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

1) Government can help eliminate all the following problems EXCEPT
   A) underprovision of public goods.  B) economic inequality.
   C) scarcity.  D) externalities.

2) An externality can be a
   A) marginal cost but not a total cost.  B) benefit but not a cost.
   C) cost or a benefit.  D) cost but not a benefit.

3) An externality is a cost or a benefit from an economic transaction that falls on
   A) people who did not participate in the transaction.
   B) consumers of the good but not producers.
   C) producers of the good but not consumers.
   D) both consumers and producers of the good.

4) The external cost of a good
   A) is the cost from a transaction imposed on people who did not participate in the transaction.
   B) equals its total cost minus its consumer surplus.
   C) equals its total cost minus its producer surplus.
   D) equals its total cost minus its total surplus.

5) The external benefit of a good
   A) is the gain from a transaction falling on people who did not participate in the transaction.
   B) equals its consumer surplus.
   C) equals its total surplus.
   D) equals its producer surplus.

6) An example of an activity that generates an external cost is
   A) planting flowers along an interstate highway.
   B) dumping soapsuds into a trout stream.
   C) eating an apple.
   D) national defense services.

7) An example of an externality occurs when a chemical factory
   A) produces fertilizers that do not help plants grow.
   B) overworks its employees.
   C) produces fertilizers that kill plants rather than feed them.
   D) dumps waste in a river upstream from a popular fishing spot.

8) When people decorate the exteriors of their homes with colored lights, they create ________ for
   the motorists who pass by.
   A) an external benefit  B) a competitive good
   C) an excludable good  D) a public good
9) Beautification of the national highways through the planting of shrubs and wildflowers will
   A) benefit even people who do not help pay.
   B) provide a flow of services that involve excludable consumption.
   C) be profitable for a private landscaping company because they can charge passing drivers.
   D) provide a flow of services that are rival in consumption.

10) Market failures can result from
    A) external benefits and external costs.
    B) neither external benefits nor external costs.
    C) external costs but not external benefits.
    D) external benefits but not external costs.

11) When a private market uses resources inefficiently, _______ exists.
    A) market failure
    B) resource failure
    C) perfect competition
    D) monopoly always

12) The theory of public choice
    A) explains the allocation of a good among free riders.
    B) is the theory of the consumer marketplace.
    C) is the theory of the political marketplace.
    D) explains the allocation of private goods.

13) The producers in the political marketplace are the
    A) politicians.
    B) voters.
    C) bureaucrats.
    D) None of the above because there are no producers in the political marketplace.

14) A public choice theory of government behavior emphasizes that government acts
    A) primarily to redistribute wealth from the rich to the poor.
    B) in the long-run interest of voters.
    C) as determined by voters, politicians, and bureaucrats interacting in a political marketplace.
    D) to eliminate waste and achieve an efficient allocation of resources.

15) Public choice theory explains that politicians
    A) maximize their campaign contributions.
    B) maximize the size of the deadweight loss.
    C) eliminate waste and allocate resources in the social interest.
    D) are the entrepreneurs in a political marketplace.

16) According to economic models of public choice, the objective of politicians is to
    A) maximize free-ridership.
    B) get elected and remain in office.
    C) promote the social interest.
    D) maximize total public utility.

17) Officials who are appointed to work in agencies are
    A) free-riders.
    B) bureaucrats.
    C) politicians.
    D) delegates.
18) In economic models of public choice, ________ maximize their utility by ________.
A) politicians; accepting campaign contributions
B) bureaucrats; maximizing the budgets of their departments
C) politicians; debating government policies
D) voters; demanding a constant tax rate

19) According to public choice theory, the larger a bureau's budget
A) the greater is the chance that lobbyists will not be successful.
B) the lower is the prestige of the bureau's director.
C) the greater is the prestige of the bureau's director.
D) the lower is the chance of mismanagement and waste.

20) When all choices made by voters, politicians, and bureaucrats are compatible and no group can improve its position by making a different choice, there is a ________.
A) law-making marketplace
B) political equilibrium
C) government equilibrium
D) majority government

21) When the choices of voters, politicians, and bureaucrats are compatible and no one group can improve its position by making a different choice, there is
A) a lobbying marketplace.
B) a political equilibrium.
C) an end to lobbying.
D) a political campaign.

22) In political equilibrium
A) bureaucrats have no influence over policy.
B) no one group can improve its position by making a different choice.
C) politicians do not seek reelection.
D) no lobbying exists.

23) Which of the following is a condition for political equilibrium?
A) Regulations have eliminated deadweight loss.
B) All involved parties are in agreement.
C) Interest groups will not use additional resources to press for additional changes.
D) Both answers B and C are correct.

24) Which of the following is a characteristic of political equilibrium in the market for regulation?
A) Consumers demand more regulation than firms demand.
B) Some lobby groups try to change regulations that are already in place.
C) Everyone in the market will be in agreement.
D) Some lobby groups will increase the resources they devote to maintaining and expanding regulation.

25) When no interest group wishes to spend more on influencing economic regulations and no politician offers different regulation,
A) corruption is eliminated.
B) regulations will be in oversupply.
C) regulations will be at their socially optimal level.
D) equilibrium is achieved in the market for economic regulation.
26) When no interest group wishes to spend more on influencing economic regulation and no politician offers different regulations,
   A) regulations will no longer be supplied.
   B) regulations will no longer be demanded.
   C) the economic regulation makes all groups better off.
   D) everyone is not necessarily in agreement about the economic regulation.

27) Regulation refers to
   A) rules administered by a government agency.
   B) the formation of monopolies.
   C) the discipline of the marketplace.
   D) cartelization of a competitive industry.

28) Antitrust laws attempt to
   A) establish minimum wages.
   B) enforce fair trade laws.
   C) prevent monopolies or collusion.
   D) support prices.

29) In part, an antitrust law
   A) requires firms with profits to pay dividends.
   B) provides for strict product liability.
   C) prohibits monopolistic practices.
   D) prohibits charging prices that customers think are too high.

30) The main purpose of antitrust law is to
   A) prohibit monopoly practices such as restricting output.
   B) regulate the stock and bond markets.
   C) encourage the formation of cartels.
   D) regulate advertising.

31) The main factors influencing the demand for regulation include all of the following EXCEPT
   A) number of buyers in the market.
   B) producer surplus per firm.
   C) number of government officials involved.
   D) number of firms in the industry.

32) For a given consumer surplus per buyer resulting from regulation, the demand for price regulation
   A) increases more than proportionately to the number of buyers.
   B) increases less than proportionately to the number of buyers.
   C) decreases as the number of buyers increases.
   D) increases proportionately to the number of buyers.

33) The demand for regulation by buyers varies directly with the consumer
   A) surplus per buyer created by the regulation and the number of buyers.
   B) spending per buyer and the number of firms.
   C) spending per buyer and the number of buyers.
   D) surplus per buyer created by the regulation and the number of firms.
34) The larger the consumer surplus gained per buyer from a regulation, the
   A) more likely that the regulation will set the price at the competitive price.
   B) greater is the demand for the regulation.
   C) lower the price paid for the regulation.
   D) lower the number of demanders for the regulation.

35) Firms’ demand for a particular regulation is tied directly to the
   A) producer surplus per firm created by the regulation and the number of firms.
   B) total revenue per firm and the number of buyers.
   C) total revenue per firm and the number of firms.
   D) producer surplus per firm created by the regulation and the number of buyers.

36) Who supplies economic regulation?
   A) competitive firms         B) politicians
   C) monopolists               D) labor unions and heavy industry

37) Politicians’ supply of regulation is smaller when the
   A) regulation benefits a small number of people but by a large amount per person.
   B) regulation benefits a large number of people but by a small amount per person.
   C) number of people affected by the regulation is large and each person has a large benefit.
   D) consumer surplus per buyer or producer surplus per firm generated is large.

38) The supply of economic regulation will increase when
   A) there is a decrease in the benefit per buyer created by the regulation.
   B) there is an increase in the benefit per buyer created by the regulation.
   C) there is a small benefit spread over a large number of people.
   D) there is a decrease in the benefit per seller created by the regulation.

39) The social interest theory of regulation predicts that the
   A) producer surplus will be maximized, whereas capture theory predicts that consumer surplus will be maximized.
   B) consumer surplus will be maximized, whereas the capture theory predicts that producer surplus will be maximized.
   C) deadweight loss is eliminated, whereas the capture theory predicts that consumer surplus will be maximized.
   D) deadweight loss is eliminated, whereas the capture theory predicts that producer surplus will be maximized.

40) The goal of regulators is to reduce deadweight loss, according to the
   A) public choice theory of regulation.       B) rationally ignorant median voter theory.
   C) social interest theory of regulation.    D) capture theory of regulation.

41) The social interest theory of regulation assumes that
   A) regulations promote the attainment of monopoly profit.
   B) regulations promote the attainment of efficiency.
   C) public officials seek their own gain through regulation.
   D) regulators will seek to maximize consumer surplus.
42) The social interest theory of regulation assumes that
   A) public officials seek gain through regulation for only their own constituents.
   B) regulations set price equal to average total revenue.
   C) regulations maximize consumer surplus.
   D) public officials seek to minimize deadweight loss.

43) The social interest theory of regulation predicts that the political process will seek to minimize
   A) total surplus.  B) consumer surplus.
   C) deadweight loss.  D) producer surplus.

44) The social interest theory of regulation assumes that
   A) regulations favor voters over producers.
   B) public officials favor consumers over producers.
   C) public officials seek to keep their jobs.
   D) regulations promote the attainment of competitive output.

45) The capture theory of regulation implies that regulations maximize
   A) producer surplus.  B) consumer surplus.
   C) external surplus.  D) total surplus.

46) The capture theory of regulation implies that
   A) the demand for regulation is less elastic than the supply.
   B) regulations promote the attainment of efficiency.
   C) public officials favor voters over producers.
   D) regulations promote the attainment of economic profit.

47) According to the capture theory, as long as regulations do not decrease votes, they will
   A) be imposed only when the benefits are received by disinterested parties.
   B) not be imposed unless external costs are generated.
   C) not be imposed if external costs result.
   D) be imposed if they increase the surplus of small, easily identified groups.

48) According to the capture theory, regulation occurs because a
   A) large group of winners from regulation gains only a small amount per person.
   B) small group of losers from regulation loses a great deal per person.
   C) small group of winners from regulation gains a great deal per person.
   D) deadweight loss escapes market disciplines.

49) In many states, dentists who are licensed in other states cannot practice in the first state without
    passing a rigorous state exam. The regulation benefits dentists who are already practicing in the
    state. This requirement best illustrates
    A) the effect of the Sherman Act.  B) the capture theory of regulation.
    C) the effect of the Clayton Act.  D) the social interest theory of regulation.

50) In some states, barbers and beauticians cannot care for hair without passing an examination
    testing such specialized knowledge as the location of the sphenoid bone and how to do finger
    waves. The regulation benefits barbers and beauticians who are already licensed. This
    requirement best illustrates
    A) the capture theory of regulation.  B) the effect of the Sherman Act.
    C) the social interest theory of regulation.  D) the effect of the Clayton Act.
51) Federal regulation in the United States began in 1887 with the establishment of the

52) The first national economic regulatory agency in the United States was the
   A) Federal Trade Commission (FTC).
   B) Internal Revenue Service (IRS).
   C) Federal Communications Commission (FCC).
   D) Interstate Commerce Commission (ICC).

53) The first national economic regulatory agency in the United States was created in the
   A) 1960s.  B) 1910s.  C) 1930s.  D) 1880s.

54) The 1930s, the years of the Great Depression, saw
   A) the repeal of the Sherman Act.
   B) a sharp reduction in federal regulation.
   C) the extension of the Sherman Act to transportation and communications.
   D) a sharp increase in federal regulation.

55) The tendency to deregulate the U.S. economy began in the late

56) In a regulated industry, individual firms are free to determine
   A) the quantities they sell and the markets they serve.
   B) neither the markets they serve nor the quantities they sell.
   C) the quantities they sell but not the markets they serve.
   D) the markets they serve but not the quantities they sell.

57) The key decision makers in federal regulatory agencies are generally selected by
   A) the President or Congress.  B) business.
   C) consumers and business together.  D) consumers.

58) A natural monopoly
   A) is a firm than can supply the market at lower cost than two or more firms.
   B) has no externalities.
   C) sells to a single buyer.
   D) sets price equal to marginal revenue.

59) Today, you might be buying from a regulated natural monopoly when you purchase
   A) a house, a condominium, or a plot of land.
   B) natural gas or electricity.
   C) a computer, a phone, or a camera.
   D) a car, a truck, or a bicycle.

60) In a regulated natural monopoly, a marginal cost pricing rule maximizes
   A) total surplus.  B) producer surplus.
   C) economic profit.  D) total costs.

61) Regulation of a natural monopoly will maximize the sum of consumer surplus and producer
   surplus if it follows
   A) rate of return regulation.  B) an average cost pricing rule.
   C) a marginal cost pricing rule.  D) All of the above answers are correct.
62) A natural monopoly that is regulated to set its price equal to its marginal cost
   A) makes a normal profit. B) incurs an economic loss.
   C) creates the maximum deadweight loss. D) makes an economic profit.

63) In the social interest theory, a natural monopoly that is regulated to set its price according to
   the marginal cost pricing rule will
   A) maximize its profit.
   B) incur an economic loss.
   C) produce a quantity of output such that marginal cost is above average total cost.
   D) produce a quantity of output such that price is above average total cost.

64) For a regulated natural monopoly, an average cost pricing rule sets price equal to
   A) average variable cost. B) average fixed cost.
   C) average external cost. D) average total cost.

65) If a natural monopoly has an average cost pricing rule imposed, the rule will
   A) set price below marginal cost.
   B) generate an economic loss for the regulated firm.
   C) reduce the consumer surplus and generate a deadweight loss when compared to a
      marginal cost pricing rule.
   D) maximize total surplus in the regulated industry.

66) An average cost pricing rule for a natural monopoly sets the price _______ the marginal cost,
   thereby _______ a deadweight loss.
   A) above; avoiding B) below; avoiding
   C) below; creating D) above; creating

67) An unregulated natural monopoly maximizes its profit by producing the output at which
   A) average revenue equals average cost. B) external revenue equals external cost.
   C) total revenue equals total cost. D) marginal revenue equals marginal cost.
68) We know that the firm shown in the figure above is a natural monopoly because as output increases, the
A) demand curve slopes downward.
B) marginal revenue curve lies below its demand curve.
C) marginal cost is constant.
D) average total cost decreases so that the firm can supply the market at lower cost than two firms.

69) If the natural monopoly shown in the figure above is unregulated, then it will charge a price of

70) If the natural monopoly shown in the figure above is unregulated it will sell
A) 4 million units. B) 3 million units. C) 5 million units. D) 2 million units.

71) If the natural monopoly shown in the figure above is unregulated it will earn an economic profit of
A) $4 million. B) $2 million. C) $9 million. D) $0, that is, it earns a normal profit.

72) If the natural monopoly shown in the figure above is unregulated, then consumer surplus will be
A) $8 million. B) $16 million. C) $0. D) $4 million.

73) If the natural monopoly shown in the figure above is unregulated, then the deadweight loss will be
A) $4 million. B) $8 million. C) $0. D) $2 million.

74) If marginal cost pricing is imposed on the natural monopoly in the figure above, then the price will be
75) If marginal cost pricing is imposed on the natural monopoly shown in the figure above, then it will produce
A) 2 million units.  
B) 5 million units.  
C) 3 million units.  
D) 4 million units.

76) If marginal cost pricing is imposed on the natural monopoly in the figure above, then the firm will
A) incur an economic loss.  
B) earn an economic profit of $4 million.  
C) earn an economic profit of $16 million.  
D) earn a normal profit, that is, an economic profit of $0.

77) If marginal cost pricing is imposed on the natural monopoly in the figure above, then the consumer surplus will be
A) $32 million.  
B) $16 million.  
C) $0.  
D) $8 million.

78) If marginal cost pricing is imposed on the natural monopoly in the figure above, then total surplus will be
A) $4 million.  
B) $0.  
C) $16 million.  
D) $8 million.

79) If marginal cost pricing is imposed on the natural monopoly shown in the figure above, then the deadweight loss will equal
A) $12 million.  
B) $0.  
C) $8 million.  
D) $4 million.

80) An efficient allocation of resources is reached in the figure above when output equals
A) 1 million.  
B) 3 million.  
C) 4 million.  
D) 2 million.

81) If average cost pricing is imposed on the natural monopoly shown in the figure above, then the price will be
A) $2.  
B) $4.  
C) $6.  
D) $5.

82) If average cost pricing is imposed on the natural monopoly shown in the figure above, then it will produce
A) 5 million units.  
B) 4 million units.  
C) 2 million units.  
D) 3 million units.

83) If average cost pricing is imposed on the natural monopoly shown in the figure above, then consumer surplus will be
A) $8 million.  
B) $0.  
C) $9 million.  
D) $16 million.

84) If average cost pricing is imposed on the natural monopoly in the figure above, then the firm will
A) earn a normal profit, that is, an economic profit of $0.  
B) incur an economic loss.  
C) earn an economic profit of $9 million.  
D) earn an economic profit of $4 million.

85) If average cost pricing is imposed on the natural monopoly shown in the figure above, then the firm's economic profit will be
A) $9 million.  
B) negative, that is, the firm incurs an economic loss.  
C) $12 million.  
D) $0, that is, the firm earns only a normal profit.
86) If average cost pricing is imposed on the natural monopoly in the figure above, then the deadweight loss will be
   A) $1 million.  B) $0.  C) $9 million.  D) $16 million.

87) If the natural monopoly shown in the figure above completely captures the regulator, then the price will be

88) If the natural monopoly shown in the figure above completely captures the regulator, then it will sell
   A) 3 million units.  B) 4 million units.  C) 5 million units.  D) 2 million units.

89) If the natural monopoly shown in the figure above completely captures the regulator, then it can earn an economic profit of
   A) $2 million.  B) a negative amount, that is, the firm incurs an economic loss.  C) $0, that is, it earns a normal profit.  D) $4 million.

90) If the natural monopoly shown in the figure above completely captures the regulator, then consumer surplus will be
   A) $4 million.  B) $0.  C) $2 million.  D) $16 million.

91) If the natural monopoly shown in the figure above completely captures the regulator then the deadweight loss will be
   A) $0.  B) $4 million.  C) $2 million.  D) $8 million.

92) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. If Light-U-Up is unregulated, it will produce ______ and sell at a price of ______.
   A) 200 kwh; 10¢ per kwh  B) 300 kwh; 20¢ per kwh
   C) 400 kwh; 10¢ per kwh  D) 200 kwh; 30¢ per kwh
93) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. At the unregulated price and quantity, Light-U-Up's profit is equal to
   A) $10,000.  B) -$10,000.  C) $60,000.  D) $40,000.

94) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. What is the area of deadweight loss when Light-U-Up produces the unregulated, profit-maximizing level of output?
   A) abd  B) deg  C) acg  D) There is no deadweight loss.

95) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. If Light-U-Up is regulated and must follow a marginal cost pricing rule, it will produce ________ and sell at a price of ________.
   A) 400 kwh; 10¢ per kwh  B) 300 kwh; 20¢ per kwh  
   C) 300 kwh; 10¢ per kwh  D) 200 kwh; 10¢ per kwh

96) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. If Light-U-Up is regulated, what is its economic profit if it must follow a marginal cost pricing rule?
   A) $30,000  B) -$40,000  C) $0  D) -$20,000

97) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. What is the area of deadweight loss when Light-U-Up is regulated and follows a marginal cost pricing rule?
   A) acg  B) deg  C) abd  D) There is no deadweight loss.

98) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. If Light-U-Up is regulated and must follow an average cost pricing rule, it will produce ________ and sell at a price of ________.
   A) 300 kwh; 20¢ per kwh  B) 400 kwh; 15¢ per kwh
   C) 200 kwh; 30¢ per kwh  D) 200 kwh; 25¢ per kwh

99) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. If Light-U-Up is regulated, what is its economic profit if it must follow an average cost pricing rule?
   A) $30,000  B) $0  C) -$60,000  D) -$20,000

100) The figure above provides information about Light-U-Up Utilities, which is a natural monopoly that provides electricity. What is the area of deadweight loss when Light-U-Up is regulated and follows an average cost pricing rule?
    A) degf  B) deg  C) acg  D) There is no deadweight loss.
101) In the above figure, if the natural monopoly is not regulated it will produce
   A) 8 million units at a price of $24 per unit.   B) 8 million units at a price of $12 per unit.
   C) 12 million units at a price of $18 per unit.   D) 8 million units at a price of $21 per unit.

102) In the above figure, if the natural monopoly is not regulated then consumer surplus is

103) In the above figure, if this natural monopoly is not regulated the deadweight loss to society is

104) In the above figure, if regulators intervene in this natural monopoly market and a marginal cost pricing rule is followed, then the firm will
   A) produce 8 million units and earn an economic profit of $24 million.
   B) produce 16 million units and breakeven with a normal profit.
   C) produce 16 million units and incur an economic loss of $64 million.
   D) produce 12 million units and breakeven with a normal profit.

105) In the above figure, if the natural monopoly is regulated with a marginal cost pricing rule, then the deadweight loss to society is

106) In the above figure, if the natural monopoly is regulated and a marginal cost pricing rule is followed, then the consumer surplus will be

107) In the above figure, if the natural monopoly is regulated with an average cost pricing rule and the firm does not inflate its costs, then the firm will produce
   A) 12 million units, charge $18 per unit and breakeven with a normal profit.
   B) 8 million units, charge $21 per unit and breakeven.
   C) nothing unless the government provides subsidies to cover its losses.
   D) 16 million units, charge $16 per unit and breakeven with a normal profit.
108) In the above figure, if the natural monopoly is regulated with an average cost pricing rule and the firm does not inflate its costs, the deadweight loss to society is ________.

109) In the above figure, if the natural monopoly is regulated with an average cost pricing rule and the firm does not inflate its costs, then consumer surplus will be ________.

110) In the above figure, if the natural monopoly is regulated following an average cost pricing rule, but the firm can pad its costs and make the regulator believe its costs are ATC (inflated), then the price the firm charges will increase from ________.
A) $18 to $24. B) $18 to $36. C) $12 to $24. D) $12 to $18.

111) When a regulated firm must justify its price by showing that the price enables it to earn a specified target percent return on its capital, the regulation is called ________.

112) Rate of return regulation sets the price at a level that enables the regulated firm to earn a specified target percent return on its ________.
A) total cost. B) capital. C) variable cost. D) sales revenue.

113) Under rate of return regulation, a regulated firm has an incentive to ________.
A) hide losses from bad debts. B) inflate its average total cost. C) use an efficient amount of capital. D) set its price equal to its marginal cost.

114) Rate of return regulation is typically imposed on ________.
A) an oligopoly. B) perfectly competitive firms. C) monopolistically competitive firms. D) a natural monopoly.

115) Rate of return regulation is equivalent to ________.
A) maximizing consumer surplus. B) average cost pricing. C) maximizing producer surplus. D) marginal cost pricing.

116) A rule that specifies the highest price that a regulated firm is permitted to set is called ________.
A) rate of return regulation. B) price cap regulation. C) average/marginal cost pricing. D) maximum price regulation.

117) Price cap regulation is a ________.

118) Under a price cap regulation, the regulated industry has an incentive to ________.
A) inflate costs. B) decrease its output. C) operate efficiently and not inflate its costs. D) None of the above answers is correct.

119) imposing price cap regulation on an unregulated natural monopoly will result in a ________ in the price and ________ in the quantity.
A) fall; an increase B) rise; an increase C) rise; a decrease D) fall; a decrease
120) If the rates of return on regulated monopoly industries are higher than in the rest of the economy, then it is likely that
   A) the social interest theory explains regulation.
   B) the capture theory explains regulation.
   C) the monopolies have rising average costs.
   D) the monopolies have decreasing returns to scale.

121) Deregulation of the railroads in the 1980s
   A) decreased both consumer and producer surplus.
   B) increased consumer surplus and decreased producer surplus.
   C) increased both consumer and producer surplus.
   D) decreased consumer surplus and increased producer surplus.

122) Regulatory agencies in the 1980s erected strong barriers to entry in the cable TV industry. This fact is predicted by the
   A) communications theory of regulation.
   B) capture theory of regulation.
   C) natural oligopoly theory of regulation.
   D) social interest theory of regulation.

123) A cartel is an arrangement
   A) to steal industrial processes from rival firms.
   B) among firms to decrease output and raise price.
   C) by the government to restrict imports.
   D) to flood the market and eliminate competition.

124) A cartel is
   A) a social interest regulatory agency.
   B) a communication industry regulatory agency.
   C) a group of firms that try to decrease their output and raise their prices.
   D) a natural monopoly.

125) Cartels of firms are designed to
   A) increase consumer surplus and decrease economic profit.
   B) decrease both consumer and economic profit.
   C) decrease consumer surplus and increase economic profit.
   D) increase both consumer and economic profit.

126) Cheating on a cartel _______ consumer surplus and _______ the total economic profit earned by all the firms in the cartel.
   A) decreases; increases
   B) increases; decreases
   C) increases; increases
   D) decreases; decreases

127) The Sherman Act,
   A) which deregulated banking, was enacted in 1890.
   B) the first antitrust law, was enacted in 1890.
   C) the first antitrust law, was enacted in 1980.
   D) which deregulated banking, was enacted in 1980.

128) The beginning of antitrust law is found in the
   A) 1890 Sherman Act.
   B) 1950 Cellar–Kefauver Act.
   C) 1914 Clayton Act.
129) The second federal antitrust law was passed in 1914. This antitrust law is the

130) The Federal Trade Commission is an agency charged with
   A) regulating interstate commerce.  B) regulating international commerce.
   C) enforcing product safety laws.  D) enforcing antitrust laws.

131) Under current guidelines the Federal Trade Commission will likely challenge
   A) all mergers if the Herfindahl-Hirschman index (HHI) is 1800 or above.
   B) a merger if the HHI is 1800 or above and the merger increases the HHI by 100 points or more.
   C) a merger if the HHI is 1800 or above and the merger increases the HHI by 50 points or more.
   D) a merger if the HHI is 1800 or above and the merger increases the HHI by 200 points or more.

132) Under current guidelines the Federal Trade Commission will likely challenge
   A) all mergers if the Herfindahl-Hirschman index (HHI) is greater than 1000.
   B) a merger if the HHI is between 1000 and 1800 and the merger increases the HHI by 50 points or more.
   C) a merger if the HHI is between 1000 and 1800 and the merger increases the HHI by 200 points or more.
   D) a merger if the HHI is between 1000 and 1800 and the merger increases the HHI by 100 points or more.

133) Under Federal Trade Commission merger guidelines, an industry with a Herfindahl-Hirschman index (HHI) of 100 points is considered
   A) a monopoly.  B) concentrated.
   C) moderately concentrated.  D) competitive.

134) In 1986, PepsiCo announced its intention to buy 7-Up for $380 million and Coca-Cola said it would buy Dr. Pepper for $470 million. Because the Herfindahl-Hirschman index for carbonated soft drinks is ________, the Federal Trade Commission ________ the mergers.
   A) low; allowed  B) low; blocked  C) high; blocked  D) high; allowed

135) An industry is made up of 8 firms with the following percent market shares: 29, 20, 11, 10, 9, 8, 7, 6. What is the Herfindahl-Hirschman index in this industry?
   A) 70  B) 1462  C) 100  D) 1692

136) An industry is made up of 8 firms with the following percent market shares: 29, 20, 11, 10, 9, 8, 7, 6. The firms with 8 and 7 percent market share are proposing to merge. What is the new Herfindahl-Hirschman index if the merger takes place?
   A) 1804  B) 225  C) 1462  D) 1692
137) Suppose that two clothing manufacturers, Frederick’s Fashions and Stephan’s Styles, announce that they plan to merge. The Herfindahl–Hirschman index is currently 1,500. After the merger, the HHI will rise to 1,560. This market is
   A) competitive and so the government will not challenge the merger.
   B) moderately concentrated and because the merger increases the HHI by more than 50 points, the government will definitely challenge the merger.
   C) highly concentrated and so the government will definitely challenge the merger.
   D) moderately concentrated, but because the merger increases the HHI by less than 100 points, the government will probably not challenge the merger.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Market share (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kodiak Film</td>
<td>15</td>
</tr>
<tr>
<td>Kia Film</td>
<td>13</td>
</tr>
<tr>
<td>Cavalier Film</td>
<td>13</td>
</tr>
<tr>
<td>Koss Film</td>
<td>12</td>
</tr>
<tr>
<td>Solow Film</td>
<td>11</td>
</tr>
<tr>
<td>Phil’s Film</td>
<td>10</td>
</tr>
<tr>
<td>Rolo Film</td>
<td>9</td>
</tr>
<tr>
<td>Canister Film</td>
<td>8</td>
</tr>
<tr>
<td>Color Bright Film</td>
<td>6</td>
</tr>
<tr>
<td>Magenta Film</td>
<td>3</td>
</tr>
</tbody>
</table>

138) Suppose that there are 9 firms in the photographic film industry with corresponding market shares as given in the table above. Under present merger guidelines with respect to industry HHI and the change in HHI resulting from a merger, which of the following proposed mergers would NOT be challenged by the Federal Trade Commission?
   A) a merger between Koss Film and Color Bright Film
   B) a merger between Phil’s Film and Magenta Film
   C) a merger between Kia Film and Solow film
   D) a merger between Rolo Film and Canister Film

139) Suppose that there are 9 firms in the photographic film industry with corresponding market shares as given in the table above. Under present merger guidelines with respect to industry HHI and the change in HHI resulting from a merger, which of the following proposed mergers would be challenged by the Federal Trade Commission?
   A) a merger between Color Bright Film and Magenta Film
   B) a merger between Canister Film and Color Bright Film
   C) a merger between Canister Film and Magenta Film
   D) a merger between Rolo Film and Canister Film
### Market share in the Widget Industry

<table>
<thead>
<tr>
<th>Firm name</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big W</td>
<td>50</td>
</tr>
<tr>
<td>Widico</td>
<td>40</td>
</tr>
<tr>
<td>Widgotech</td>
<td>9</td>
</tr>
<tr>
<td>Widgette</td>
<td>1</td>
</tr>
</tbody>
</table>

140) In the table above, the Herfindahl-Hirschman Index in the widget industry is
A) 100 points.  B) 4182 points.  C) 2842 points.  D) 742 points.

141) Using the market shares in the table above, if Widgotech buys Widgette the HHI will
A) rise by 10 points.  B) stay the same.  C) rise by 1 point.  D) rise by 18 points.

142) Using the market shares in the table above, if Big W wants to buy Widgette, the Federal Trade Commission will probably
A) block the merger because the industry is moderately concentrated (HHI between 1,000 and 1,800) and the increase in the HHI is too much.
B) approve the merger because the industry is concentrated (HHI exceeds 1,800) but the increase in the HHI is small enough.
C) approve the merger because the industry is moderately concentrated and the increase in the Herfindahl-Hirschman index (HHI) is small enough.
D) block the merger because the industry is concentrated (HHI exceeds 1,800) and the increase in the HHI is too much.

143) Although the effects of antitrust law have varied over the years, the overall thrust appears to have been to
A) reduce deadweight loss, as suggested by the capture theory.
B) increase producer surplus, as suggested by the social interest theory.
C) increase producer surplus, as suggested by the capture theory.
D) reduce deadweight loss, as suggested by the social interest theory.

144) The overall thrust of antitrust law appears to have been directed toward achieving
A) efficiency.  B) maximum external surplus.  C) maximum consumer surplus.  D) maximum producer surplus.

145) The demand for economic regulation comes from
A) no one.  B) politicians.  C) consumers and producers.  D) bureaucrats.

146) Efficiency is achieved when
A) deadweight loss is minimized.  B) producer surplus is minimized.  C) deadweight loss is maximized.  D) consumer surplus is maximized.

147) The social interest theory of regulation predicts that the political process seeks to maximize
A) consumer surplus.  B) total surplus.  C) deadweight loss.  D) producer surplus.
148) The history of regulation in the U.S. economy shows that from 1880 the extent of regulation generally
   A) increased until the late 1970s and since then deregulation has occurred.
   B) decreased until the late 1970s and since then has increased.
   C) increased and then decreased in a cycle repeating itself every two decades or so.
   D) increased steadily.

149) If a natural monopoly is allowed to set its price above its average total cost, then
   A) the company will produce more than the efficient amount of output.
   B) the company incurs an economic loss.
   C) competitors will enter the market.
   D) the company earns an economic profit.

150) With no cost inflation, the output produced by a natural monopoly will be the smallest
   A) when the monopoly is regulated according to a marginal cost pricing rule.
   B) when the monopoly is regulated to maximize total surplus.
   C) when the monopoly is left unregulated.
   D) when the monopoly is regulated according to an average cost pricing rule.

151) A natural monopoly under rate of return regulation has an incentive to
   A) produce more than the efficient quantity of output.
   B) maximize consumer surplus.
   C) pad its costs.
   D) charge a price equal to marginal cost.

152) The Sherman Act
   A) was the first federal tariff.
   B) prohibited attempts to monopolize.
   C) abolished tariffs.
   D) outlawed natural monopolies.

153) The Hirschman-Herfindahl index (HHI) in an industry is 50. A merger is proposed that will raise the HHI to 100. In this case, the
   A) Sherman Act will prohibit the merger.
   B) Federal Trade Commission will challenge the merger.
   C) rule of reason will prevent the merger if it represents a horizontal merger.
   D) Federal Trade Commission will not challenge the merger.

154) To regulate monopoly and oligopoly, the government implements _______.
   A) monopoly and oligopoly legislation
   B) regulation and antitrust law
   C) antitrust law and monopoly law
   D) legislation and regulation

155) A price cap regulation _______.
   A) is a price ceiling
   B) is illegal
   C) encourages a firm to operate inefficiently
   D) is a price floor

156) A law that prohibits certain kinds of market behavior such as monopoly and monopolistic practices is _______.
   A) a consumer surplus law
   B) an anti-monopoly law
   C) a trust law
   D) an antitrust law
157) The factors that affect the demand for regulation include all of the following EXCEPT _______.
A) the type of good or service  B) consumer surplus per buyer
C) the number of buyers and firms  D) producer surplus per firm

158) According to social interest theory, _______.
A) unregulated firms try to avoid creating deadweight loss
B) regulation helps markets achieve efficiency
C) price regulations are unconstitutional
D) monopoly practices last forever

159) The capture theory holds that regulations are supplied to maximize _______.
A) consumer surplus  B) economic profit
C) total sales  D) marginal product

160) When one firm can supply the market at a lower price than two or more firms can, there is a _______.
A) cost monopoly  B) natural monopoly
C) copyright  D) legal monopoly

161) When an average total cost pricing rule is enforced, average cost equals _______.
A) marginal revenue  B) price
C) average total cost  D) total revenue

162) A marginal cost pricing rule sets _______.
A) price equal to marginal cost and greater than average total cost
B) marginal revenue equal to average total cost
C) marginal revenue equal to marginal cost
D) price equal to marginal cost

163) A rate of return regulation enables a regulated firm to _______.
A) pay a specified target percent return to its investors
B) earn a specified target percent return on its capital
C) pay a specified target percent return to its employees
D) earn a specified target percent return on its investments

164) The first antitrust law passed was the _______.
A) Robinson-Patman Amendment  B) Sherman Act
C) Federal Trade Commission Act  D) Clayton Act

165) The _______ the number of people who share a given consumer or producer surplus created by the regulation, the _______ is the demand for regulation, and the _______ the surplus per person generated, the _______ is the supply of regulation.
A) smaller; larger; larger  B) larger; larger; smaller; smaller
C) larger; smaller; larger  D) smaller; smaller; smaller; smaller

166) Each year, a group spends $10 million lobbying for a change in existing regulations, but no politician plans to support alternative regulations. There _______.
A) will be a political equilibrium when the politicians change the regulations
B) will never be an equilibrium
C) is a political equilibrium
D) will be a political equilibrium when the lobby group stops spending
167) According to social interest theory, when a monopoly exists politicians will introduce regulations that will ________.
   A) increase output and decrease prices to their competitive levels
   B) decrease prices and decrease the level of output
   C) increase prices and increase the level of output
   D) decrease prices and keep the level of output constant

168) The political equilibrium always achieves ________.
   A) efficiency
   B) the maximization of producer surplus
   C) either efficiency or the maximization of producer surplus
   D) either efficiency or the maximization of deadweight loss

169) When an average cost pricing rule is imposed on a natural monopoly, ________.
   A) total surplus is maximized and the monopoly makes an economic profit
   B) the monopoly makes an economic profit
   C) total surplus is maximized and the monopoly incurs an economic loss
   D) the monopoly makes a normal profit

170) If the capture theory holds, then a natural monopoly will produce the quantity at which ________.
   A) marginal revenue equals price
   B) average total cost equals price
   C) marginal cost equals price
   D) marginal revenue equals marginal cost

171) ________ would exist if oil producers decided to restrict output to make a larger profit.
   A) An oligopoly
   B) A monopoly
   C) A cartel
   D) Monopolistic competition

172) If prices and profit fall following the deregulation of an oligopoly, then the regulation ________.
   A) increased competition
   B) must have been serving the interest of the consumer
   C) must have been serving the interest of the producer
   D) should be reinstated

173) ________ is an alternative to regulation as a means of regulating markets.
   A) The threat of incarceration
   B) The imposition of prices
   C) Negative publicity
   D) Antitrust law
174) The figure above shows the marginal revenue, marginal cost, and demand curves for an airline offering daily flights between Los Angeles and Toronto. If the airline is regulated, social interest theory implies that ______ flights will be offered each month at a price of ______ per flight.
A) 200; $300  
B) 300; $200  
C) 400; $100  
D) 200; $100

175) The figure above shows the marginal revenue, marginal cost, and demand curves for an airline offering daily flights between Los Angeles and Toronto. If the airline is regulated, social interest theory implies that total surplus will be ______.
A) $60,000  
B) $80,000  
C) $100,000  
D) $20,000

176) The figure above shows the marginal revenue, marginal cost, and demand curves for an airline offering daily flights between Los Angeles and Toronto. If the airline is regulated, capture theory implies that ______ flights will be offered each month at a price of ______ per flight.
A) 200; $100  
B) 300; $200  
C) 400; $100  
D) 200; $300
177) Natural gas is a natural monopoly. The figure above shows the market for natural gas in the city of Lucknow. When a marginal cost pricing rule regulation is imposed, the price per household per month is ________.
A) $20 and 30,000 households are served  
B) $10 and 20,000 households are served  
C) $30 and 20,000 households are served  
D) $10 and 40,000 households are served

178) Natural gas is a natural monopoly. The figure shows the market for natural gas in the city of Lucknow. When an average cost price rule regulation is imposed, the price per household per month is ________.
A) $10 and 40,000 households are served  
B) $25 and 20,000 households are served  
C) $20 and 30,000 households are served  
D) $30 and 20,000 households are served

179) Compared to the profit-maximizing outcome of a natural monopoly, a price cap regulation ________ price and ________ output.
A) lowers; increases  
B) raises; increases  
C) lowers; decreases  
D) raises; decreases

180) If a firm faces a rate of return regulation, and if the regulator can observe the firm’s total cost and knows that the firm has minimized total cost, the firm will produce output at the point where ________.
A) the average total cost and marginal cost curves intersect  
B) the marginal cost and demand curves intersect  
C) the average total cost and demand curves intersect  
D) the marginal revenue and marginal cost curves intersect

181) Under rate of return regulation, a monopoly ________.
A) has an incentive to inflate costs  
B) makes an economic profit  
C) sets price equal to marginal cost  
D) has an incentive to deflate costs and capture more of the market
182) Cartels are designed to ________.
   A) reduce consumer surplus and increase producer surplus
   B) eliminate deadweight loss
   C) lower the price
   D) increase output

183) In the market for bottled water, Fresh Springs has a 30 percent share of the market, Swiss Springs has a 27 percent share, L'eau de France has a 13 percent share, and Mountain Water has a 10 percent share. The rest of the market consists of 20 firms with a 1 percent share of the market each. What is the value of the Herfindahl–Hirschman index?
   A) 1,918   B) 80   C) 2,818   D) 2,418

184) Mountain Water is an unregulated natural monopoly that bottles fresh spring water. The figure above shows the demand for Mountain Water. Marginal cost is $0.20 per bottle. What is the price of a bottle of Mountain Water?
   A) $0.80   B) $0.60   C) $0.20   D) $1.00

185) Mountain Water is an unregulated natural monopoly that bottles fresh spring water. The figure above shows the demand for Mountain Water. Marginal cost is $0.20 per bottle. Mountain Water maximizes ________.
   A) consumer surplus   B) total surplus
   C) output   D) economic profit

186) The figure above shows the demand curve for Mountain Water, a natural monopoly. The government decides to regulate Mountain Water by imposing a marginal cost pricing rule. Marginal cost is $0.20 per bottle. The price of a bottle of Mountain Water is ________ and it sells ________ thousand bottles a month.
   A) $0.20; 5,000   B) $0.20; 4,000   C) $0.20; 3,000   D) $0.60; 2,000
187) The figure above shows the demand curve for Mountain Water, a natural monopoly. The government decides to regulate Mountain Water by imposing a marginal cost pricing rule. Marginal cost is $0.20 per bottle. Each month, consumer surplus is ________ and producer surplus is ________.
   A) zero; zero  B) $800; $800  C) $1,600; zero  D) zero; $1,600

188) The figure above shows the demand curve for Mountain Water, a natural monopoly. The government decides to regulate Mountain Water by imposing an average cost pricing rule. Marginal cost is $0.20 per bottle and the total fixed cost per month is $600. The price of a bottle of Mountain Water is ________ and it sells ________ thousand bottles a month.
   A) $0.40; 3,000  B) $0.40; 4,000  C) $0.80; 1,000  D) $0.60; 2,000

189) The figure above shows the demand curve for Mountain Water, a natural monopoly. The government decides to regulate Mountain Water by imposing an average cost pricing rule. Marginal cost is $0.20 per bottle and the total fixed cost per month is $600. The economic profit is ________ a month.
   A) zero  B) $1,200  C) $1,600  D) $800

190) The figure above shows the demand curve for Mountain Water, a natural monopoly. The value of capital that the owners have invested in the business is $10,000. The government introduces a rate of return regulation requiring the company to sell its water at a price that gives a rate of return of 6 percent on the capital. Marginal cost is $0.20 per bottle and, aside from the profit, there is no other fixed cost. The price of a bottle of Mountain Water is ________.
   A) $0.80  B) $0.40  C) $0.20  D) $0.60

191) The figure above shows the demand curve for Mountain Water, a natural monopoly. The value of capital that the owners have invested in the business is $10,000. The government introduces a rate of return regulation requiring the company to sell its water at a price that gives a rate of return of 6 percent on the capital. Marginal cost is $0.20 per bottle and, aside from the profit, there is no other fixed cost. The deadweight loss created is ________.
   A) zero  B) $1,600  C) $100  D) $800

192) The figure shows the demand curve for Mountain Water, a natural monopoly. The value of capital that the owners have invested in the business is $10,000. The government introduces a rate of return regulation requiring the company to sell its water at a price that gives a rate of return of 6 percent on the capital. Marginal cost is $0.20 per bottle and, aside from the profit, there is no other fixed cost. The owners decide to pad their costs in order to set the same price as they would if they were an unregulated monopoly. The owners will inflate their costs by ________ a month.
   A) $200  B) $1,000  C) $400  D) zero

193) The average cost pricing rule ________.
   A) is totally in the private interest  B) maximizes surpluses
   C) is totally in the social interest  D) is neither totally in the social interest nor in the private interest
1) C
2) C
3) A
4) A
5) A
6) B
7) D
8) A
9) A
10) A
11) A
12) C
13) C
14) C
15) D
16) B
17) B
18) B
19) C
20) B
21) B
22) B
23) C
24) B
25) D
26) D
27) A
28) C
29) C
30) A
31) C
32) B
33) A
34) B
35) A
36) B
37) B
38) B
39) D
40) C
41) B
42) D
43) C
44) D
45) A
46) D
47) D
48) C
Answer Key
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49) B
50) A
51) D
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53) D
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55) D
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58) A
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87) B
88) D
89) A
90) A
91) B
92) D
93) A
94) C
95) A
96) D
Answer Key
Testname: UNTITLED1

97) D
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137) D
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144) A
Answer Key
Testname: UNTITLED1

145) C
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