Chapter 14
Monopoly

14.1 Monopoly and How It Arises

1) A major characteristic of monopoly is
   A) a single seller of a product.  
   B) multiple sellers of a product.  
   C) two sellers of a product.  
   D) a few sellers of a product.  
   E) each firm makes an identical product.

Answer: A
Topic: Monopoly
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: JC

2) The good produced by a monopoly
   A) has perfect substitutes.  
   B) has no substitutes at all.  
   C) has no close substitutes.  
   D) can be easily duplicated.  
   E) must be unable to be resold.

Answer: C
Topic: Monopoly
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: SA
3) We define a monopoly as a market with
   A) one supplier and no barriers to entry.
   B) one supplier with barriers to entry.
   C) many suppliers with no barriers to entry.
   D) many suppliers with barriers to entry.
   E) a few suppliers and barriers to entry.
   Answer: B

4) A monopoly produces a product ____ and there ____ barriers to entry into the market.
   A) identical to its many competitors; are
   B) with no close substitutes; are
   C) identical to its many competitors; are not
   D) with no close substitutes; are not
   E) slightly different from those of its many competitors; are
   Answer: B

5) A monopoly
   A) is not protected by barriers to entry.
   B) produces a good with no close substitutes.
   C) faces a downward-sloping demand curve.
   D) Both answers A and B are correct.
   E) Both answers B and C are correct.
   Answer: E
6) A monopoly
   A) must determine the price it will charge.
   B) faces extensive competition from firms making close substitutes.
   C) cannot price discriminate because such a pricing strategy is illegal in the United States.
   D) Both answers A and B are correct.
   E) Both answers B and C are correct.

Answer: A

Topic: Monopoly
Skill: Level 2: Using definitions
Objective: Checkpoint 14.1
Author: SA

7) An important characteristic of monopoly is that there are
   A) no close substitutes for the good or service sold if the firm price discriminates and
      there are many close substitutes for the good or service sold if the firm sets a single
      price.
   B) a few close substitutes for the good or service sold.
   C) no close substitutes for the good or service sold.
   D) thousands of close substitutes for the good or service sold.
   E) no close substitutes for the good or service sold if the firm sets a single price and there
      are many close substitutes for the good or service sold if the firm price discriminates.

Answer: C

Topic: Monopoly
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: JC

8) Monopolies arise when there are
   A) many substitutes but no barriers to entry.
   B) no close substitutes and no barriers to entry.
   C) no close substitutes and barriers to entry.
   D) many substitutes and barriers to entry.
   E) None of the above answers are correct because the existence of a monopoly has
      nothing to do with the presence or absence of barriers to entry.

Answer: C

Topic: Monopoly
Skill: Level 2: Using definitions
Objective: Checkpoint 14.1
Author: WM
9) A major characteristic of monopoly is that
   A) no barriers to entry exist.
   B) the product is identical to that produced by other companies.
   C) a barrier to entry keeps out competitors.
   D) competition is intense.
   E) a few firms compete with each other.
   
   Answer: C
   
   Topic: Monopoly
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: JC

10) A monopoly will arise if
    A) two out of three of a town's pizzerias go out of business and only one new pizzeria opens.
    B) the town council passes a law granting Nick's Pizza the exclusive right to operate in that town.
    C) Papa Joe's Pizza becomes the largest pizza producer in town and Nick's Pizza stays small in size.
    D) several big pizza chains force several small pizzerias out of business.
    E) people decide they like pizza more than before so some pizzeria's gain new customers.
    
    Answer: B
   
   Topic: Monopoly
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.1
   Author: SA

11) A natural barrier to entry is defined as a barrier that arises because of
    A) technology that allows economies of scale over the entire relevant range of output.
    B) patents or licenses that exclude others from producing a good or service.
    C) many firms producing the good and thereby allowing choice for all consumers.
    D) anticompetitive practices by a firm that keep other firms from producing.
    E) one firm owning a key natural resource.
    
    Answer: A
   
   Topic: Monopoly, barriers to entry
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: WM
12) Natural barriers arise when, over the relevant range of output, there
   A) are diseconomies of scale.
   B) are constant returns to scale.
   C) are several firms who produce at the lowest average cost.
   D) are economies of scale.
   E) is one firm that owns a key natural resource.

   Answer: D
   Topic: Monopoly, barriers to entry
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.1
   Author: WM

13) A natural monopoly
   A) arises as a result of legal barriers to entry.
   B) occurs when one firm controls a natural resource.
   C) arises when one firm can meet the entire market demand at a lower average total cost
       than two or more firms.
   D) Both answers A and B are correct.
   E) Both answers A and C are correct.

   Answer: C
   Topic: Natural monopoly
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: SA

14) For a natural monopoly, economies of scale
   A) exist over the long-run average cost curve at least until it crosses the market demand
      curve.
   B) and diseconomies of scale exist over the long-run average cost curve at least until it
      crosses the market demand curve.
   C) lead to a legal barrier to entry.
   D) as well as constant returns to scale and diseconomies of scale exist over the long-run
      average cost curve at least until it crosses the market demand curve.
   E) lead to an ownership barrier to entry.

   Answer: A
   Topic: Natural monopoly
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.1
   Author: SA
15) A natural monopoly arises when
   A) one firm controls the supply of a unique resource.
   B) a firm has many small firms that it can control.
   C) there are firms which act together as a monopoly.
   D) the long-run average cost curve slopes downward until it crosses the demand curve.
   E) one firm naturally convinces the government to limit competition in the market.

Answer: D  
Topic: Natural monopoly  
Skill: Level 2: Using definitions  
Objective: Checkpoint 14.1  
Author: WM

16) The long-run average cost curve of a natural monopoly
   A) is positively sloped until it crosses the demand curve.
   B) intersects the demand curve while it is still negative sloped.
   C) intersects the demand curve while it is positively sloped.
   D) is the natural monopoly’s supply curve.
   E) is the same as the natural monopoly’s demand curve.

Answer: B  
Topic: Natural monopoly  
Skill: Level 2: Using definitions  
Objective: Checkpoint 14.1  
Author: SA

17) Which of the following is an example of a natural monopoly?
   A) the trademark protecting Gatorade
   B) the talents of Tom Hanks
   C) the local water company
   D) the patent on an Intel processor
   E) Debeers' ownership of a large fraction of the world's diamonds.

Answer: C  
Topic: Natural monopoly  
Skill: Level 2: Using definitions  
Objective: Checkpoint 14.1  
Author: JC
18) Which of the following is an example of the ownership barrier to entry?
   A) a patent
   B) ownership of the entire supply of a resource
   C) a copyright
   D) a government license
   E) a public franchise

Answer: B

Topic: Legal barriers to entry
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: JC

19) Which of the following is a legal barrier to entry?
   i) public franchise
   ii) government license
   iii) patent

   A) iii only
   B) i and iii
   C) ii and iii
   D) i, ii, and iii
   E) i and ii

Answer: D

Topic: Legal barriers to entry
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: CD

20) DeBeers has a monopoly in the diamond market because it _____.
   A) buys up a significant portion of diamond resources.
   B) can supply the entire market at a lower price than two or more firms.
   C) has been granted a public franchise.
   D) has been granted a government license.
   E) has been granted a patent.

Answer: A

Topic: Legal barriers to entry
Skill: Level 2: Using definitions
Objective: Checkpoint 14.1
Author: CD
21) The U.S. Postal Service has a monopoly over first-class mail service because
   A) the government has granted this agency a public franchise.
   B) stamps are copyrighted.
   C) stamps are trademarked.
   D) stamps are patented.
   E) it owns a vital resource, namely all mailboxes.

   Answer: A
   
   Topic: Legal barriers to entry
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.1
   Author: JC

22) The U.S. Postal Service’s monopoly on first-class mail service is the result of
   A) a natural monopoly.
   B) a patent.
   C) a public franchise.
   D) a government license.
   E) an ownership barrier to entry.

   Answer: C
   
   Topic: Legal barriers to entry
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.1
   Author: CD

23) The makers of the movie Finding Nemo have some monopoly power over this film because
    the
   A) movie is patented.
   B) name Nemo is trademarked.
   C) movie is protected by copyright law.
   D) government has issued the maker of this movie a public franchise.
   E) owner has never price discriminated in marketing the movie.

   Answer: C
   
   Topic: Legal barriers to entry
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.1
   Author: JC
24) If Jack invents a machine that can record people's dreams and gets a patent on this machine, how long will his patent last in the United States?
   A) forever
   B) 20 years
   C) 5 years
   D) 100 years
   E) 35 years
   Answer: B
   Topic: Legal barriers to entry
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: JC

25) To encourage invention and innovation, the government provides
   A) patents.
   B) public franchises.
   C) government licenses.
   D) natural monopolies.
   E) easily obtained ownership barriers to entry.
   Answer: A
   Topic: Legal barriers to entry
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: PH

26) Which of the following is an example of a person or firm that is likely to have been granted a public franchise?
   A) medical doctor
   B) taxi cab driver
   C) the local pizza parlor
   D) the local telephone company
   E) the local Honda dealership
   Answer: D
   Topic: Legal barriers to entry
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.1
   Author: SA
27) A gas station in the mountains of Oregon has a monopoly over the retail gas market within a 50-mile radius. The station decides not to price discriminate. As a result, all consumers will pay
   A) the highest price each consumer is willing to pay.
   B) the lowest price possible.
   C) a single price.
   D) multiple prices.
   E) a price that depends on their willingness to pay.

Answer: C

Topic: Price strategies, single price
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: JC

28) A single-price monopoly

   A) sets a single, different price for each consumer.
   B) sets a single price for all consumers.
   C) asks each consumer what single price they would be willing to pay.
   D) sets a single, different price for each of two different groups.
   E) sells each unit of its output for the single, highest price that the buyer of that unit is willing to pay.

Answer: B

Topic: Price strategies, single price
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: WM

29) A single-price monopoly

   A) charges all of its customers a different price for the good or service.
   B) sells all of its output at different prices.
   C) sells each unit of output for the same price to all of its customers.
   D) sells its output to wholesale customers at a different price than it sells to retail customers.
   E) does not need to lower its price to sell more output.

Answer: C

Topic: Price strategies, single price
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: PH
30) A price-discriminating monopoly is a firm that
   A) sells its output at a single price to all of its customers.
   B) sells different units of a good or service at different prices.
   C) has control over the resources used to produce the product.
   D) has a license to sell the product.
   E) illegally charges different customers different prices for the good it produces.

   Answer: B
   Topic: Price strategies, price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: PH

31) Price discrimination is
   A) always illegal in the United States.
   B) defined as charging the same price to all consumers.
   C) defined as charging different prices for different units.
   D) setting the price to minimize the quantity sold.
   E) Both answers A and C are correct.

   Answer: C
   Topic: Price strategies, price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: WM

32) Movie theaters often practice price discrimination. Price discrimination means that movies charge
   A) men higher prices than women.
   B) the same low price to everyone.
   C) the same high price to everyone.
   D) different customers different prices.
   E) different customers the same price.

   Answer: D
   Topic: Price strategies, price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: JC
33) A ____ monopoly sells different units of its good or service for ____.
   A) price-discriminating; different prices
   B) price-discriminating; the same price
   C) single-price; the same price
   D) single-price; different prices
   E) Both Answers A and C are correct.

   Answer: E

   Topic: Price strategies, price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: CD

34) To be able to price discriminate, a firm must
   A) have a public franchise.
   B) be a natural monopoly.
   C) be able to prevent resales of its good.
   D) have a patent.
   E) have an ownership barrier to entry.

   Answer: C

   Topic: Price strategies, price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: CD

35) In order for a hotel to successfully price discriminate so that senior citizens are given a discount, the hotel must be able to
   A) offset the economic loss from charging senior citizens a lower price by lowering the marginal cost of renting rooms to senior citizens.
   B) lower its prices to younger customers too.
   C) prevent senior citizens from reselling their rooms to younger customers.
   D) shift its demand curve rightward.
   E) determine if a senior citizen can pay a higher price.

   Answer: C

   Topic: Price strategies, price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.1
   Author: JC
36) Which of the following is an example of price discrimination?
   A) UPS charges more if a package is sent from New York to Hawaii and less if it is sent from New York to New Jersey.
   B) Frank's Furniture shop charges no delivery fee for furniture delivered within Dutchess County but charges $40 delivery fee outside of the county.
   C) Albert pays 25 percent less on prescription drugs because he is a senior citizen.
   D) Only answers A and B are correct.
   E) Answer A, answer B, and answer C are all correct.

Answer: C

Topic: Price strategies, price discrimination
Skill: Level 2: Using definitions
Objective: Checkpoint 14.1
Author: SA

37) Firms that can effectively price discriminate
   A) can be either perfectly competitive firms or monopolies.
   B) can prevent the resale of their products.
   C) have only one class of buyers, buyers willing to pay a high price.
   D) Both answers A and B are correct.
   E) Both answers A and C are correct.

Answer: B

Topic: Price strategies, price discrimination
Skill: Level 2: Using definitions
Objective: Checkpoint 14.1
Author: SA

14.2 Single-Price Monopoly

1) The demand curve for a monopoly is
   A) horizontal because the demand is perfectly elastic.
   B) downward sloping.
   C) vertical because the demand is perfectly inelastic.
   D) upward sloping.
   E) undefined because it is the only supplier in the market.

Answer: B

Topic: Demand
Skill: Level 2: Using definitions
Objective: Checkpoint 14.2
Author: SA
2) If a monopoly wants to sell a greater quantity of output, it must
   A) lower its price.
   B) raise its price.
   C) tell consumers to buy more because it's a monopolist.
   D) raise its marginal cost.
   E) change its fixed costs.
   Answer: A
   Topic: Demand
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.2
   Author: WM

3) A single-price monopoly
   A) must practice price discrimination.
   B) can lower its price for only a few select consumers if it wants to increase its output.
   C) will set its price equal to a consumer’s willingness to pay.
   D) must lower the price for all customers if it wants to increase its output.
   E) is able to raise its price as high as it wants and consumers must still buy from it because it is a monopoly.
   Answer: D
   Topic: Demand
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.2
   Author: SA

4) Total revenue is defined as
   A) the change in price resulting from a one-unit increase in quantity sold.
   B) the amount people will buy at a given price.
   C) the change in the quantity sold when you change the price by one unit.
   D) price multiplied by the quantity sold.
   E) the price at which the good or service is sold.
   Answer: D
   Topic: Total revenue
   Skill: Level 1: Definition
   Objective: Checkpoint 14.2
   Author: WM
5) Marginal revenue is defined as
   A) the amount people buy at a given price.
   B) the amount people buy between two prices.
   C) the change in total revenue brought about by a one-unit increase in quantity sold.
   D) price multiplied by the quantity sold.
   E) equal to the price.

Answer: C
Topic: Marginal revenue
Skill: Level 1: Definition
Objective: Checkpoint 14.2
Author: WM

6) For a single-price monopoly, price is
   A) equal to marginal revenue.
   B) greater than marginal revenue.
   C) less than marginal revenue because the firm must lower its price in order to sell
      another unit of output.
   D) less than marginal revenue because the firm cannot increase its total revenue when the
      demand curve is downward sloping.
   E) equal to zero because the firm is not a price taker.

Answer: B
Topic: Marginal revenue
Skill: Level 2: Using definitions
Objective: Checkpoint 14.2
Author: PH

7) The marginal revenue for a single-price monopoly with a downward-sloping demand
curve
   A) is less than the price.
   B) is greater than the price.
   C) is equal to the price.
   D) might be more than, less than, or equal to the price, depending on whether the slope of
      the demand curve exceeds 1.0 in magnitude.
   E) might be more than, less than, or equal to the price, depending on whether the price
      elasticity of demand exceeds 1.0 in magnitude.

Answer: A
Topic: Marginal revenue
Skill: Level 2: Using definitions
Objective: Checkpoint 14.2
Author: SA
8) A single-price monopoly faces a linear demand curve. If the marginal revenue for the second unit is $20, then the marginal revenue for the
A) first unit is less than $20.
B) third unit is less than $20.
C) third unit is more than $20.
D) third unit is also $20.
E) more information is needed to determine if the marginal revenue for the third unit is more than, less than, or equal to $20.
Answer: B
Topic: Marginal revenue
Skill: Level 3: Using models
Objective: Checkpoint 14.2
Author: SA

9) A single-price monopoly can sell 2 units for $8.50 per unit. In order to sell 3 units, the price must be $8.00 per unit. The marginal revenue from selling the third unit is
A) $24.00.
B) $8.50.
C) $7.00.
D) $6.50.
E) $17.00.
Answer: C
Topic: Marginal revenue
Skill: Level 4: Applying models
Objective: Checkpoint 14.2
Author: PH

10) Suppose a single-price monopoly sells 3 units of a good at $20 per unit. If the monopoly sells 4 units, the total revenue increases to $72. What is the marginal revenue of the fourth unit?
A) $52
B) $18
C) $60
D) $12
E) $20
Answer: D
Topic: Marginal revenue
Skill: Level 4: Applying models
Objective: Checkpoint 14.2
Author: SA
11) Suppose a single-price monopoly sells 3 units of a good at $20 per unit. If the monopoly sells 4 units, the total revenue increases to $72. What price is being charged for 4 units?
   A) $52 each
   B) $18 each
   C) $60 each
   D) $12 each
   E) $20 each

   Answer: B

   Topic: Total revenue
   Skill: Level 4: Applying models
   Objective: Checkpoint 14.2
   Author: SA

12) The demand curve facing a single-price monopoly is
   A) below the marginal revenue curve.
   B) above the marginal revenue curve.
   C) the same as only the marginal revenue curve.
   D) the same as only the marginal cost curve.
   E) the same as both the marginal revenue curve and the marginal cost curve.

   Answer: B

   Topic: Marginal revenue curve
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.2
   Author: PH

13) A single-price monopoly has a marginal revenue curve that is
   A) horizontal and equal to price.
   B) downward sloping and below the demand curve.
   C) upward sloping and equal to the supply curve.
   D) downward sloping and above the demand curve.
   E) vertical at the profit-maximizing quantity.

   Answer: B

   Topic: Marginal revenue curve
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.2
   Author: WM
14) If Microsoft currently charges prices where its demand is elastic, then Microsoft’s marginal revenue is 
   A) negative. 
   B) positive. 
   C) zero. 
   D) minimized. 
   E) undefined. 
   Answer: B 
   Topic: Marginal revenue and elasticity 
   Skill: Level 1: Definition 
   Objective: Checkpoint 14.2 
   Author: JC

15) The relationship between marginal revenue and elasticity is 
   A) when demand is elastic marginal revenue is positive and when demand is inelastic marginal revenue is negative. 
   B) whenever the elasticity is positive, marginal revenue is positive. 
   C) whenever the elasticity is negative, marginal revenue is positive. 
   D) when demand is elastic marginal revenue is negative and when demand is inelastic marginal revenue is positive. 
   E) that total revenue equals zero at the quantity for which the demand is unit elastic. 
   Answer: A 
   Topic: Marginal revenue and elasticity 
   Skill: Level 2: Using definitions 
   Objective: Checkpoint 14.2 
   Author: WM

16) If the Boston Red Sox is currently charging ticket prices where its demand is inelastic, then the Red Sox’s marginal revenue is 
   A) negative. 
   B) positive. 
   C) zero. 
   D) maximized. 
   E) undefined. 
   Answer: A 
   Topic: Marginal revenue and elasticity 
   Skill: Level 1: Definition 
   Objective: Checkpoint 14.2 
   Author: JC
17) If the single restaurant in an Eastern Kentucky town is currently charging prices on its ham and eggs where the demand is unit elastic, the marginal revenue for ham and eggs is
   A) negative.
   B) positive.
   C) zero.
   D) maximized.
   E) undefined.
   Answer: C
   Topic: Marginal revenue and elasticity
   Skill: Level 1: Definition
   Objective: Checkpoint 14.2
   Author: JC

18) Suppose that along a linear demand curve, the elasticity of demand is equal to 1 when the price is $4 and the quantity is 100 units. Then the
   A) total revenue is at its maximum when 100 units are produced.
   B) marginal revenue is positive at 100 units.
   C) marginal revenue is negative at 100 units.
   D) Both answers A and B are correct.
   E) Both answers A and C are correct.
   Answer: A
   Topic: Marginal revenue and elasticity
   Skill: Level 3: Using models
   Objective: Checkpoint 14.2
   Author: SA

19) Suppose that along a linear demand curve, the elasticity of demand is equal to 1 when the price is $4 and the quantity is 100 units. Then the
   A) marginal revenue is negative when output exceeds 100 units.
   B) elasticity of demand is less than 1 when output exceeds 100 units.
   C) marginal revenue is 0 when output equals 100 units.
   D) Only answers A and B are correct.
   E) Answers A, B, and C are correct.
   Answer: E
   Topic: Marginal revenue and elasticity
   Skill: Level 4: Applying models
   Objective: Checkpoint 14.2
   Author: SA
20) The above table gives the demand schedule for a monopoly. The demand is elastic at all points between
   A) $6 and $1.
   B) $5 and $1.
   C) $3 and $1.
   D) $6 and $4.
   E) $4 and $3.

   Answer: D
   Topic: Marginal revenue and elasticity
   Skill: Level 4: Applying models
   Objective: Checkpoint 14.2
   Author: PH

21) The above table gives the demand schedule for a monopoly. The demand is inelastic over the entire range between
   A) $6 and $1.
   B) $5 and $1.
   C) $3 and $1.
   D) $6 and $4.
   E) $4 and $3.

   Answer: C
   Topic: Marginal revenue and elasticity
   Skill: Level 4: Applying models
   Objective: Checkpoint 14.2
   Author: PH
22) To maximize its profit, a single-price monopoly produces the amount of output so that its marginal revenue

A) equals zero.
B) equals its marginal cost.
C) exceeds its marginal cost but not necessarily by as much as possible.
D) is less than its marginal cost.
E) exceeds its marginal cost by as much as possible.

Answer: B

Topic: Single-price monopoly, profit maximization
Skill: Level 1: Definition
Objective: Checkpoint 14.2
Author: JC

23) To maximize its profit, a perfectly competitive firm produces so that ____ and a single-price monopoly produces so that ____.

A) \( MR = MC \); \( MR > MC \)
B) \( MR > MC \); \( MR = MC \)
C) \( MR = MC \); \( MR = MC \)
D) \( MR > MC \); \( MR > MC \)
E) \( P = ATC \); \( P = ATC \)

Answer: C

Topic: Single-price monopoly, profit maximization
Skill: Level 2: Using definitions
Objective: Checkpoint 14.2
Author: SA

24) In order to maximize its profit, a single-price monopoly equates

A) \( P = MC \).
B) \( MR = MC \).
C) \( P = MC - MR \).
D) \( P = MR \).
E) \( P = ATC \).

Answer: B

Topic: Single-price monopoly, profit maximization
Skill: Level 2: Using definitions
Objective: Checkpoint 14.2
Author: PH
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25) The above table gives the demand schedule for a single-price monopoly. The marginal revenue first becomes negative when going from

A) 1 unit to 2 units.
B) 2 units to 3 units.
C) 3 units to 4 units.
D) 4 units to 5 units.
E) None of the above; the total revenue is always positive so the marginal revenue must always be positive.

Answer: D
Topic: Marginal revenue
Skill: Level 3: Using models
Objective: Checkpoint 14.2
Author: SA

26) The above table gives the demand schedule for a single-price monopoly. If the marginal cost is $3, the profit maximizing output for the monopoly will be between

A) 1 to 2 units.
B) 2 to 3 units.
C) 3 to 4 units.
D) 4 to 5 units.
E) Exactly 5 units.

Answer: B
Topic: Single-price monopoly, profit maximization
Skill: Level 3: Using models
Objective: Checkpoint 14.2
Author: SA
27) Suppose the Busy Bee Cafe is the monopoly producer of hamburgers in Hugo, Oklahoma. The above figure represents the demand, marginal revenue, and marginal cost curves for this establishment. What quantity should the Busy Bee produce to maximize its profit?

A) 20 hamburgers per hour  
B) 30 hamburgers per hour  
C) 50 hamburgers per hour  
D) 0 hamburgers per hour.  
E) 10 hamburgers per hour

Answer: A

Topic: Single-price monopoly, profit maximization  
Skill: Level 3: Using models  
Objective: Checkpoint 14.2  
Author: JC
28) Suppose the Busy Bee Café is the monopoly producer of hamburgers in Hugo, Oklahoma. The above figure represents the demand, marginal revenue, and marginal cost curves for this establishment. What price should the Busy Bee charge to maximize its profit?

A) $5.00 for a hamburger  
B) $3.00 for a hamburger  
C) $2.00 for a hamburger  
D) $1.00 for a hamburger  
E) $4.00 for a hamburger  

Answer: B  
Topic: Single-price monopoly, profit maximization  
Skill: Level 3: Using models  
Objective: Checkpoint 14.2  
Author: JC

29) Suppose the Busy Bee Café is the monopoly producer of hamburgers in Hugo, Oklahoma. The above figure represents the demand, marginal revenue, and marginal cost curves for this establishment. In order to maximize profit, the Busy Bee should produce ____ hamburgers per hour and set a price of ____ per hamburger.

A) 20; $3.00  
B) 20; $1.00  
C) 30; $2.00  
D) 30; $4.00  
E) 50; $5.00  

Answer: A  
Topic: Single-price monopoly, profit maximization  
Skill: Level 3: Using models  
Objective: Checkpoint 14.2  
Author: JC
30) Suppose the Busy Bee Café is the monopoly producer of hamburgers in Hugo, Oklahoma. The above figure represents the demand, marginal revenue, and marginal cost curves for this establishment. If the Busy Bee produces 40 hamburgers per hour, then

A) marginal revenue will exceed marginal cost.
B) profit will be maximized.
C) marginal revenue will be negative.
D) marginal revenue will be maximized.
E) both the marginal revenue and the price will be negative.

Answer: C

Topic: Single-price monopoly, profit maximization
Skill: Level 3: Using models
Objective: Checkpoint 14.2
Author: JC
31) In the above figure, the profit-maximizing output for this single-price monopoly is ____ units and the price is ____.
   A) 200; $10
   B) 300; $20
   C) 500; $50
   D) 200; $30
   E) 300; $30

Answer: D
Topic: Single-price monopoly, profit maximization
Skill: Level 3: Using models
Objective: Checkpoint 14.2
Author: SA
14.3 Monopoly and Competition Compared

1) Compared to a perfectly competitive industry, a single-price monopoly will produce
   A) more output.
   B) less output.
   C) the same output.
   D) some amount that might be more, less, or the same depending on whether the
      monopoly's marginal revenue curve lies above, below, or on its demand curve.
   E) some amount that might be more, less, or the same depending on whether the
      monopoly's marginal cost curve lies above, below, or on its marginal revenue curve.

   Answer: B
   Topic: Monopoly and competition compared, output
   Skill: Level 3: Using models
   Objective: Checkpoint 14.3
   Author: fC

2) Compared to a perfectly competitive market, a single-price monopoly will charge
   A) a lower price.
   B) the same price.
   C) a higher price.
   D) a price that might be higher, lower, or the same depending on whether the monopoly's
      marginal revenue curve lies above, below, or on its demand curve.
   E) a price that might be higher, lower, or the same depending on whether the monopoly's
      marginal cost curve lies above, below, or on its marginal revenue curve.

   Answer: C
   Topic: Monopoly and competition compared, price
   Skill: Level 3: Using models
   Objective: Checkpoint 14.3
   Author: fC
3) If we compare a perfectly competitive market to a single-price monopoly with the same costs, we see that the monopoly sells
   A) the same quantity at a higher price.
   B) a smaller quantity at a higher price.
   C) a larger quantity at a lower price.
   D) a larger quantity at a higher price.
   E) a smaller quantity at the same price.

   Answer: B
   Topic: Monopoly and competition compared, output and price
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.3
   Author: WM

4) When compared to a perfectly competitive market, a single-price monopoly with the same costs produces ____ output and charges ____ price.
   A) a larger; a lower
   B) a smaller; a lower
   C) the same; a higher
   D) a smaller; a higher
   E) a smaller; the same

   Answer: D
   Topic: Monopoly and competition compared, output and price
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.3
   Author: PH

5) A single-price monopoly transfers
   A) consumer surplus to producers.
   B) producer surplus to consumers.
   C) economic profit to consumers.
   D) economic profit to the government.
   E) economic profit to deadweight loss.

   Answer: A
   Topic: Monopoly and competition compared, surpluses
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.3
   Author: SA
6) Which of the following statements is FALSE?

A) A perfectly competitive market produces more output and charges a lower price than a monopoly.

B) A perfectly competitive firm produces where $MR = MC$ but a monopoly produces where $MR > MC$.

C) In a perfectly competitive market, the price is equal to the marginal cost, but in a market with a single-price monopoly, price exceeds marginal cost.

D) The consumer surplus is smaller for a market with a monopoly than for a perfectly competitive market.

E) In the long run, a monopoly can earn a larger economic profit than can a perfectly competitive firm.

Answer: B

Topic: Monopoly and competition compared
Skill: Level 2: Using definitions
Objective: Checkpoint 14.3
Author: SA
7) Suppose the grocery store market in Kansas City is perfectly competitive. Then one store buys all the others and becomes a single-price monopoly. The figure above shows the relevant demand and cost curves. When the market is perfectly competitive, the price of a pound of steak is

A) $4.
B) $8.
C) $12.
D) $20.
E) $2.

Answer: B

*Topic: Monopoly and competition compared, price*
*Skill: Level 3: Using models*
*Objective: Checkpoint 14.3*
*Author: JC*
8) Suppose the grocery store market in Kansas City is perfectly competitive. Then one store buys all the others and becomes a single-price monopoly. The figure above shows the relevant demand and cost curves. When the market is a monopoly, the price of a pound of steak is

A) $4.
B) $8.
C) $12.
D) $20.
E) $2.

Answer: C

Topic: Monopoly and competition compared, price
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: JC

9) Suppose the grocery store market in Kansas City is perfectly competitive. Then one store buys all the others and becomes a single-price monopoly. The figure above shows the relevant demand and cost curves. When the market is perfectly competitive, the price of a pound of steak is ____ and when it is a monopoly, the price of a pound of steak is ____.

A) $4; $20
B) $8; $4
C) $8; $12
D) $4; $8
E) $4; $12

Answer: C

Topic: Monopoly and competition compared, price
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: JC
10) Suppose the grocery store market in Kansas City is perfectly competitive. Then one store buys all the others and becomes a single-price monopoly. The figure above shows the relevant demand and cost curves. When the market is perfectly competitive, the quantity of steak is
   A) 2,000 pounds.
   B) 3,000 pounds.
   C) 4,000 pounds.
   D) 5,000 pounds.
   E) less than 2,000 pounds.

Answer: B

Topic: Monopoly and competition compared, output
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: JC

11) Suppose the grocery store market in Kansas City is perfectly competitive. Then one store buys all the others and becomes a single-price monopoly. The figure above shows the relevant demand and cost curves. When the market is a monopoly, the quantity of steak is
   A) 2,000 pounds.
   B) 3,000 pounds.
   C) 4,000 pounds.
   D) 5,000 pounds.
   E) less than 2,000 pounds.

Answer: A

Topic: Monopoly and competition compared, output
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: JC
12) Suppose the grocery store market in Kansas City is perfectly competitive. Then one store buys all the others and becomes a single-price monopoly. The figure above shows the relevant demand and cost curves. When the market is perfectly competitive, the quantity of steak is ____ pounds and when the market is a monopoly the quantity of steak is ____ pounds.

A) 2,000; 4,000
B) 3,000; 2,000
C) 4,000; 4,000
D) 5,000; 3,000
E) 4,000; less than 2,000 pounds.

Answer: B

Topic: Monopoly and competition compared, output
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: JC
13) In the above figure, a perfectly competitive market will have a price of ____ and a single-price monopoly will have a price of ____.

A) $P_1$ and quantity of $Q_1$; $P_2$ and quantity of $Q_2$
B) $P_2$ and quantity of $Q_2$; $P_1$ and quantity of $Q_1$
C) $P_3$ and quantity of $Q_3$; $P_1$ and quantity of $Q_1$
D) $P_2$ and quantity of $Q_2$; $P_3$ and quantity of $Q_1$
E) $P_2$ and quantity of $Q_1$; $P_1$ and quantity of $Q_1$

Answer: B

Topic: Monopoly and competition compared, output and price
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: SA
14) In the above figure, for a single-price monopoly the consumer surplus is equal to the area
   A) $abP_1$.
   B) $acP_2$.
   C) $bce$.
   D) $bed$.
   E) $cQ_20P_2$

   Answer: A

   Topic: Monopoly and competition compared, surpluses
   Skill: Level 3: Using models
   Objective: Checkpoint 14.3
   Author: SA

15) In the above figure, for a single-price monopoly the deadweight loss is equal to the area
   A) $abP_1$.
   B) $acP_2$.
   C) $bce$.
   D) $bed$.
   E) $P_1beP_3$.

   Answer: C

   Topic: Is monopoly efficient?
   Skill: Level 3: Using models
   Objective: Checkpoint 14.3
   Author: SA

16) Comparing a perfectly competitive market to a single-price monopoly with the same costs, we see that
   A) both markets are equally efficient in their use of resources.
   B) the monopoly market always is more efficient in the use of resources.
   C) the perfectly competitive market achieves efficiency in resource use while the monopoly market does not.
   D) the monopoly market achieves efficiency in resource use while perfectly competitive market does not.
   E) None of the above answers is correct because comparing a perfectly competitive market to a monopoly is impossible.

   Answer: C

   Topic: Is monopoly efficient?
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.3
   Author: WM
17) The Seattle Mariners baseball team has a monopoly on major league baseball in the Northwest. If the Mariners could be purchased by anyone with enough money, we could argue that this purchase is fair according to the
   A) fair rules test.
   B) fair results test.
   C) fair price test.
   D) fair output test.
   E) allocative fairness test.

Answer: A
Topic: Is monopoly fair?
Skill: Level 2: Using definitions
Objective: Checkpoint 14.3
Author: JC

18) Rent seeking is the act of obtaining special treatment by ____ to create ____.
   A) a monopoly; consumer surplus
   B) the government; economic profit
   C) consumers; a monopoly
   D) the government; consumer surplus
   E) competitive producers; a monopoly

Answer: B
Topic: Rent seeking
Skill: Level 1: Definition
Objective: Checkpoint 14.3
Author: JC

19) Rent seeking is defined as
   A) charging higher prices for an apartment.
   B) the act of obtaining special treatment by the government to create an economic profit.
   C) charging a price below marginal cost.
   D) selling a greater quantity than is profitable.
   E) charging different prices for different units of the good or service.

Answer: B
Topic: Rent seeking
Skill: Level 1: Definition
Objective: Checkpoint 14.3
Author: WM
20) Rent seeking
   A) is the act of obtaining special treatment by the government to create economic profit.
   B) is the attempt to get rent from tardy renters.
   C) occurs when landlords advertise for apartments and other property for rent.
   D) is an attempt to sell a property and capture economic profit.
   E) occurs when a firm charges different prices for different units of its good or service.

Answer: A

Topic: Rent seeking
Skill: Level 1: Definition
Objective: Checkpoint 14.3
Author: SA

21) When a rent-seeking equilibrium is reached, the
   A) economic profit is maximized.
   B) economic profit is eliminated by legislation.
   C) economic profit is eliminated.
   D) consumer surplus is greater than without rent seeking.
   E) consumer surplus is eliminated.

Answer: C

Topic: Rent-seeking equilibrium
Skill: Level 2: Using definitions
Objective: Checkpoint 14.3
Author: WM

14.4 Price Discrimination

1) To be able to price discriminate, a firm must
   A) lower prices for all customers.
   B) raise prices for all customers.
   C) be able to identify and separate different types of buyers.
   D) sell a product that can be resold.
   E) Both answers B and C are correct.

Answer: C

Topic: Price discrimination
Skill: Level 1: Definition
Objective: Checkpoint 14.4
Author: JC
2) Which of the following must exist for a firm to engage in price discrimination?
   A) The firm must be able to identify and separate its buyers into different classes, and the low-price buyers cannot resell the product to the high-price buyers.
   B) The firm must face an inelastic demand.
   C) The firm must be able to realize economies of scale.
   D) The firm must have no more than one class of buyer.
   E) The firm must be a natural monopoly.

   Answer: A

   Topic: Price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.4
   Author: PH

3) A price-discriminating monopoly charges
   A) the same price to every buyer for the same product.
   B) a different price to different classes of buyers for the same product, even though there are no differences in costs.
   C) a different price to different buyers, because the costs are different.
   D) different prices to buyers for different products.
   E) each customer a price that equals the marginal cost of serving that customer.

   Answer: B

   Topic: Price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.4
   Author: PH

4) With price discrimination, a monopoly
   A) converts consumer surplus into economic profit.
   B) converts producer surplus into economic profit.
   C) can charge a single price to all customers.
   D) produces less output than if it does not price discriminate.
   E) converts consumer surplus into deadweight loss.

   Answer: A

   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: SA
5) One way a monopoly can convert additional consumer surplus into economic profit is to
   A) lower prices.
   B) raise prices.
   C) price discriminate.
   D) become more competitive.
   E) produce where price equals average total cost.

   Answer: C
   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: JC

6) The airline industry
   A) cannot price discriminate because it is against the law.
   B) price discriminates by charging higher prices to leisure travelers.
   C) price discriminates by charging lower prices to leisure travelers.
   D) identifies business travelers in order to charge them lower prices.
   E) has fewer customers because it price discriminates than it would have if it did not price discriminate.

   Answer: C
   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: WM

7) A price-discriminating monopoly
   A) sells a larger quantity than it would if it were a single-price monopoly.
   B) is illegal.
   C) cannot offer discounts.
   D) cannot control the price of its product.
   E) makes a smaller economic profit than it would if it were a single-price monopoly.

   Answer: A
   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: SA
8) With price discrimination, a monopoly ____ its economic profit and ____ its output.
   A) increases; increases
   B) increases; decreases
   C) decreases; increases
   D) decreases; decreases
   E) increases; does not change
   Answer: A
   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: PH

9) Why do publishers print the first edition of a book by a popular author in hard cover and not in paperback?
   A) Hard cover books are long lasting and paperbacks can rip easily.
   B) Readers who want to read the book as soon as it comes out will be willing to pay a higher price as compared to those who can wait for the paperback edition.
   C) A hardcover is the publisher's way of rewarding the avid readers.
   D) Publishers are not sure of the demand.
   E) Publishers cannot price discriminate.
   Answer: B
   Topic: Price discrimination
   Skill: Level 5: Critical thinking
   Objective: Checkpoint 14.4
   Author: SA

10) With perfect price discrimination, a monopoly can extract the ____ price each customer is willing to pay and thereby obtain the entire ____ surplus.
    A) maximum; consumer
    B) minimum; producer
    C) maximum; producer
    D) minimum; consumer
    E) None of the above answers are correct.
    Answer: A
    Topic: Perfect price discrimination
    Skill: Level 2: Using definitions
    Objective: Checkpoint 14.4
    Author: PH
11) When a firm is able to engage in perfect price discrimination, its marginal revenue curve
   A) lies below its demand curve.
   B) is the same as its demand curve.
   C) lies above its demand curve.
   D) is the same as its supply curve.
   E) is undefined because it does not exist.

   Answer: B
   Topic: Perfect price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: PH

12) If a monopoly can perfectly price discriminate, then its marginal revenue curve will be
   A) the same as its demand curve.
   B) the same as its supply curve.
   C) the same as its marginal cost curve.
   D) a vertical line at the profit-maximizing quantity of output.
   E) undefined because it does not exist.

   Answer: A
   Topic: Perfect price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: JC

13) Compared to a single-price monopoly, when a monopoly can perfectly price discriminate, the deadweight loss
   A) increases.
   B) decreases.
   C) remains the same.
   D) becomes infinite.
   E) probably changes, but more information is needed to determine if it increases, decreases, or remains constant.

   Answer: B
   Topic: Perfect price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: JC
14) Which of the following industries is most likely closest to achieving perfect price discrimination?
   A) the airline industry
   B) the wheat industry
   C) the textbook industry
   D) the toilet paper industry
   E) the soft drink industry

   Answer: A
   Topic: Eye on the U.S. economy, airline price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: JC

14.5 Monopoly Policy Issues

1) When economies of scale exist so that one firm can meet the entire market demand at a lower average total cost than two or more firms,
   A) a natural monopoly develops.
   B) the monopoly encounters competition.
   C) economic profit is reduced to zero.
   D) the monopoly converts all of the consumer surplus into economic profit.
   E) there is always the opportunity to price discriminate.

   Answer: A
   Topic: Natural monopoly
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.5
   Author: WM

2) Incentives to innovate
   A) are a potential advantage monopoly has over a competitive alternative.
   B) are why a monopoly price discriminates if it is possible.
   C) create a legal monopoly.
   D) do not exist when a firm is a monopoly.
   E) are larger for monopolies that price discriminate than for monopolies that set a single price.

   Answer: A
   Topic: Gains from monopoly
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.5
   Author: MR
14.6 Integrative Questions

1) A monopoly can arise when
   A) there are diseconomies of scale.
   B) there are barriers to entry and no close substitutes for the good being produced.
   C) a firm cannot price discriminate.
   D) firms engage in rent seeking.
   E) a firm must set $MR = MC$ in order to maximize its profit.

   Answer: B
   Topic: Integrative
   Skill: Level 2: Using definitions
   Objective: Integrative
   Author: CD

2) The total revenue test using the price elasticity of demand
   A) explains why monopolies will only operate on the elastic portion of their demand curve.
   B) explains why monopolies will only operate on the inelastic portion of their demand curves.
   C) demonstrates why a monopoly can earn an economic profit in the long run.
   D) determines whether a monopoly can perfectly price discriminate or not.
   E) cannot be used for a price discriminating monopoly.

   Answer: B
   Topic: Integrative
   Skill: Level 4: Applying models
   Objective: Integrative
   Author: CD

3) A monopoly definitely incurs an economic loss if
   A) it produces where its marginal revenue equals its marginal cost.
   B) its average total cost is greater than price.
   C) it cannot perfectly price discriminate.
   D) it price discriminates.
   E) The statement errs because a monopoly cannot incur an economic loss.

   Answer: B
   Topic: Integrative
   Skill: Level 3: Using models
   Objective: Integrative
   Author: CD
4) A difference between a perfectly competitive industry and a monopoly is that
   A) in the long run, firms in a perfectly competitive industry earn a normal profit and a
      monopoly can earn an economic profit.
   B) a firm in a perfectly competitive industry can perfectly price discriminate but a
      monopoly cannot.
   C) only monopolies have an incentive to maximize profit.
   D) perfectly competitive firms can have a public franchise.
   E) a barrier to entry protects perfectly competitive firms in the short run and protects a
      monopoly in the long run.

   Answer: A
   Topic: Integrative
   Skill: Level 3: Using models
   Objective: Integrative
   Author: CD

5) If a monopoly engages in rent seeking,
   i. its average total cost curve is lower than otherwise.
   ii. it might or might not earn an economic profit depending on how many other
        competitors also are rent seeking.
   iii. it necessarily incurs an economic loss.

   A) i only.
   B) ii only.
   C) iii only.
   D) i and ii.
   E) i and iii.

   Answer: B
   Topic: Integrative
   Skill: Level 2: Using definitions
   Objective: Integrative
   Author: CD
6) If a monopoly can perfectly price discriminate,
   A) all the demanders pay one price.
   B) it minimizes its profit.
   C) it produces the same amount of output as would be produced if the market was a perfectly competitive industry.
   D) it produces less output than would be produced if the market was a perfectly competitive industry.
   E) it creates the same amount of consumer surplus as would be created if the market was a perfectly competitive industry.

Answer: C

Topic: Integrative
Skill: Level 3: Using models
Objective: Integrative
Author: CD

7) Monopolies arise when there are
   A) many substitutes but there are no barriers to entry.
   B) no close substitutes and there are no barriers to entry.
   C) no close substitutes and there are barriers to entry.
   D) many substitutes and there barriers to entry.
   E) None of the above answers are correct because the existence of a monopoly has nothing to do with the presence or absence of barriers to entry.

Answer: C

Topic: Integrative
Skill: Level 2: Using definitions
Objective: Integrative
Author: WM