Chapter 17
Regulation and Antitrust Law

17.1 Regulation

1) Regulation consists of government rules that influence
i. product standards and types.
ii. prices.
iii. conditions under which new firms may enter an industry.
   A) ii and iii.
   B) ii only.
   C) i and ii.
   D) i and iii.
   E) i, ii, and iii.
Answer: E

Topic: Regulation
Skill: Level 2: Using definitions
Objective: Checkpoint 17.1
Author: SB

2) For firms such as natural monopolies, which of the following factors can be regulated by a government agency?
i) product standards.
ii) entry conditions for new firms.
iii) prices.
   A) iii only.
   B) i and ii.
   C) ii and iii.
   D) i, ii, and iii.
   E) i and iii.
Answer: D

Topic: Regulation*
Skill: Level 2: Using definitions
Objective: Checkpoint 17.1
Author: CD
3) Which of the following is correct about economic regulation in the United States?
   A) Regulation started in 1887 and continues to increase.
   B) Regulation expanded its coverage until the 1970s and then began to decrease.
   C) The United States is completely without any economic regulation.
   D) The only industries regulated in the United States are cartels.
   E) Regulation reached its peak in 1939, then reached a minimum in the 1970s, and has increased since then.

Answer: B

Topic: History of regulation
Skill: Level 1: Definition
Objective: Checkpoint 17.1
Author: TS

4) The first regulatory agency to be set up in the United States (in 1887) was the
   A) Interstate Commerce Commission.
   B) Environmental Protection Agency.
   C) Securities and Exchange Commission.

Answer: A

Topic: History of regulation
Skill: Level 1: Definition
Objective: Checkpoint 17.1
Author: SB

5) At the peak of regulation in the United States, nearly ____ of the nation’s output was produced by regulated industries.
   A) 3 percent
   B) 10 percent
   C) 25 percent
   D) 50 percent
   E) 67 percent

Answer: C

Topic: History of regulation
Skill: Level 1: Definition
Objective: Checkpoint 17.1
Author: SB
6) The peak of regulation in the United States occurred in the ____ when about _____ percent of output was produced by regulated industries.
   A) 1910s; 10
   B) 1970s; 25
   C) 1960s; 50
   D) 1990s; 33
   E) 1980s; 55
   Answer: B
   Topic: Horizontal equity
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: CD

7) When in the history of the United States was the regulation of industries the greatest?
   A) the 1880s
   B) during the Great Depression in the 1930s
   C) the mid-1970s
   D) the present time
   E) the 1990s
   Answer: C
   Topic: History of regulation
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: TS

8) Which of the following are regulatory agencies of the U.S. government?
   i. Interstate Commerce Commission.
   ii. Securities and Exchange Commission.
   iii. U.S. Defense Department
   A) i only.
   B) ii only.
   C) i and ii.
   D) i and iii.
   E) i, ii, and iii.
   Answer: C
   Topic: History of regulation
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: SB
9) All regulatory agencies
   A) promote market-based profit maximization.
   B) get their funding from the businesses they regulate.
   C) have a permanent bureaucracy.
   D) have their leadership appointed by state governments.
   E) strive to allow the companies they regulate to maximize their profits.

   Answer: C
   Topic: Regulatory process
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: SB

10) Regulatory agencies operate following rules and practices
    A) imposed on them by the industry they regulate.
    B) based on well-defined physical and financial accounting procedures.
    C) that are simple, well-defined, and easy to administer.
    D) that specify the type of production technology firms will use.
    E) that give the firms a great deal of freedom to choose their prices and quantities to produce but limit the firms' choice of production methods.

   Answer: B
   Topic: Regulatory process
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: SB

11) In a regulated industry, individual firms are usually free to determine
    A) the prices to charge.
    B) the quantities to produce.
    C) their production technology.
    D) the markets to serve.
    E) Both answers C and D are correct.

   Answer: C
   Topic: Regulatory process
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: SB
12) Which of the following forms of regulation do regulated industries typically experience?
   i. control of the price the firm can charge
   ii. control of the markets the firm will serve
   iii. regulation of what production technology to use

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

   Answer: C

   Topic: Regulatory process
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: TS

13) The public interest theory of regulation assumes that
   A) regulation is against the public interest.
   B) the public is indifferent to regulation.
   C) regulation seeks an efficient use of resources.
   D) the public cares deeply about regulation.
   E) regulators are captured by the firms being regulated.

   Answer: C

   Topic: Public Interest Theory
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: SB

14) The public interest theory of regulation asserts that regulation
   A) seeks an efficient use of resources.
   B) is aimed at keeping prices as low as possible.
   C) helps firms maximize economic profit.
   D) of a natural monopoly must be done using rate of return regulation.
   E) does not work for society as well as would allowing the firms freedom from regulation.

   Answer: A

   Topic: Public interest theory
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: TS
15) Who receives benefits if regulation works according to public interest theory?
   A) the entire economy
   B) cohesive interest groups
   C) everyone not in the cohesive interest group
   D) the regulators
   E) It is impossible to determine who benefits.

   Answer: A
   Topic: Public interest theory
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: TS

16) Suppose a regulatory agency forced a firm to reduce the price of its product to the
    competitive level. This type of regulation is an example of
   A) the public interest theory of regulation.
   B) the producer interest theory of regulation.
   C) an average cost pricing rule.
   D) capture theory.
   E) rate of return regulation.

   Answer: A
   Topic: Public provision
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: CD

17) Capture theory is
   A) an economic theory of regulation.
   B) a model about perfect competition.
   C) the same as the public interest theory.
   D) the theory that regulators capture firms' attention by dictating a very low price.
   E) a theory that explains behavior of oligopolistic firms.

   Answer: A
   Topic: Capture theory
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: SB
18) The capture theory of regulation assumes that regulation benefits
   A) producers.
   B) consumers.
   C) government.
   D) the general public.
   E) the regulators.

   Answer: A

   Topic: Capture theory
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: SB

19) The capture theory of regulation predicts that regulations bring ____ to special interest
   group members and impose ____ on everyone else.
   A) small benefits; small costs
   B) small benefits; large costs
   C) large benefits; small costs
   D) large benefits; large costs
   E) large benefits; no costs

   Answer: C

   Topic: Capture theory
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: SB

20) Who receives large benefits if regulation works according to the capture theory?
   A) the entire economy
   B) cohesive interest groups
   C) everyone not in the cohesive interest group
   D) consumers rather than producers
   E) It is impossible to determine who benefits the most.

   Answer: B

   Topic: Capture theory
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: TS
21) Suppose that a regulatory agency helps producers maximize economic profit. This type of regulation coincides with
   A) a natural monopoly.
   B) a marginal cost pricing rule.
   C) an average cost pricing rule.
   D) the capture theory of regulation.
   E) the public interest theory of regulation.

   Answer: D  
   Topic: Capture theory  
   Skill: Level 2: Using definitions  
   Objective: Checkpoint 17.1  
   Author: CD

22) Regulation that serves the interests of the producer sets price
   A) using the marginal cost pricing rule.
   B) using the average cost pricing rule.
   C) so that the firm maximizes profit.
   D) so that the firm maximizes total revenue.
   E) using rate of return regulation.

   Answer: C  
   Topic: Capture theory  
   Skill: Level 3: Using models  
   Objective: Checkpoint 17.1  
   Author: SB

23) Fixed costs are ____ in a natural monopoly, so average total cost ____ as output increases.
   A) large; increases
   B) large; decreases
   C) small; increases
   D) small; decreases
   E) nonexistent; decreases

   Answer: B  
   Topic: Natural monopoly  
   Skill: Level 2: Using definitions  
   Objective: Checkpoint 17.1  
   Author: SB
24) The industries or markets that are natural monopolies
   A) are relatively unchanging.
   B) are determined by the government.
   C) change as technology changes.
   D) are determined by random chance.
   E) change when the type of regulation being used by the government changes.

   Answer: C
   Topic: Natural monopoly
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: SB

25) How should a natural monopoly be regulated under the public interest theory of regulation?
   A) by setting price equal to the average cost of production
   B) by allowing a price that maximizes the profit of the natural monopoly
   C) by using a marginal cost pricing rule
   D) by subsidizing other producers to compete with the monopoly
   E) by using rate of return regulation

   Answer: C
   Topic: Natural monopoly, marginal cost pricing rule
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: TS

26) The outcome of regulating a natural monopoly using the marginal cost pricing rule is
   A) that the firm earns a normal profit.
   B) that the firm maximizes its profit.
   C) that consumer surplus is less than what it would be if the firm maximized its profit.
   D) an efficient level of production.
   E) that the firm earns an economic profit.

   Answer: D
   Topic: Natural monopoly, marginal cost pricing rule
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: SB
27) A natural monopoly that is regulated to set price equal to marginal cost
   A) earns an economic profit.
   B) breaks even by earning a normal profit.
   C) incurs an economic loss.
   D) could make an economic loss, an economic profit, a normal profit.
   E) earns zero normal profit.

   Answer: C

   Topic: Natural monopoly, marginal cost pricing rule
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: SB

28) Regulating a natural monopoly using a marginal cost pricing rule results in an economic loss for the firm because
   A) demand is elastic for the product.
   B) the owner of the natural monopoly is inefficient.
   C) the average total cost curve lies below the firm’s marginal cost curve.
   D) the intersection of the average total cost curve and the demand curve is above the intersection of the marginal cost curve and the demand curve.
   E) the firm’s marginal revenue curve is always below its demand curve.

   Answer: D

   Topic: Natural monopoly, marginal cost pricing rule
   Skill: Level 3: Using models
   Objective: Checkpoint 17.1
   Author: TS

29) Which of the following explains why the marginal cost pricing rule results in an economic loss for a natural monopoly?
   A) The ATC curve is downward sloping, therefore the MC is lower than the ATC.
   B) The demand curve is downward sloping, therefore price falls as quantity increases.
   C) The MC is constant and equal to price.
   D) Because output is determined by setting MC equal to the price, consumer surplus is maximized.
   E) The firm’s MR is always less than its price.

   Answer: A

   Topic: Natural monopoly, marginal cost pricing rule
   Skill: Level 3: Using models
   Objective: Checkpoint 17.1
   Author: SB
30) Which of the following is an example of a two-part tariff?
   A) price discrimination based on the buyers’ willingness to pay
   B) charging a hookup fee plus a monthly charge equal to marginal cost
   C) higher sales tax on specific products
   D) different prices based on the cost of production and quantity bought
   E) a regulated firm uses marginal cost pricing for some customers and average cost pricing for other customers

   Answer: B
   Topic: Natural monopoly, marginal cost pricing rule
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: TS

31) One way a company can cover its costs and, at the same time, obey a marginal cost pricing rule is by
   A) choosing output levels according to the profit-maximizing rule.
   B) using price discrimination.
   C) increasing production.
   D) decreasing production.
   E) decreasing its marginal cost but not changing its average total cost.

   Answer: B
   Topic: Natural monopoly, marginal cost pricing rule
   Skill: Level 3: Using models
   Objective: Checkpoint 17.1
   Author: TS

32) If a natural monopoly cannot cover its total cost with its revenue, and the government wants it to follow a marginal cost pricing rule, then the government might need to
   A) tax the monopoly.
   B) subsidize the monopoly.
   C) create a regulatory agency.
   D) eliminate the regulatory agency.
   E) pay the monopoly’s customers a sum equal to the deadweight loss.

   Answer: B
   Topic: Natural monopoly, marginal cost pricing rule
   Skill: Level 3: Using models
   Objective: Checkpoint 17.1
   Author: SB
33) What problem is caused by subsidizing a natural monopoly regulated using a marginal cost pricing rule?
   A) The regulated firm ends up earning an economic profit.
   B) Consumers pay too much for the product of the monopoly.
   C) This policy is a two-part tariff, which creates inefficiency.
   D) The taxes required to gain the revenue used as the subsidy result in a deadweight loss that subtracts from gains in efficiency which result from use of the marginal cost pricing rule.
   E) The regulated firm goes out of business if it is subsidized.

   Answer: D
   Topic: Natural monopoly, marginal cost pricing rule
   Skill: Level 3: Using models
   Objective: Checkpoint 17.1
   Author: TS

34) A deadweight loss arises when the government
   i. subsidizes natural monopolies by taxing some other activity.
   ii. uses the average cost pricing rule.
   iii. regulates a monopoly so that price is greater than marginal cost.

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

   Answer: E
   Topic: Natural monopoly, marginal cost pricing rule
   Skill: Level 4: Applying models
   Objective: Checkpoint 17.1
   Author: SB

35) For a natural monopoly to cover its total cost, its price must equal its

   A) average total cost.
   B) marginal cost.
   C) demand.
   D) total fixed cost.
   E) marginal revenue.

   Answer: A
   Topic: Natural monopoly, average cost pricing rule
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: SB
36) When used with a natural monopoly, an average cost pricing rule results in
   A) the efficient level of output.
   B) economic losses for the firm.
   C) the need for government to subsidize the natural monopoly.
   D) zero economic profit for the firm.
   E) the firm earning an economic profit.

   Answer: D
   Topic: Natural monopoly, average cost pricing rule
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: SB

37) Managers of a monopoly under rate of return regulation have an incentive to
   A) exaggerate the firm’s costs.
   B) underestimate the firm’s costs.
   C) minimize the monopoly’s deadweight loss.
   D) earn zero economic profit.
   E) exaggerate the firm’s profit.

   Answer: A
   Topic: Natural monopoly, rate of return regulation
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: SB

38) Natural monopolies regulated with an average cost pricing rule can turn public interest
    theory regulation into capture theory regulation by
    A) ignoring the regulatory agency’s rules.
    B) exaggerating costs.
    C) carefully monitoring costs to keep them as low as possible.
    D) advertising to increase demand for the product.
    E) increasing their output to increase their profit.

   Answer: B
   Topic: Natural monopoly, average cost pricing rule
   Skill: Level 3: Using models
   Objective: Checkpoint 17.1
   Author: TS
39) Who benefits from the practice of some natural monopolies to count sumptuous offices, free baseball tickets, golf excursions, and limousines as costs of production?

A) stockholders
B) managers of the monopoly
C) customers of the monopoly
D) regulators of the industry.
E) None of the above answers is correct.

Answer: B

Topic: Natural monopoly, rate of return regulation
Skill: Level 3: Using models
Objective: Checkpoint 17.1
Author: TS

40) A regulation that motivates a firm to operate efficiently and keep its costs under control is

A) average cost pricing.
B) marginal cost pricing.
C) rate of return regulation.
D) price cap regulation.
E) cost cap regulation.

Answer: D

Topic: Price cap regulation
Skill: Level 1: Definition
Objective: Checkpoint 17.1
Author: SB

41) Price cap regulation is regulation that

A) is a marginal cost pricing rule.
B) is an average cost pricing rule.
C) motivates the firm to operate efficiently and keep its costs under control.
D) has the same incentive effects as does rate of return regulation.
E) is the same as allowing the firm to operate as if it was totally unregulated.

Answer: C

Topic: Price cap regulation
Skill: Level 1: Definition
Objective: Checkpoint 17.1
Author: TS
42) Price caps and earnings-sharing plans are two forms of
   A) average cost pricing regulation.
   B) regulation designed to give firms the incentive to operate efficiently.
   C) rate of return regulation.
   D) regulation that have the unfortunate effect of giving firms the incentive to exaggerate their costs.
   E) marginal cost pricing regulation.

Answer: B

Topic: Price cap regulation
Skill: Level 1: Definition
Objective: Checkpoint 17.1
Author: SB

43) Price cap regulation involves
   A) setting the monopoly’s price equal to its average total cost.
   B) setting the monopoly’s price equal to its profit-maximizing price.
   C) setting a maximum price the monopoly may charge and maintaining it for many years.
   D) assuming a natural monopoly will not charge a higher than profit-maximizing price.
   E) setting the monopoly’s price equal to its marginal cost.

Answer: C

Topic: Price cap regulation
Skill: Level 1: Definition
Objective: Checkpoint 17.1
Author: TS

44) Which regulation scheme sets a maximum price and holds it steady for several years?
   A) earnings-sharing plans
   B) rate of return regulation
   C) price caps
   D) average cost pricing
   E) marginal cost pricing

Answer: C

Topic: Price cap regulation
Skill: Level 1: Definition
Objective: Checkpoint 17.1
Author: SB
45) The process of price cap regulation includes which of the following?
   i. a price ceiling.
   ii. marginal cost pricing.
   iii. average cost pricing
   A) i only.
   B) ii only.
   C) i and ii.
   D) ii and iii.
   E) i and iii.
   Answer: A
   *Topic: Price cap regulation*
   *Skill: Level 1: Definition*
   *Objective: Checkpoint 17.1*
   *Author: CD*

46) Earning-sharing regulation involves
   A) setting the monopoly’s price equal to its average total cost.
   B) requiring that the monopoly share its profits with its customers if the profits rise above a certain level.
   C) setting a maximum price the monopoly may charge and maintaining it for many years.
   D) assuming a natural monopoly will not charge a higher than profit-maximizing price.
   E) setting the monopoly’s price equal to its marginal cost.
   Answer: B
   *Topic: Price cap regulation*
   *Skill: Level 1: Definition*
   *Objective: Checkpoint 17.1*
   *Author: TS*

47) A cartel is
   A) another name for a firm in an oligopoly.
   B) a collusive agreement among a number of firms.
   C) a government body that regulates an industry.
   D) an antitrust law.
   E) a type of regulation that focuses on quantities rather than price.
   Answer: B
   *Topic: Cartel regulation*
   *Skill: Level 1: Definition*
   *Objective: Checkpoint 17.1*
   *Author: SB*
48) Under the public interest theory of regulation, the goal of regulating oligopolies and cartels is
   A) to provide a larger, though not maximum, profit for the firms.
   B) to use average cost pricing.
   C) to provide an outcome similar to the competitive outcome.
   D) to provide a maximum profit for the firms.
   E) None of the above answers is correct.
   Answer: C

   Topic: Cartel regulation
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: TS

49) One method of cartel regulation that can result in the firms earning the maximum profits is
   A) public interest theory.
   B) average cost pricing.
   C) marginal cost pricing.
   D) to place an output limit on each firm in the industry.
   E) to require that each firm lower its price so that the quantity sold increases, thereby increasing the firms' profits.
   Answer: D

   Topic: Cartel regulation
   Skill: Level 3: Using models
   Objective: Checkpoint 17.1
   Author: SB

50) Regulation
   A) consists of rules administered by a government agency.
   B) is a theory that resources are used efficiently.
   C) consists of rules administered by private industry to avoid government interference.
   D) is a theory that firms maximize profits if government agencies assist.
   E) is illegal in the United States.
   Answer: A

   Topic: Regulation
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: STUDY GUIDE
51) Deregulation is the process of ____ restrictions on prices, product standards and types, and entry conditions.
   A) increasing
   B) not changing
   C) evaluating
   D) decreasing
   E) fine-tuning

   Answer: D
   Topic: Deregulation
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: STUDY GUIDE

52) The theory that regulation seeks an efficient use of resources is the
   A) public interest theory.
   B) producer surplus theory.
   C) consumer surplus theory.
   D) capture theory.
   E) deadweight loss theory.

   Answer: A
   Topic: Public interest theory
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: STUDY GUIDE

53) Which of the following describe(s) the capture theory of regulation?
   i. Regulation seeks an efficient use of resources.
   ii. Regulation is aimed at keeping prices as low as possible.
   iii. Regulation helps firms maximize economic profit.

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

   Answer: C
   Topic: Capture theory
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: STUDY GUIDE
54) The first national regulatory agency to be set up in the United States was the
A) Atomic Energy Commission.
B) Securities and Exchange Commission.
C) Interstate Commerce Commission.
D) Food and Drug Administration.
Answer: C
Topic: History of regulation
Skill: Level 1: Definition
Objective: Checkpoint 17.1
Author: STUDY GUIDE

55) At a level of output where regulators force a natural monopoly to set a price that is equal to
marginal cost, the firm
A) earns a normal profit.
B) earns an economic profit.
C) incurs an economic loss.
D) earns a normal economic profit.
E) earns either a normal profit or an economic profit, depending on whether the firm’s
average total cost equals or is less than the marginal cost.
Answer: C
Topic: Natural monopoly, marginal cost pricing rule
Skill: Level 2: Using definitions
Objective: Checkpoint 17.1
Author: STUDY GUIDE

56) If a natural monopoly is told to set price equal to average cost, then the firm
A) is not able to set its marginal revenue equal to its marginal cost.
B) automatically also sets price equal to marginal cost.
C) will earn an economic profit.
D) will incur an economic loss.
E) sets a price that is lower than its marginal cost.
Answer: A
Topic: Natural monopoly, average cost pricing rule
Skill: Level 3: Using models
Objective: Checkpoint 17.1
Author: STUDY GUIDE
57) Rate of return regulation is designed to allow a natural monopoly to
   A) earn an economic profit.
   B) earn a normal profit.
   C) underestimate its average cost.
   D) compete with any firm entering the market.
   E) earn zero normal profit.

   Answer: B

   Topic: Natural monopoly, rate of return regulation
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: STUDY GUIDE

58) When a regulatory agency uses rate of return regulation, the
   A) agency is able to eliminate the deadweight loss.
   B) regulated firm has no incentive to cut costs.
   C) regulated firm’s profit must be maximized for the market to be efficient.
   D) regulated firm must receive a government subsidy.
   E) the agency is using a form of marginal cost pricing.

   Answer: B

   Topic: Natural monopoly, rate of return regulation
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: STUDY GUIDE

59) A regulation that motivates the firm to operate efficiently and keep its costs under control is called
   A) an output regulation.
   B) a subsidy.
   C) price cap regulation.
   D) deregulation.
   E) a price-capture theory regulation.

   Answer: C

   Topic: Incentive regulation
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: STUDY GUIDE
60) Under price-cap regulation, the regulators set the ____ price that can be charged and hold that cap for several years.
   A) minimum
   B) maximum
   C) average fixed cost
   D) average variable cost
   E) marginal
   Answer: B
   Topic: Incentive regulation
   Skill: Level 1: Definition
   Objective: Checkpoint 17.1
   Author: STUDY GUIDE

61) Why would members of a cartel be in favor of regulation by a government agency?
   A) Regulation follows the public interest theory.
   B) Industry output can be controlled at the monopoly level and the regulation means that members cannot cheat.
   C) Costs are reduced.
   D) Regulation can increase the demand for the product.
   E) Cartel members are never in favor of regulation.
   Answer: B
   Topic: Cartel regulation
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.1
   Author: STUDY GUIDE

17.2 Antitrust Law

1) Who can initiate an antitrust lawsuit against a firm?
   A) only the Department of Justice
   B) only injured competitors
   C) only injured customers
   D) government agencies and injured private parties
   E) only injured competitors or injured customers
   Answer: D
   Topic: Antitrust law
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: TS
2) Which of the following are U.S. antitrust laws?
   i) The Rockefeller Act.
   iii) The Natural Monopoly Act.
   A) i and ii.
   B) ii and iii.
   C) ii only.
   D) i, ii, and iii.
   E) i only.
   Answer: C

Topic: Sherman Act*
Skill: Level 1: Definition
Objective: Checkpoint 17.2
Author: CD

3) Which of the following does antitrust law prohibit if it substantially lessens competition or creates a monopoly?
   i. acquiring a competitor’s shares or assets
   ii. territorial confinement
   iii. becoming a director of a competing firm
   A) i only.
   B) iii only.
   C) i and iii.
   D) i and ii.
   E) i, ii, and iii.
   Answer: E

Topic: Clayton Act
Skill: Level 1: Definition
Objective: Checkpoint 17.2
Author: TS
4) In the 1970s, when a gasoline price ceiling was imposed that was below the equilibrium price of gasoline, some gas stations required that buyers of gas also purchase other products sold at the station. This policy is an example of which of the following?

A) price discrimination  
B) tying arrangements  
C) exclusive dealing  
D) requirements contract  
E) resale price maintenance

Answer: B

Topic: Clayton Act
Skill: Level 2: Using definitions
Objective: Checkpoint 17.2
Author: TS

5) A tying arrangement

A) prevents a firm from selling competing items.  
B) prevents a buyer from reselling a product outside a specified area.  
C) requires that other goods be bought from the same firm.  
D) requires a firm to buy all its requirements of a particular item from a single firm.  
E) is a type of price discrimination.

Answer: C

Topic: Clayton Act
Skill: Level 2: Using definitions
Objective: Checkpoint 17.2
Author: SB

6) Which of the following is an example of a tying arrangement?

A) preventing a buyer from reselling a product outside a specific area  
B) selling one product only if another product is purchased  
C) forcing the purchase of all necessities from a single firm  
D) prohibiting a seller from selling a competing item  
E) selling different units of a good to the same buyer at different prices.

Answer: B

Topic: Clayton Act
Skill: Level 2: Using definitions
Objective: Checkpoint 17.2
Author: TS
7) Which of the following is an example of exclusive dealing?
   A) preventing a buyer from reselling a product outside a specific area
   B) forcing a buyer to buy other goods from a supplier
   C) forcing the purchase of all necessities from a single firm
   D) prohibiting a seller from selling a competing item
   E) selling different units of a good to the same buyer at different prices.

   Answer: D
   Topic: Clayton Act
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: TS

8) Which of the following is an example of a territorial confinement?
   A) preventing a buyer from reselling a product outside a specific area
   B) selling one product only if another product is purchased
   C) forcing the purchase of all necessities from a single firm
   D) prohibiting a seller from selling a competing item
   E) selling different units of a good at different prices to the same customer.

   Answer: A
   Topic: Clayton Act
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: TS

9) Which of the following provisions require a firm to buy all its requirements of a particular item from a single firm?
   A) tying arrangement
   B) requirements contracts
   C) exclusive dealing
   D) territorial confinement
   E) quantity discrimination

   Answer: B
   Topic: Clayton Act
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: SB
10) Price fixing
   A) always is a violation of the law.
   B) is allowed only if otherwise a firm would go bankrupt.
   C) is one of the business practices prohibited by the Clayton Act.
   D) a violation of the law only when it is combined with predatory pricing.
   E) is legal if the businesses have received prior clearance from the Justice Department.

Answer: A
   Topic: Price fixing
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: SB

11) The manufacturer of perfume enters into an agreement with several distributors about the price at which the distributors can resell the perfume. The manufacturers who do not agree to the pricing suggestion are not able to sell the perfume. The agreement between manufacturers and distributors is
   A) resale price maintenance.
   B) an interlocking dealership chain.
   C) always inefficient.
   D) a tying arrangement.
   E) an example of an exclusive deal.

Answer: A
   Topic: Resale price maintenance
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: CD

12) Resale price maintenance can be illegal
   A) under the Clayton Act.
   B) under the Sherman Act.
   C) only if the distributors engage in predatory pricing.
   D) if distributors tell the manufacturer the maximum price at which they will sell the product.
   E) only when it is combined with territorial confinement.

Answer: B
   Topic: Resale price maintenance
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: CD
13) Resale price maintenance is efficient if
   A) it is used in conjunction with a tying arrangement.
   B) the manufacturer does not engage in predatory pricing.
   C) retailers charge the lowest price for the product.
   D) it enables a manufacturer to induce an efficient standard of service from retailers.
   E) it takes the place of an exclusive deal.

   Answer: D
   Topic: Resale price maintenance
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: CD

14) Tying arrangements
   A) require retailers to charge a specific price determined by the manufacturer.
   B) require a buyer to purchase one product in order to buy another, different product.
   C) are illegal under the Sherman Act.
   D) always allow a firm to increase its market power.
   E) are always illegal under the Clayton Act.

   Answer: B
   Topic: Tying arrangements*
   Skill: Level 1: Definition
   Objective: Checkpoint 17.2
   Author: CD

15) Tying arrangements
   A) work only in perfectly competitive markets.
   B) are illegal under the Sherman Act.
   C) are illegal under the Clayton Act if they create monopoly.
   D) are illegal under the Clayton Act and the Sherman Act only when used along with predatory pricing.
   E) are always illegal under the Clayton Act.

   Answer: C
   Topic: Tying arrangements*
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: CD
16) Larry’s Appliances requires customers to buy a regular oven in order to buy a microwave oven and this is the only way Larry’s will sell a microwave oven. Larry’s is
   A) engaging in resale price maintenance.
   B) definitely increasing its market power.
   C) engaging in predatory pricing.
   D) engaging in tying.
   E) fixing its prices.

Answer: D
Topic: Tying arrangements*
Skill: Level 3: Using models
Objective: Checkpoint 17.2
Author: CD

17) Setting a price so low that competitors are driven out of a market and then boosting the price is called
   A) predatory pricing.
   B) a tying arrangement.
   C) resale price maintenance.
   D) price fixing.
   E) price discrimination.

Answer: A
Topic: Predatory pricing
Skill: Level 2: Using definitions
Objective: Checkpoint 17.2
Author: CD

18) Economists are skeptical that ____ occurs very often because firms engaging in it are certain to suffer an economic loss for a period of time.
   A) a tying arrangement
   B) inefficient resale price maintenance
   C) predatory pricing
   D) efficient resale price maintenance
   E) exclusive dealing

Answer: C
Topic: Predatory pricing
Skill: Level 2: Using definitions
Objective: Checkpoint 18.4
Author: CD
19) The U.S. courts found Microsoft
   A) did not violate antitrust law.
   B) violated the Sherman Act.
   C) violated the Cellar-Kefauver Act.
   D) engaged in predatory pricing.
   E) violated the price discrimination clause of the Clayton Act.
   Answer: B
   Topic: United States versus Microsoft*
   Skill: Level 1: Definition
   Objective: Checkpoint 17.2
   Author: CD

20) The Department of Justice will examine and possibly try to block
   A) any merger in a market with a Herfindahl-Hirschman Index (HHI) less than 1,000
   B) a merger in a market with a HHI between 1,000 and 1,800 that increases the index more than 1,000
   C) a merger in a market with a HHI greater than 1,800 that increases the index more than 50
   D) any merger that decreases the HHI by more than 500
   E) any merger that decreases the HHI by more than 50
   Answer: C
   Topic: Merger rules
   Skill: Level 1: Definition
   Objective: Checkpoint 17.2
   Author: TS

21) The Department of Justice guidelines for determining which mergers it examines is based on the
   A) average cost pricing rule.
   B) Clayton Act.
   C) Sherman Act.
   D) Herfindahl-Hirschman index.
   E) the four–firm concentration ratio
   Answer: D
   Topic: Merger rules
   Skill: Level 1: Definition
   Objective: Checkpoint 17.2
   Author: SB
22) The Department of Justice uses the ____ to help determine whether to challenge a possible merger.
   A) the Sherman Act
   B) the Clayton Act
   C) the Herfindahl–Hirschman Index
   D) antitrust law of natural monopolies
   E) the four-firm concentration ratio

Answer: C
Topic: Merger rules
Skill: Level 1: Definition
Objective: Checkpoint 17.2
Author: CD

23) If an industry has a Herfindahl–Hirschman index of 800, it is considered a
   A) competitive market.
   B) moderately concentrated market.
   C) concentrated market.
   D) monopoly.
   E) small market.

Answer: A
Topic: Merger rules
Skill: Level 2: Using definitions
Objective: Checkpoint 17.2
Author: SB

24) Suppose that an industry has an HHI of 1,900. Two firms in the industry want to merge. Under which conditions does the Department of Justice challenge the merger?
   A) The market is considered competitive, so the merger will not be challenged.
   B) The merger will be challenged if it raises the HHI by 100 or more points.
   C) The merger will be challenged if it raises the HHI by 50 or more points.
   D) The merger will be challenged if it raises the HHI by 200 or more points.
   E) The merger will be challenged if it raises the HHI by 500 or more points.

Answer: C
Topic: Merger rules
Skill: Level 2: Using definitions
Objective: Checkpoint 17.2
Author: CD
25) In order for the Department of Justice to consider an industry concentrated, the industry must have a Herfindahl–Hirschman Index of 
  
   A) less than 1,000.  
   B) between 1,000 and 1,400.  
   C) greater than 1,800.  
   D) less than zero.  
   E) between 1,400 and 1,800.  

Answer: C  
Topic: Merger rules  
Skill: Level 2: Using definitions  
Objective: Checkpoint 17.2  
Author: SB

26) In the case of two recently proposed mergers, PepsiCo buying 7-Up and Coca-Cola buying Dr. Pepper, the Department of Justice blocked 
  
   A) the PepsiCo but not the Coca-Cola merger.  
   B) the Coca-Cola but not the PepsiCo merger.  
   C) both mergers.  
   D) neither merger.  
   E) the Coca-Cola merger and tried to block, but failed, the PepsiCo merger.  

Answer: C  
Topic: Merger rules  
Skill: Level 2: Using definitions  
Objective: Checkpoint 17.2  
Author: SB

27) The first antitrust act was ____ passed in ____.  
   
   A) the Clayton Act; 1890  
   B) the Sherman Act; 1890  
   C) the Clinton Act; 1999  
   D) the Rockefeller Act; 1890  
   E) the Clayton Act; 1914  

Answer: B  
Topic: Sherman Act  
Skill: Level 1: Definition  
Objective: Checkpoint 17.2  
Author: STUDY GUIDE
28) Which antitrust law has two main provisions, one against conspiring with others to restrict
competition and the other making it a felony to monopolize or attempt to monopolize?
A) Sherman Act
B) Clayton Act
C) Robinson-Patman Act
D) Celter-Kefauver Act
E) Bade-Parkin Act

Answer: A

Topic: Sherman Act
Skill: Level 1: Definition
Objective: Checkpoint 17.2
Author: STUDY GUIDE

29) The Clayton Act
A) replaced the Sherman Act.
B) along with its amendments, outlawed several business practices if they substantially
lessened competition or created monopoly.
C) along with its amendments, prohibited all business practices that substantially lessen
competition or create monopoly.
D) was the first anti-trust law in the United States.
E) was repealed in 1985.

Answer: B

Topic: Clayton Act
Skill: Level 1: Definition
Objective: Checkpoint 17.2
Author: STUDY GUIDE
30) Which of the following is (are) prohibited if it substantially lessens competition or creates a monopoly?
   i. price discrimination
   ii. tying arrangements
   iii. exclusive dealing
      A) i only.
      B) ii only.
      C) ii and iii.
      D) iii only.
      E) i, ii, and iii.
Answer: E
Topic: Clayton Act
Skill: Level 1: Definition
Objective: Checkpoint 17.2
Author: STUDY GUIDE

31) If Polka Cola prevents all of its retail outlets from selling any other competing soft drink, it is engaged in
      A) a tying agreement.
      B) a requirement contracts.
      C) an exclusive deal.
      D) territorial confinement.
      E) resale price maintenance.
Answer: C
Topic: Clayton Act
Skill: Level 1: Definition
Objective: Checkpoint 17.2
Author: STUDY GUIDE

32) If Polka Cola agrees to sell its cola to a retailer only if the retailer also buys a lemon-lime drink, Polka Up, then Polka Cola is engaged in
      A) a tying arrangement.
      B) a requirement contracts.
      C) an exclusive deal.
      D) territorial confinement.
      E) price discrimination.
Answer: A
Topic: Clayton Act
Skill: Level 1: Definition
Objective: Checkpoint 17.2
Author: STUDY GUIDE
33) Which of the following is always illegal?
   A) possessing a very large market share
   B) selling at a price below other producers because of efficiency
   C) price fixing
   D) attempting to merge with a competitor
   E) price discrimination

   Answer: C
   Topic: Price fixing
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: STUDY GUIDE

34) Resale price maintenance
   A) can lead to efficiency by preventing low-price sops from being free riders.
   B) can lead to inefficiency by preventing low-price sops from being free riders.
   C) is always legal.
   D) is a clear example of predatory pricing.
   E) is an example of a tying arrangement.

   Answer: A
   Topic: Resale price maintenance
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: STUDY GUIDE

35) Predatory pricing occurs when a firm sets a ____ price to drive competitors out of business with the intention of then setting a ____ price.
   A) monopoly; high
   B) monopoly; low
   C) low; monopoly
   D) low; low
   E) high; monopoly

   Answer: C
   Topic: Predatory pricing
   Skill: Level 1: Definition
   Objective: Checkpoint 17.2
   Author: STUDY GUIDE
36) In the case against Microsoft, it was claimed that combining Internet Explorer and Windows was
   A) predatory pricing.
   B) an illegal tying agreement.
   C) creating one product that is convenient for the consumers.
   D) illegal territorial confinement.
   E) an inefficient resale maintenance agreement.

   Answer: B

   Topic: United States versus Microsoft
   Skill: Level 1: Definition
   Objective: Checkpoint 17.2
   Author: STUDY GUIDE

37) Department of Justice guidelines state that it will examine mergers in markets for which the Herfindahl–Hirschman Index is
   A) a positive number.
   B) below 1,000 points.
   C) between 1,000 and 1,800 and the merger would reduce the index by 100 points.
   D) between 1,000 and 1,800, and the merger would increase the index by 100 points.
   E) more than 1,800.

   Answer: D

   Topic: Merger rules
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: STUDY GUIDE

38) In a concentrated industry with a Herfindahl–Hirschman Index that exceeds 1,800, the Department of Justice will challenge any merger that increases the Herfindahl–Hirschman index by a minimum of
   A) 50 points.
   B) 100 points.
   C) 1,000 points.
   D) 1,800 points.
   E) 10,000 points.

   Answer: A

   Topic: Merger rules
   Skill: Level 2: Using definitions
   Objective: Checkpoint 17.2
   Author: STUDY GUIDE