Chapter 14
Monopoly

14.1 Monopoly and How It Arises

1) One of the requirements for a monopoly is that
   A) products are high priced.
   B) there are several close substitutes for the product.
   C) there is a unique product with no close substitutes.
   D) the product cannot be produced by small firms.
   E) there is no barrier to entry.

   Answer: C
   Topic: Monopoly
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.1
   Author: TS

2) A monopoly is a market with
   A) many suppliers each producing an identical product.
   B) no barriers to entry.
   C) many substitutes.
   D) one supplier.
   E) many suppliers each producing a slightly different product.

   Answer: D
   Topic: Monopoly
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: SB
3) Which of the following statements is correct?

A) Monopolies are guaranteed to earn an economic profit.
B) The market demand and the firm’s demand are the same for a monopoly.
C) Monopolies have perfectly inelastic demand for the product sold.
D) Because a monopoly is the only firm in the market, its supply curve is the same as the market demand curve.
E) Because a monopoly is the only firm in the market, its marginal revenue curve must be the same as the market demand curve.

Answer: B

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

4) Which of the following describes a barrier to entry?

A) something that establishes a barrier to expanding output
B) anything that protects a firm from the arrival of new competitors
C) a government regulation that bars a monopoly from earning an economic profit
D) firms already in the market incurring economic losses so that no new firm wants to enter the market
E) firms are legally prohibited from exiting the market in order to enter another market.

Answer: B

Topic: Monopoly, barriers to entry
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: TS

5) A barrier to entry is

A) the economic term for diseconomies of scale.
B) illegal in most markets.
C) anything that protects a firm from the arrival of new competitors.
D) a factor that increases competition because firms must continue to operate in the market in which they were founded.
E) the same as rent seeking.

Answer: C

Topic: Monopoly, barriers to entry
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: SB
6) Which of the following would create a natural monopoly?
   A) ownership of all the available units of a necessary input
   B) an exclusive right granted to supply a good or service
   C) requirement of a government license before the firm can sell the good or service
   D) technology enabling a single firm to produce at a lower average cost than two or more firms
   E) a patent granted the producer of the good or service.

   Answer: D
   Topic: Natural monopoly
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: TS

7) If the technology for producing a good enables one firm to meet the entire market demand at a lower average total cost than two or more firms could, then that firm has
   A) patented the market.
   B) a natural monopoly.
   C) increasing average total costs.
   D) a legal barrier to entry.
   E) a discriminatory monopoly.

   Answer: B
   Topic: Natural monopoly
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: SB

8) If a single firm can meet the entire market demand at a lower average total cost than a larger number of smaller firms, the single firm is
   A) price discriminating.
   B) a natural monopoly.
   C) a legal monopoly.
   D) efficient when profit maximizing.
   E) an ownership-of-the-market monopoly.

   Answer: B
   Topic: Natural monopoly
   Skill: Level 1: Definition
   Objective: Checkpoint 14.5
   Author: STUDY GUIDE
9) Which of the following goods is the best example of a natural monopoly?
   A) distribution of electricity
   B) diamonds
   C) first-class mail
   D) a patented good
   E) blouses

Answer: A

Topic: Natural monopoly
Skill: Level 3: Using models
Objective: Checkpoint 14.1
Author: SB

10) Which of the following is the best example of a natural monopoly?
    A) ownership of the only ferry across Puget Sound for twenty miles
    B) the United States Postal Service
    C) the cable television company in your hometown
    D) owning the only licensed taxicab in town
    E) producing a patented drug

Answer: C

Topic: Natural monopoly
Skill: Level 3: Using models
Objective: Checkpoint 14.1
Author: TS

11) Which barrier to entry is an exclusive right granted to the author or composer of a literary, musical, dramatic or artistic work?
    A) patent
    B) copyright
    C) public franchise
    D) government license
    E) natural barrier

Answer: B

Topic: Legal barriers to entry
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: SB
12) Patents
   i. encourage the invention of new products and production methods.
   ii. generally discourage innovation
   iii. are exclusive rights granted to the inventor of a product or service.
   A) i only.
   B) ii only.
   C) ii and iii.
   D) i and iii.
   E) i, ii, and iii.
   Answer: D

13) Which of the following is NOT correct about patents?
   A) Patents encourage invention of new products.
   B) Patents stimulate innovation.
   C) A patent is a barrier to entry.
   D) Patents enable a firm to be a permanent monopoly.
   E) Patents are granted to the inventor of a product or service.
   Answer: D

14) Recently in a small city, building contractors lobbied the city council to pass a law requiring all people working on residential dwellings be licensed by the city. Why would the contractors lobby for this requirement?
   A) to guarantee that work on dwellings is of high quality
   B) to create a legal barrier to entry
   C) to reduce the cost of building dwellings
   D) to ensure that more dwellings are constructed.
   E) so they can better help their customers.
   Answer: B
15) Ownership of a necessary input creates what type of barrier to entry?
   A) legal barrier to entry
   B) natural barrier to entry
   C) a public franchise
   D) a government license
   E) ownership barrier to entry

   Answer: E
   Topic: Legal barriers to entry
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: TS

16) Which of the following can be a barrier to entry?
   i. ownership of a necessary input
   ii. requiring a government license
   iii. large diseconomies of scale

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

   Answer: D
   Topic: Legal barriers to entry
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.1
   Author: TS
17) What is the main difference between the profit-maximizing actions a perfectly competitive firm can take and those a monopoly firm can take?
   A) There is no difference.
   B) A competitive firm can only change output while a monopoly can change output and price.
   C) They both face downward-sloping demand curves for their product but a perfectly competitive firm’s demand is elastic.
   D) A monopoly chooses the highest possible price while a perfect competitor chooses the lowest.
   E) A monopoly chooses its quantity first and then its price whereas a perfectly competitive firm chooses both its price and quantity simultaneously.

Answer: B
Topic: Price strategies
Skill: Level 2: Using definitions
Objective: Checkpoint 14.1
Author: TS

18) A monopoly is
   A) a price taker.
   B) able to ignore the demand for its product when setting its price.
   C) able to set the price for its product.
   D) able to earn only a normal profit in the long run.
   E) a firm with no marginal revenue curve.

Answer: C
Topic: Price strategies
Skill: Level 1: Definition
Objective: Checkpoint 14.1
Author: TS

19) If a monopoly wants to sell a larger quantity, it must
   A) set a higher price.
   B) maintain the current price.
   C) set a lower price.
   D) implement new technology.
   E) increase the barrier to entry that protects it.

Answer: C
Topic: Price strategies
Skill: Level 3: Using models
Objective: Checkpoint 14.1
Author: SB
20) Price discrimination occurs when a firm
   A) charges customers different prices for different goods.
   B) is able to sell different units of a good at different prices.
   C) charges customers the same price for different goods.
   D) can determine which of the many market equilibrium prices it will charge.
   E) has a marginal cost curve that is horizontal.

Answer: B

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

21) Price discrimination is prevented in situations where
   A) customers can resell the good.
   B) firms have monopolies.
   C) there are legal barriers to entry.
   D) there are no close substitutes for the good or service.
   E) customers have different willingnesses to pay for the good.

Answer: A

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

22) Which of the following statements is correct?
   A) Any firm can price discriminate.
   B) Only firms that sell high-priced products can price discriminate.
   C) In order to price discriminate, a firm must sell a good or service that cannot be resold.
   D) In order to price discriminate, the firms must sell a low-priced product.
   E) Price discrimination is always illegal.

Answer: C

Topic: Price strategies, price discrimination
Skill: Level 2: Using definitions
Objective: Checkpoint 14.1
Author: TS
23) What is the primary obstacle to increasing profit by price discrimination?
   A) because some buyers oppose the practice
   B) consumer ignorance
   C) differences in the elasticity of demand for the product by different buyers
   D) resale by customers who buy the product for a low price
   E) customer rent seeking.

   Answer: D

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

24) A monopoly market has
   A) a few firms.
   B) a single firm.
   C) two dominating firms in the market.
   D) only two firms in it.
   E) some unspecified number of firms in it.

   Answer: B

   Topic: Monopoly
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: STUDY GUIDE

25) Two of the three types of barriers to entry that can protect a firm from competition are
   A) legal and illegal.
   B) natural and legal.
   C) natural and illegal.
   D) natural and rent seeking.
   E) ownership and rent seeking.

   Answer: B

   Topic: Monopoly, barriers to entry
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: STUDY GUIDE
26) A natural monopoly is one that arises from
   A) patent law.
   B) copyright law.
   C) the legal system.
   D) economies of scale.
   E) ownership of a natural resource.

   Answer: D
   Topic: Natural monopoly
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: STUDY GUIDE

27) A legal barrier is created when a firm
   A) has economies of scale, which allow it to produce at a lower cost than two or more firms.
   B) is granted a public franchise, government license, patent, or copyright.
   C) produces a unique product or service.
   D) produces a standardized product or service.
   E) has an ownership barrier to entry.

   Answer: B
   Topic: Legal barriers to entry
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: STUDY GUIDE

28) Pizza producers charge one price for a single pizza and almost give away a second one. This is an example of
   A) monopoly.
   B) a barrier to entry.
   C) behavior that is not profit-maximizing.
   D) price discrimination.
   E) rent seeking.

   Answer: D
   Topic: Price strategies, price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.1
   Author: STUDY GUIDE
14.2 Single-Price Monopoly

1) For a single-price monopolist, why is marginal revenue less than price?
   A) Because the firm is a price taker.
   B) To sell another unit, the price must be lowered.
   C) Demand is elastic when another unit is sold.
   D) Demand is inelastic when another unit is sold.
   E) The question is false because marginal revenue is always equal to price.

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

2) As a single-price monopoly sells larger amounts of output, its total revenue will change because of two forces. These forces are
   A) supply and demand.
   B) efficiency and equity.
   C) elastic and inelastic demand.
   D) revenue loss from a cut in price and revenue gain from sale of a larger quantity.
   E) marginal revenue and marginal cost.

   Answer: D
   Topic: Marginal revenue
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.2
   Author: TS

3) A single-price monopoly can sell 10 units of its product at a price of $45 each but to sell 11 units, the monopoly must cut the price to $44. What is the marginal revenue of the extra unit sold?
   A) $484
   B) $450
   C) $44
   D) $34
   E) $-1

   Answer: D
   Topic: Marginal revenue
   Skill: Level 4: Applying models
   Objective: Checkpoint 14.2
   Author: TS
4) Suppose a monopoly can sell 10 units of output for $21. In order to sell 11 units of output, the price must fall to $20. What is the marginal revenue of the 11th unit?

A) $41  
B) $20  
C) $10  
D) $1  
E) $220

Answer: C

Topic: Marginal revenue  
Skill: Level 4: Applying models  
Objective: Checkpoint 14.2  
Author: SB

5) If total revenue is falling when output increases, marginal revenue is

A) positive.  
B) negative.  
C) zero.  
D) greater than total revenue.  
E) elastic.

Answer: B

Topic: Marginal revenue and total revenue  
Skill: Level 2: Using definitions  
Objective: Checkpoint 14.2  
Author: SB

6) When marginal revenue is positive, total revenue ____ when output increases and demand is ____.

A) decreases; elastic  
B) decreases; inelastic  
C) increases; elastic  
D) increases; inelastic  
E) does not change; unit elastic

Answer: C

Topic: Marginal revenue and elasticity  
Skill: Level 3: Using models  
Objective: Checkpoint 14.2  
Author: SB
7) The maximum profit for a single-price monopoly is found when the firm produces the level of output so that
   A) marginal revenue equals marginal cost.
   B) price equals marginal cost.
   C) it can charge the highest possible price.
   D) marginal revenue exceeds marginal cost by as much as possible.
   E) total revenue equals total cost.
Answer: A

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

8) Which of the following is NOT correct about a single-price monopoly?
   A) Maximum profit is found where demand is the most inelastic.
   B) Marginal revenue is negative when demand is inelastic.
   C) Marginal revenue is positive when demand is elastic.
   D) To sell more output, the firm must lower its price.
   E) To maximize its profit, the firm produces so that marginal revenue equals marginal cost.
Answer: A

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

9) Which of the following is correct for a single-price monopoly?
   i. The firm can determine the quantity it produces and the price it charges.
   ii. It would never profitably produce output in the inelastic range of its demand.
   iii. Its marginal revenue is less than price.
   A) i only.
   B) i and iii.
   C) ii only.
   D) ii and iii.
   E) i, ii, and iii.
Answer: E

Topic: Single-price monopoly, profit maximization
Skill: Level 2: Using definitions
Objective: Checkpoint 14.2
Author: TS
10) A single-price monopoly is producing at an output level where marginal revenue is $15, marginal cost is $13, and price is $20. This monopoly is
   A) not maximizing its profit and should decrease output to increase its profit.
   B) not maximizing its profit and should increase output to increase its profit.
   C) maximizing its profit but should shut down.
   D) maximizing its profit and should not shut down.
   E) maximizing its profit but still should decrease output to earn even more profit.

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

11) A single-price monopoly has marginal revenue and marginal cost equal to $19 at 15 units of output where the price on the demand curve is $38. At what price will this firm sell the output?
   A) $19
   B) $38
   C) $285
   D) $570
   E) There is not enough information given to answer the question.

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

12) A single-price monopoly has marginal revenue and marginal cost equal to $19 at 15 units of output where the price on the demand curve is $38. What is the firm’s total revenue?
   A) $38
   B) $285
   C) $570
   D) $19.
   E) There is not enough information given to answer the question.

   Answer: C
   Topic: Single-price monopoly, profit maximization
   Skill: Level 3: Using models
   Objective: Checkpoint 14.2
   Author: TS
13) A single-price monopoly has marginal cost of $23 and marginal revenue of $28. Which of the following is definitely correct?
   A) It is maximizing profit.
   B) To increase profit, it should produce less.
   C) To increase profit, it should produce more.
   D) It should shut down.
   E) It is earning an economic profit.

Answer: C

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

14) A profit-maximizing output for a single-price monopoly is determined by the intersection of the ____ curves and the profit-maximizing price is found on the ____ curve.
   A) marginal cost and marginal revenue; marginal revenue
   B) marginal cost and marginal revenue; demand
   C) total revenue and total cost, total revenue
   D) marginal cost and average total cost; demand
   E) demand and supply; supply

Answer: B

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

15) For a single-price monopoly,
   A) if marginal cost exceeds marginal revenue, profits will increase if output decreases.
   B) if marginal revenue exceeds marginal cost, profits will increase if output decreases.
   C) there are several different price and output combinations that maximize profit.
   D) marginal revenue will be greater than price if demand is elastic.
   E) marginal revenue will be greater than price if demand is inelastic.

Answer: A

Topic: Single-price monopoly, profit maximization
Skill: Level 3: Using models
Objective: Checkpoint 14.2
Author: TS
16) A single-price monopoly has marginal revenue and marginal cost equal to $19 at 15 units of output where the price on the demand curve is $38. At this output, average total cost is $15. What is the total profit earned?
A) $225
B) $285
C) $345
D) $570
E) $19

Answer: C

Topic: Single-price monopoly, profit maximization
Skill: Level 4: Applying models
Objective: Checkpoint 14.2
Author: TS
17) The figure above shows the demand, marginal revenue, and marginal cost curves for Paul’s Parrot Pillows, a single-price monopoly producer of pillows stuffed with parrot feathers. When Paul maximizes his profit, he produces ____ pillows per hour.

A) 1,000  
B) 3,000  
C) 4,000  
D) 0  
E) 2,000

Answer: B

*Topic: Single-price monopoly, profit maximization*

*Skill: Level 4: Applying models*

*Objective: Checkpoint 14.2*

*Author: CD*
18) The figure above shows the demand, marginal revenue, and marginal cost curves for Paul’s Parrot Pillows, a single-price monopoly producer of pillows stuffed with parrot feathers. When Paul maximizes his profit, the price per pillow is
   A) $70.
   B) $60.
   C) $40.
   D) $100.
   E) $30.

Answer: A

Topic: Single-price monopoly, profit maximization
Skill: Level 4: Applying models
Objective: Checkpoint 14.2
Author: MR

19) The figure above shows the demand, marginal revenue, and marginal cost curves for Paul’s Parrot Pillows, a single-price monopoly producer of pillows stuffed with parrot feathers. When Paul maximizes his profit, the difference between marginal cost and price
   A) $0.
   B) $40.
   C) $60.
   D) $30.
   E) $20.

Answer: D

Topic: Single-price monopoly, profit maximization
Skill: Level 4: Applying models
Objective: Checkpoint 14.2
Author: CD
20) The figure above shows the demand, marginal revenue, and marginal cost curves for Paul’s Parrot pillows, a single-price monopoly producer of pillows stuffed with parrot feathers. When Paul maximizes his profit, the price is ____ per pillow and the marginal cost is ____ per pillow.

A) $60; $60
B) $60; $40
C) $70; $60
D) $70; $40
E) $100; $40

Answer: D

Topic: Single-price monopoly, profit maximization
Skill: Level 4: Applying models
Objective: Checkpoint 14.2
Author: MR

21) The figure above shows the demand, marginal revenue, and marginal cost curves for Paul’s Parrot pillows, a single-price monopoly producer of pillows stuffed with parrot feathers. When Paul maximizes his profit, his total economic profit is

A) $60.
B) $405.
C) $0.
D) $210,000.
E) unknown because more information is needed to determine Paul’s profit.

Answer: E

Topic: Single-price monopoly, profit maximization
Skill: Level 4: Applying models
Objective: Checkpoint 14.2
Author: CD
22) If a single-price monopoly is earning a large economic profit, what keeps other firms from competing away the profit?
   A) There are barriers to entry.
   B) The monopoly must be keeping the amount earned secret.
   C) The market must be too small.
   D) The existing firm’s ATC must be too large to allow competitors to enter and earn an economic profit.
   E) Nothing, other firms will enter and will compete away the profit.

Answer: A

Topic: Single-price monopoly, long run
Skill: Level 3: Using models
Objective: Checkpoint 14.2
Author: TS

23) In contrast to competitive firms, single-price monopolies
   A) do not have to worry about market demand.
   B) sell only if demand is inelastic.
   C) can never incur a loss.
   D) can earn economic profit indefinitely.
   E) must take the price that is determined by the market demand and market supply.

Answer: D

Topic: Single-price monopoly, long run
Skill: Level 3: Using models
Objective: Checkpoint 14.2
Author: TS

24) For a single-price monopoly, price is
   A) greater than marginal revenue.
   B) one half of marginal revenue.
   C) equal to marginal revenue.
   D) unrelated to marginal revenue.
   E) always less than average total cost when the firm maximizes its profit.

Answer: A

Topic: Marginal revenue
Skill: Level 2: Using definitions
Objective: Checkpoint 14.2
Author: STUDY GUIDE
25) A single-price monopoly can sell 1 unit for $9.00. In order to sell 2 units, the price must be $8.50 per unit. The marginal revenue from selling the second unit is
   A) $17.50.
   B) $17.00.
   C) $8.50.
   D) $8.00.
   E) $9.00

   Answer: D

   Topic: Marginal revenue
   Skill: Level 4: Applying models
   Objective: Checkpoint 14.2
   Author: STUDY GUIDE

26) If demand is elastic, marginal revenue is
   A) positive.
   B) negative.
   C) zero.
   D) increasing as output increases.
   E) undefined.

   Answer: A

   Topic: Marginal revenue and elasticity
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.2
   Author: STUDY GUIDE

27) To maximize its profit, a single-price monopoly produces the quantity at which
   A) the difference between marginal revenue and marginal cost is as large as possible.
   B) marginal revenue is equal to marginal cost.
   C) average total cost is at its minimum.
   D) the marginal cost curve intersects the demand curve.
   E) the marginal revenue curve intersects the horizontal axis.

   Answer: B

   Topic: Single-price monopoly, profit maximization
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.2
   Author: STUDY GUIDE
28) Once a monopoly has determined how much it produces, it will charge a price that
   A) is determined by the intersection of the marginal revenue and marginal cost curves.
   B) minimizes marginal cost.
   C) is determined by its demand curve.
   D) is independent of the amount produced.
   E) is equal to its average total cost.

   Answer: C
   Topic: Single-price monopoly, profit maximization
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.2
   Author: STUDY GUIDE

14.3 Monopoly and Competition Compared

1) Assume someone organizes all farms in the nation into a single-price monopoly. As a result, the amount of food produced
   A) remains constant.
   B) decreases.
   C) increases.
   D) might increase or decrease depending on whether the demand for food is elastic or inelastic.
   E) might increase or decrease depending on whether the monopoly’s marginal revenue curve lies below or above its demand curve.

   Answer: B
   Topic: Monopoly and competition compared, output
   Skill: Level 3: Using models
   Objective: Checkpoint 14.3
   Author: TS
2) Assume someone organizes all farms in the nation into a single-price monopoly. As a result, the price consumers have to pay for food
   A) does not change, that is, it remains constant.
   B) falls.
   C) rises.
   D) might rise or fall depending on whether the demand for food is elastic or inelastic.
   E) might rise or fall depending on whether the monopoly's marginal revenue curve lies above or below its demand curve.

Answer: C

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

3) Assume someone organizes all farms in the nation into a monopoly. What is the monopoly's marginal cost curve?
   A) It is a horizontal line at the competitive industry's price.
   B) It is a vertical line at the formerly competitive industry's quantity.
   C) It is a vertical line at the monopoly's chosen output level.
   D) It is the formerly competitive industry's supply curve.
   E) It is the same as the formally competitive industry's average total cost curve.

Answer: D

Topic: Monopoly and competition compared
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: TS

4) Assume someone organizes all farms in the nation into a single-price monopoly. What is the monopoly's marginal revenue curve?
   A) It is a horizontal line at the competitive industry's price.
   B) It is a line that lies below the new monopoly's demand curve.
   C) It is a vertical line at the monopoly's chosen output level.
   D) It is identical to the demand curve for the monopolist's output.
   E) It is a line that lies above the new monopoly's demand curve.

Answer: B

Topic: Monopoly and competition compared
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: TS
5) The figure above shows the demand, marginal revenue, and marginal cost curves for Paul’s Parrot pillows, a monopoly producer of pillows stuffed with parrot feathers. When Paul maximizes his profit, Paul produces ____ pillows per hour and if the market was perfectly competitive, ____ pillows per hour would be produced.

A) 0; 4,000  
B) 3,000; 4,000  
C) 4,000; 4,000  
D) 3,000; 3,000  
E) 0; 3,000

Answer: B

Topic: Monopoly and competition compared
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: CD
6) The figure above shows the demand, marginal revenue, and marginal cost curves for Paul's Parrot pillows, a monopoly producer of pillows stuffed with parrot feathers. When the pillow market is a monopoly, the price of a pillow is ____ and if the pillow market is perfectly competitive, the price of a pillow is ____.

A) $40; $20
B) $70; $60
C) $40; $60
D) $60; $40
E) $100; $40

Answer: B

Topic: Monopoly and competition compared
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: CD

7) Assume someone organizes all farms in the nation into a monopoly. As a result, consumer surplus will

A) not change.
B) increase.
C) decrease.
D) either increase, decrease, or not change depending if the monopoly's marginal revenue curve lies below, above, or is the same as its demand curve.
E) None of the above answers is correct because the effect on consumer surplus depends on whether the monopoly is a single-price or a price-discriminating monopoly.

Answer: C

Topic: Monopoly and competition compared, surpluses
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: TS
8) Assume someone organizes all farms in the nation into a monopoly. Which of the following occurs?
   i. Consumer surplus decreases.
   ii. Economic profit increases.
   iii. A deadweight loss is created.
   
   A) i only.
   B) ii only.
   C) iii only.
   D) i and ii.
   E) i, ii, and iii.

   Answer: E

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

9) When a perfectly competitive industry is taken over by a monopoly, some consumer surplus is transferred to the monopolist in the form of
   
   A) marginal cost.
   B) economic profit.
   C) deadweight loss.
   D) taxes.
   E) average variable cost.

   Answer: B

   Topic: Monopoly and competition compared, surpluses
   Skill: Level 4: Applying models
   Objective: Checkpoint 14.3
   Author: SB
10) The figure above shows the demand curve, marginal revenue curve, and marginal cost curve. The amount of consumer surplus when the market has a monopoly producer is

A) ace.

B) abf.

C) bcd.

D) beef.

E) acd.

Answer: B

Topic: Monopoly and competition compared, surpluses
Skill: Level 3: Using models
Objective: Checkpoint 14.3
Author: CD
11) The figure above shows the demand curve, marginal revenue curve, and marginal cost curve. The amount of consumer surplus when the market has a monopoly producer is ____ and the amount of consumer surplus when the market is perfectly competitive is ____.

A) abf; ace  
B) abf; bcd  
C) ace; bcd  
D) ace; abf  
E) bcd; ace  

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

12) The figure above shows the demand curve, marginal revenue curve, and marginal cost curve. The deadweight loss when the market has a monopoly producer is

A) ace.  
B) abf.  
C) bcd.  
D) bcef.  
E) acd.  

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

13) A monopoly creates a deadweight loss because the monopoly

A) sets a price that is too low.  
B) earns a normal profit.  
C) does not maximize profit.  
D) produces less than the efficient quantity.  
E) produces more than the efficient quantity.  

Answer: D  
Topic: Is monopoly efficient?  
Skill: Level 2: Using definitions  
Objective: Checkpoint 14.3  
Author: SB
14) Monopolies are inefficient because, at the profit-maximizing output level,
   A) \( MC = MR \).
   B) \( MC \) does not equal \( MR \).
   C) \( MB = MC \).
   D) \( MB \) does not equal \( MC \).
   E) \( P = ATC \).
   
   Answer: D
   
   Topic: Is monopoly efficient?
   Skill: Level 3: Using models
   Objective: Checkpoint 14.3
   Author: SB

15) In a monopoly, producers ____ and consumers ____.
   A) gain; lose
   B) lose; lose
   C) lose; gain
   D) gain; gain
   E) gain; do not gain or lose
   
   Answer: A
   
   Topic: Is monopoly fair?
   Skill: Level 3: Using models
   Objective: Checkpoint 14.3
   Author: SB

16) Rent seeking is
   A) the act of renting land.
   B) obtaining special treatment by the government to create an economic profit.
   C) unrelated to monopolies.
   D) an irrational economic behavior and so is not commonly encountered.
   E) illegal.
   
   Answer: B
   
   Topic: Rent seeking
   Skill: Level 1: Definition
   Objective: Checkpoint 14.3
   Author: SB
17) If a producer wants a monopoly with a legal barrier to entry, how can this be done?
   i. The producer can spend funds lobbying to attain passage of the legal barrier to entry.
   ii. The producer can purchase an existing monopoly.
   iii. The producer can make rent seeking expenditures.
      A) i and ii.
      B) i and iii.
      C) ii and iii.
      D) i, ii, and iii.
      E) None of the above are ways to acquire a monopoly with a legal barrier to entry.

   Answer: D  
   Topic: Rent seeking
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.3
   Author: TS

18) Competition among rent seekers results in
   A) higher rents.
   B) firms earning normal profits.
   C) firms setting lower prices.
   D) lower costs.
   E) all competing firms earning an economic profit.

   Answer: B  
   Topic: Rent-seeking equilibrium
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.3
   Author: SB

19) If a perfectly competitive industry is taken over by a single firm that operates as a single-price monopoly, the price will ____ and the quantity will ____.
   A) fall, decrease
   B) fall, increase
   C) rise, decrease
   D) rise, increase
   E) not change; decrease

   Answer: C  
   Topic: Monopoly and competition compared, output and price
   Skill: Level 4: Applying models
   Objective: Checkpoint 14.3
   Author: STUDY GUIDE
20) Comparing single-price monopoly to perfect competition, we see that monopoly
   A) increases the amount of consumer surplus.
   B) has the same amount of consumer surplus.
   C) has no consumer surplus.
   D) decreases the amount of consumer surplus.
   E) decreases the amount of economic profit.

   Answer: D

   Topic: Monopoly and competition compared, surpluses
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.3
   Author: STUDY GUIDE

21) Is a single-price monopoly efficient?
   A) Yes, because it creates a deadweight loss.
   B) No, because it creates a deadweight loss.
   C) Yes, because consumers gain and producers lose some of their surpluses.
   D) Yes, because consumers lose and producers gain some of their surpluses.
   E) Yes, because it produces the quantity at which $MR=MC$.

   Answer: B

   Topic: Is monopoly efficient?
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.3
   Author: STUDY GUIDE

22) Monopolies
   A) are always fair but are not efficient.
   B) might or might not be fair and are always efficient.
   C) might or might not be fair and are generally inefficient.
   D) are always fair and are always efficient.
   E) are never fair and are always efficient.

   Answer: C

   Topic: Is monopoly fair?
   Skill: Level 3: Using models
   Objective: Checkpoint 14.3
   Author: STUDY GUIDE
23) In equilibrium, rent seeking eliminates the
   
   A) deadweight loss.
   B) economic profit.
   C) consumer surplus.
   D) demand for the product.
   E) opportunity to price discriminate.

   Answer: B

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

### 14.4 Price Discrimination

1) Price discrimination is possible, in part, because

   A) costs of production vary as output increases.
   B) monopolies are regulated.
   C) monopolies don't profit maximize.
   D) the willingness to pay can vary among groups of buyers.
   E) monopolies face horizontal demand curves.

   Answer: D

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

2) Compared to setting a single price, if a firm can price discriminate it

   A) earns a higher economic profit.
   B) earns a lower economic profit.
   C) earns zero economic profit.
   D) has no change in its economic profit from when it set a single price.
   E) might increase, decrease, or not change its economic profit depending on whether as a single-price monopoly its marginal revenue curve was above, below, or the same as its demand curve.

   Answer: A

   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: SB
3) Which of the following is true regarding price discrimination?
   i) It converts consumer surplus to economic profit.
   ii) A price discriminator must be a monopoly.
   iii) Price discriminators must be able to identify different types of buyers.
   A) i and ii.
   B) i and iii.
   C) ii and iii.
   D) ii only.
   E) i, ii, and iii.
   Answer: B
   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: CD

4) The key idea behind price discrimination is to convert consumer surplus into
   A) a barrier to entry.
   B) economic profit.
   C) deadweight loss.
   D) monopoly power.
   E) total cost.
   Answer: B
   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: SB

5) Arnie’s Airlines decides to offer different fares to different customers for the same trip. Arnie’s price discriminates because Arnie
   A) wants to convert consumer surplus to deadweight loss.
   B) wants to help some buyers with lower fares.
   C) has different costs for the same flight.
   D) wants to convert consumer surplus to economic profit.
   E) wants to convert producer surplus to consumer surplus.
   Answer: D
   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: SB
6) A "buy one, get one for half price" promotion is an example of
   A) price discriminating among units of a good.
   B) price discriminating among groups of buyers.
   C) a legal monopoly.
   D) a natural monopoly.
   E) marketing by a perfectly competitive firm designed to increase the firm's sales.

   Answer: A
   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: SB

7) A firm is discriminating among groups of buyers when it
   A) offers a lower price per unit for a larger number of units bought.
   B) sets marginal revenue equal to marginal cost.
   C) charges a price higher than their marginal cost.
   D) offers different prices to different groups of buyers.
   E) produces the level of output so that \( MR = MC \).

   Answer: D
   Topic: Price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.4
   Author: SB

8) If a firm successfully price discriminates, it increases
   i. consumer surplus.
   ii. deadweight excess gain.
   iii. economic profit.
   A) i only.
   B) ii only.
   C) iii only.
   D) i and iii.
   E) i and ii.

   Answer: C
   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: SB
9) Arnie’s Airlines is a monopoly airline that is able to price discriminate. If Arnie’s decides to price discriminate, then
   A) Arnie’s profit decreases.
   B) consumer surplus decreases.
   C) Arnie’s revenues decrease.
   D) Arnie’s sells fewer tickets.
   E) Arnie’s will see all of his tickets at a single price.
   Answer: B
   Topic: Price discrimination
   Skill: Level 3: Using models
   Objective: Checkpoint 14.4
   Author: CD

10) Arnie’s Airlines is a monopoly airline that is able to price discriminate. If Arnie’s decides to price discriminate, then
   A) Arnie’s profit increases.
   B) consumer surplus increases.
   C) Arnie’s revenues decrease.
   D) Arnie’s sells fewer tickets.
   E) Arnie can no longer set a price that depends upon the buyer’s willingness to pay.
   Answer: A
   Topic: Price discrimination
   Skill: Level 3: Using models
   Objective: Checkpoint 14.4
   Author: CD

11) Which of the following statements about price discrimination is false?
   A) Price discrimination is a method for a seller to capture some consumer surplus.
   B) Compared to a single-price monopoly, the number of units sold increases when a monopoly price discriminates.
   C) Charging less for a second pizza that is identical to the first is an example of price discrimination.
   D) Price discrimination increases a monopoly’s profit.
   E) All forms of price discrimination are illegal.
   Answer: E
   Topic: Price discrimination
   Skill: Level 3: Using models
   Objective: Checkpoint 14.4
   Author: TS
12) If a firm is able to convert every dollar of consumer surplus to economic profit, the firm has achieved
   A) discrimination among units of a good.
   B) discrimination between groups of buyers.
   C) perfect price discrimination.
   D) perfect cost minimization.
   E) the normal amount of economic profit.

   Answer: C
   Topic: Perfect price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.4
   Author: SB

13) Under which of the following does a monopoly’s demand curve become its marginal revenue curve?
   A) all types of monopoly
   B) only single-price monopoly
   C) only perfect price discrimination
   D) only price discrimination on the basis of the number of units purchased
   E) any monopoly that price discriminates

   Answer: C
   Topic: Perfect price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: TS

14) With perfect price discrimination, the level of output
   A) exceeds the efficient quantity.
   B) is the same as the amount produced by any monopoly that price discriminates.
   C) is the same as the amount produced in a perfectly competitive market.
   D) equals the amount produced by a single-price monopoly.
   E) is unknown.

   Answer: C
   Topic: Perfect price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: SB
15) Under which of the following is consumer surplus zero?
   A) all types of monopoly
   B) only single-price monopoly
   C) only perfectly price-discriminating monopoly
   D) only price discrimination on the basis of the number of units purchased
   E) perfect competition

Answer: C

Topic: Perfect price discrimination
Skill: Level 2: Using definitions
Objective: Checkpoint 14.4
Author: TS

16) The deadweight loss with perfect price discrimination is
   A) equal to the deadweight loss of a single-price monopoly.
   B) sometimes less than and sometimes more than the deadweight loss of a single-price monopoly.
   C) more than the deadweight loss of a single-price monopoly.
   D) zero.
   E) larger than the deadweight loss with perfect competition.

Answer: D

Topic: Perfect price discrimination
Skill: Level 2: Using definitions
Objective: Checkpoint 14.4
Author: SB

17) Airlines price discriminate by offering lower fares to
   A) business travelers.
   B) leisure travelers.
   C) first-class travelers.
   D) non-price-sensitive travelers.
   E) high willingness to pay travelers.

Answer: B

Topic: Eye on the U.S. economy, airline price discrimination
Skill: Level 2: Using definitions
Objective: Checkpoint 14.4
Author: SB
18) Which of the following must a firm be able to do to successfully price discriminate?
   i. divide buyers into different groups according to their willingness to pay
   ii. prevent resale of the good or service
   iii. identify into which group (high willingness to pay or low willingness to pay) a buyer falls
   
   A) ii only.
   B) i and ii.
   C) i and iii.
   D) iii only.
   E) i, ii, and iii.

   Answer: E

   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: STUDY GUIDE

19) Which of the following is (are) price discrimination?
   i. charging different prices based on differences in production cost
   ii. charging business flyers a higher airfare than tourists
   iii. charging more for the first pizza than the second
   
   A) i only.
   B) ii only.
   C) ii and iii.
   D) i and iii.
   E) i, ii, and iii.

   Answer: C

   Topic: Price discrimination
   Skill: Level 1: Definition
   Objective: Checkpoint 14.4
   Author: STUDY GUIDE
20) When a monopoly price discriminates, it
   A) increases the amount of consumer surplus.
   B) decreases the monopoly’s economic profits.
   C) converts consumer surplus into economic profit.
   D) converts economic profit into consumer surplus.
   E) has no effect on the deadweight loss in the market.
   Answer: C
   Topic: Price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: STUDY GUIDE

21) If a monopoly is able to perfectly price discriminate, then consumer surplus is
   A) equal to zero.
   B) maximized.
   C) unchanged from what it is with a single-price monopoly.
   D) unchanged from what it is in a perfectly competitive industry.
   E) not zero but is less than with a single-price monopoly.
   Answer: A
   Topic: Perfect price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: STUDY GUIDE

22) With perfect price discrimination, the quantity of output produced by a monopoly is ____ the quantity produced by a perfectly competitive industry.
   A) greater than but not equal to
   B) less than
   C) equal to but not greater than
   D) not comparable to
   E) either greater than or equal to
   Answer: C
   Topic: Perfect price discrimination
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.4
   Author: STUDY GUIDE
14.5 Monopoly Policy Issues

1) A potential benefit of monopoly over competition is that
   A) monopolies have a larger incentive to innovate.
   B) economies of scale do not exist with monopolies.
   C) monopolies increase consumer surplus by setting low prices.
   D) monopolies can be regulated.
   E) monopolies do not create a deadweight loss.

   Answer: A

   Topic: Gains from monopoly
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.5
   Author: CD

2) Incentives to innovate
   A) are a potential advantage monopoly has over a competitive alternative.
   B) are exclusively found in competitive markets.
   C) create a legal monopoly.
   D) are examples of perfect price discrimination.
   E) are smaller 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: SB

3) What are the potential advantages of monopoly over competition for the economy?
   A) Monopolies can take advantage of the nation’s patent laws.
   B) Monopolies earn more profit.
   C) Monopolies have a higher rate of productivity growth.
   D) Economies of scale and incentives to innovate are potential advantages.
   E) Monopolies set lower prices.

   Answer: D

   Topic: Gains from monopoly
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.5
   Author: STUDY GUIDE
4) If a single firm can meet the entire market demand at a lower average total cost than could a larger number of smaller firms, then the industry is
   A) a perfectly price discriminating monopoly.
   B) perfectly competitive.
   C) a legal monopoly.
   D) a single-price monopoly.
   E) a natural monopoly.
   Answer: E

   Topic: Gains from monopoly
   Skill: Level 1: Definition
   Objective: Checkpoint 14.5
   Author: STUDY GUIDE

5) Most societies ____ natural monopolies.
   A) break up firms that are
   B) regulate
   C) outlaw price discrimination by
   D) refuse to grant patents to
   E) give incentives to firms to become
   Answer: B

   Topic: Gains from monopoly
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.5
   Author: STUDY GUIDE

6) Patents
   A) are granted only to competitive firms and not monopolies.
   B) require that monopolies increase the amount they produce.
   C) increase the incentive to capture economies of scale.
   D) increase the incentive to innovate.
   E) grant the holder a monopoly that lasts forever.
   Answer: D

   Topic: Gains from monopoly
   Skill: Level 2: Using definitions
   Objective: Checkpoint 14.5
   Author: STUDY GUIDE
7) Patents
   A) are a legal barrier to entry.
   B) remove legal barriers to entry.
   C) create economies of scale.
   D) decrease the incentive to innovate.
   E) are prohibited in the United States.

Answer: A

Topic: Gains from monopoly
Skill: Level 2: Using definitions
Objective: Checkpoint 14.5
Author: STUDY GUIDE