A) $MC = AR$.
B) $MR = AC$.
C) $MC = P$.
D) $MR = MC$.
E) $MR = \text{zero}$.
- 9) When a monopolist sets price where the price elasticity of demand equals 1, his 9) _____
A) total revenue is rising, although marginal revenue is falling.
B) total revenue is at a maximum.
C) marginal revenue is always positive.
D) total profits are at a maximum.
E) total revenue is falling.
- 10) A profit-maximizing monopolist sets price where the price elasticity of demand is 10) _____
A) inelastic.
B) elastic.
C) infinitely elastic.
D) zero.
E) one.

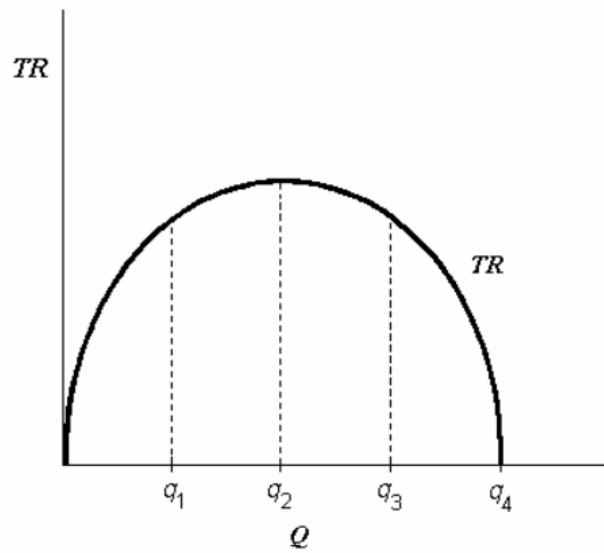


FIGURE 10-2

- 11) Refer to Figure 10-2. The price elasticity of demand at q_2 is 11) _____
- A) zero.
 - B) less than 1.
 - C) greater than 1.
 - D) equal to 1.
 - E) not determinable from the diagram.
- 12) Refer to Figure 10-2. The price elasticity of demand at q_3 is 12) _____
- A) equal to 1.
 - B) less than 1.
 - C) greater than 1.
 - D) zero.
 - E) not determinable from the diagram.
- 13) Refer to Figure 10-2. The price elasticity of demand at q_1 is 13) _____
- A) less than 1.
 - B) zero.
 - C) equal to 1.
 - D) greater than 1.
 - E) not determinable from the diagram.

- 14) Refer to Figure 10-2. The marginal revenue at q_2 is 14) _____
- A) equal to marginal cost.
 - B) negative.
 - C) positive.
 - D) zero.
 - E) not determinable from the diagram.
- 15) Refer to Figure 10-2. Marginal revenue at q_3 is 15) _____
- A) positive.
 - B) zero.
 - C) negative.
 - D) equal to marginal cost.
 - E) not determinable from the diagram.
- 16) If a monopoly is presently producing an output at which marginal revenue is less than marginal cost, it can increase profits by 16) _____
- A) reducing output and raising prices.
 - B) expanding output and raising price.
 - C) reducing output and holding prices unchanged.
 - D) reducing barriers to entry.
 - E) expanding output and lowering price.
- 17) At the profit-maximizing level of output for a monopolist, price 17) _____
- A) exceeds marginal cost.
 - B) equals marginal revenue.
 - C) is below marginal revenue.
 - D) always exceeds average total cost.
 - E) equals marginal cost.
- 18) A monopolist is currently producing an output level where $P = \$20$, $MR = \$13$, $AVC = \$12$, $ATC = \$15$, and $MC = \$14$. In order to maximize profits, this monopolist should 18) _____
- A) change price and let production adjust to the new price.
 - B) shut down.
 - C) decrease production and increase price.
 - D) not change his output level, because he is currently at the profit-maximizing output level.
 - E) increase production and reduce price.

- 19) Economic profit for a monopolistic firm will equal zero when 19) _____
- A) marginal revenue equals marginal cost.
 - B) average total cost is minimized.
 - C) marginal revenue equals price.
 - D) price equals marginal cost.
 - E) average total cost equals price.

- 20) If a monopolist's marginal revenue is $MR = 12 - 2Q$ and marginal cost is $MC = 3$, then the profit-maximizing quantity that the monopolist should produce is 20) _____
- A) 0.
 - B) 4.
 - C) 4.5.
 - D) 6.
 - E) 12.

Your food-services company has been awarded an exclusive right to provide meals at a small university. The cost and demand schedules are:

Sold per Day	Price per Meal	Total Fixed Cost	Total Variable Cost	Total Revenue
0	\$3.50	\$150	0	0
100	\$3.25	\$150	\$300	\$325
200	\$3.00	\$150	\$500	\$600
300	\$2.75	\$150	\$650	\$825
400	\$2.50	\$150	\$750	\$1000
500	\$2.25	\$150	\$830	\$1125
600	\$2.00	\$150	\$905	\$1200
700	\$1.75	\$150	\$995	\$1225

TABLE 10-2

- 21) Refer to Table 10-2. The marginal cost between 100 and 200 meals is 21) _____
- A) \$1.00.
 - B) \$1.50.
 - C) \$2.00.
 - D) \$3.00.
 - E) \$200.
- 22) Refer to Table 10-2. The marginal revenue at 200 meals is 22) _____
- A) \$1.75.
 - B) \$2.25.
 - C) \$2.75.
 - D) \$3.25.
 - E) \$275.
- 23) Refer to Table 10-2. The profit-maximizing price and number of meals is 23) _____
- A) 300 meals at \$2.75 per meal.
 - B) 600 meals at \$2.00 per meal.
 - C) 500 meals at \$2.25 per meal.
 - D) 400 meals at \$2.50 per meal.
 - E) 700 meals at \$1.75 per meal.
- 24) Refer to Table 10-2. At the profit-maximizing level of output, the firm's total profit will be 24) _____
- A) \$75.
 - B) \$100.
 - C) \$145.
 - D) \$150.
 - E) \$295.

25) Refer to Table 10-2. If you decided to provide 700 meals the total profits would be 25) _____
 A) -\$60.
 B) \$80.
 C) \$150.
 D) \$230.
 E) impossible to calculate.

26) Refer to Table 10-2. The break-even level of output is between 26) _____
 A) 0 and 100 meals.
 B) 100 and 200 meals.
 C) 200 and 300 meals.
 D) 300 and 400 meals.
 E) 300 and 500 meals.

Suppose a monopolist faces the demand curve and cost curves shown below.

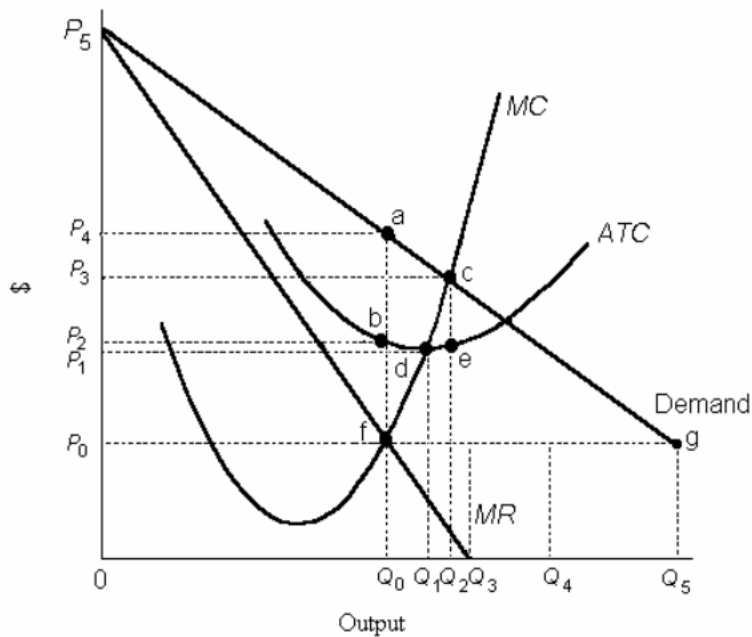


FIGURE 10-3

27) In Figure 10-3, a profit-maximizing single-price monopolist produces the quantity 27) _____
 A) Q_4 . B) Q_0 . C) Q_3 . D) Q_2 . E) Q_1 .

28) In Figure 10-3, a profit-maximizing single-price monopolist charges the price 28) _____
 A) P_2 . B) P_1 . C) P_0 . D) P_4 . E) P_3 .

29) In Figure 10-3, the average profit earned per unit by this single-price monopolist is 29) _____
 A) $P_4 - P_3$. B) $P_4 - P_0$. C) $P_4 - P_1$. D) $P_4 - P_2$. E) $P_3 - P_2$.

- 30) In Figure 10-3, if the single-price monopolist is producing at the profit-maximizing output, the total cost is represented by the area 30) _____
 A) OP_2bQ_0 . B) OP_3cQ_3 . C) OP_4aQ_0 . D) OP_1dQ_1 . E) OP_0gQ_5 .
- 31) In Figure 10-3, if the single-price monopolist is producing at the profit-maximizing output, the total revenue is represented by the area 31) _____
 A) OP_0gQ_5 . B) OP_4aQ_0 . C) OP_2bQ_0 . D) OP_3cQ_2 . E) OP_1dQ_1 .
- 32) In Figure 10-3, if the single-price monopolist is producing at the profit-maximizing output, the total profit is represented by the area 32) _____
 A) OP_0fQ_0 . B) OP_4aQ_0 . C) P_3ceP_2 . D) P_4abP_2 . E) OP_2bQ_0 .
- 33) In Figure 10-3, if the single-price monopolist is producing at the profit-maximizing output, the consumer surplus is represented by the area 33) _____
 A) P_5P_0g . B) P_5P_2b . C) P_5P_1e . D) P_5Q_30 . E) P_5P_4a .
- 34) In Figure 10-3, the single-price monopolist maximizes total revenue by producing the quantity 34) _____
 A) Q_5 . B) Q_4 . C) Q_2 . D) Q_3 . E) Q_1 .
- 35) Suppose the firm in Figure 10-3 experiences a parallel increase in the demand for its product. In the short run, the profit-maximizing monopolist will 35) _____
 A) neither raise price nor change output.
 B) increase price and output.
 C) increase price, and produce the same output.
 D) increase price and reduce output.
 E) lower price and increase output.
- 36) If a monopoly took over a viable perfectly competitive industry the firm would produce 36) _____
 A) a greater output at a higher price.
 B) the same output at a higher price.
 C) the same output at the same price.
 D) a smaller output at a higher price.
 E) a smaller output at the same price.
- 37) If a monopoly operated in the inelastic range of its demand curve, 37) _____
 A) its marginal revenue would be negative.
 B) it would be operating at its profit-maximizing position.
 C) its marginal revenue would be negative although its total revenues would be at a maximum.
 D) it could raise its total revenue by lowering its price.
 E) it would be operating where its AR is negative.

38) Suppose that a monopolist knows the following information:

38) _____

Price	Quantity	TR	MR	Fixed Cost	TC	ATC	MC
\$10.00	1500		\$7.00	\$6000		\$5.00	\$5.00

The monopolist could maximize profits by

- A) staying at the current price and output.
- B) lowering price and increasing output.
- C) shutting down.
- D) lowering price and leaving output unchanged.
- E) raising price and leaving output unchanged.

39) One difference between monopoly and perfect competition is that

39) _____

- A) monopolistic firms tend to maximize revenue while perfectly competitive firms maximize profit.
- B) perfectly competitive firms cannot maintain positive economic profits in the long run.
- C) perfectly competitive firms can never earn economic profits; monopolistic firms always earn economic profits.
- D) monopolistic firms emphasize cost minimization and perfectly competitive firms emphasize profit maximization.
- E) monopolists do not consider consumer demand when choosing price and output levels.

40) A number of firms agreeing together to restrict output and thereby raise prices is known as

40) _____

- A) a monopoly.
- B) perfect competition.
- C) a cartel.
- D) a barrier to entry.
- E) a natural monopoly.

Answer Key

Testname: MPP-MONOPOLYSTUDYQUESTIONS

- 1) C
- 2) D
- 3) E
- 4) B
- 5) D
- 6) A
- 7) B
- 8) E
- 9) B
- 10) B
- 11) D
- 12) B
- 13) D
- 14) D
- 15) C
- 16) A
- 17) A
- 18) C
- 19) E
- 20) C
- 21) C
- 22) C
- 23) B
- 24) C
- 25) B
- 26) C
- 27) B
- 28) D
- 29) D
- 30) A
- 31) B
- 32) D
- 33) E
- 34) D
- 35) B
- 36) D
- 37) A
- 38) B
- 39) B
- 40) C