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

1) A monopoly is best defined as a firm that
A) cannot control the price it sets for its good or service because there is barrier that prevents the firm from changing the price.
B) purchases its resources from only one supplier because of a barrier preventing it from buying from other suppliers.
C) produces a good or service for which no close substitute exists and that sells all its output to one buyer because there is barrier preventing other buyers from purchasing the good or service.
D) produces a good or service for which no close substitute exists and which is protected by a barrier that prevents other firms from selling that good or service.

2) If the government grants a firm a public franchise to supply coal, a monopoly is created by
A) a legal barrier to entry.
B) a natural barrier to entry.
C) price discrimination.
D) All of the above answers are correct.

3) Natural monopolies occur when there are strong
A) natural resources involved.
B) diseconomies of scale.
C) economies of scale.
D) external economies.

4) For a single-price monopolist, price is ______ marginal revenue.
A) greater than
B) less than
C) equal to
D) less than or equal to but never more than

<table>
<thead>
<tr>
<th>Quantity (units)</th>
<th>Price (dollars per unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>6</td>
<td>12</td>
</tr>
</tbody>
</table>

5) The table above gives the demand for a monopolist’s output. What is the marginal revenue of increasing production from 4 to 5 units?
A) $70
B) $14
C) $6
D) $16
6) If a decrease in price decreases total revenue, then
   A) demand is inelastic.  
   B) demand is unit elastic.  
   C) the law of demand is violated.  
   D) demand is elastic.  

7) If a monopolist is maximizing profits, then it must be producing an amount of output so that
   A) \( MR = ATC \).  
   B) \( MR = MC \).  
   C) \( MC = AVC \).  
   D) \( MR = TC \).  

8) Which of the following is ALWAYS true for a single-price monopolist in equilibrium?
   A) \( MR = MC \)  
   B) \( P > MR \)  
   C) \( P > MC \)  
   D) All of the above are always true.  

9) The figure above shows the demand and cost curves for a single-price monopolist. The firm will produce _______ units and set a price of _______ per unit.
   A) 10; $20  
   B) 15; $20  
   C) 10; $30  
   D) None of the above answers is correct.
<table>
<thead>
<tr>
<th>Rooms rented monthly</th>
<th>Price (dollars per room)</th>
<th>Total cost (dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>201</td>
<td>100</td>
</tr>
<tr>
<td>1</td>
<td>191</td>
<td>200</td>
</tr>
<tr>
<td>2</td>
<td>181</td>
<td>290</td>
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<tr>
<td>3</td>
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<tr>
<td>4</td>
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<td>1090</td>
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<tr>
<td>11</td>
<td>91</td>
<td>1290</td>
</tr>
</tbody>
</table>

10) The motel whose costs are given in the table above has total fixed costs equal to
   A) $201.       B) $100.       C) $0.       D) $200.

11) The table above shows the demand and total cost schedule for a monopolist hotel. What is the marginal revenue from renting out the fifth room each night?
   A) $151       B) $141       C) $111       D) $161

12) The table above shows the demand and total cost schedule for a monopolist hotel. What price should the monopolist charge if it is a single-price monopoly?
   A) $161       B) $141       C) $151       D) $171

13) The table above shows the demand and costs for a single-price monopolist. The firm will
   A) maximize profits by producing 3 units.
   B) maximize profits by producing 2 units.
   C) operate on the unit elastic portion of its demand curve.
   D) operate on the inelastic portion of its demand curve.
14) The table above shows the demand and costs for a single-price monopolist. The firm will earn an economic profit of

15) A monopolist can earn an economic profit in the long run because of
   A) the relatively elastic demand for its product.
   B) barriers to entry.
   C) the relatively inelastic demand for its product.
   D) the firm’s price setting behavior.

16) Relative to a perfectly competitive industry with the same cost and demand, a single-price monopolist produces
   A) more output and has a higher price.
   B) less output and has a higher price.
   C) more output and has a lower price.
   D) less output and has a lower price.

17) Compared to a perfectly competitive industry, a single-price monopoly with the same costs will
   A) create a deadweight loss.
   B) create less economic profit.
   C) create less consumer surplus.
   D) Both answers A and C are correct.

18) One difference between equilibrium in perfectly competitive markets and single-price monopoly markets is that
   A) marginal cost equals average variable cost for perfectly competitive firms but not for monopolists.
   B) marginal revenue equals marginal cost for perfectly competitive firms, but not for monopolists.
   C) marginal revenue equals price for perfectly competitive firms, but not for single-price monopolists.
   D) All the above answers are correct.

19) Economists are critical of monopoly because
   A) monopolists can create a deadweight loss.
   B) the demand for the monopolist’s product is the market demand curve.
   C) monopolists can earn long-run economic profit.
   D) economies of scope result in lower average costs.
20) For the monopoly shown in the figure above, the economic profit is
A) $100. B) $40. C) $0. D) $10.

21) Rent seeking behavior by a monopolist means
A) pursuing an economic profit by creating a monopoly.
B) pursuing an economic profit by price discriminating.
C) searching for reduced rent on plant space.
D) making loans to other businesses.

22) Price discrimination is the practice of charging different prices to
A) different customers because the costs of selling are different.
B) the same customers because of changes in cost.
C) different customers even though cost of selling to each is the same.
D) different countries because of tariffs and transportation costs.

23) What condition must exist for a monopolist to effectively price discriminate?
A) The monopolist must produce a good that cannot be resold.
B) The monopolist must face consumers with identical willingness to pay.
C) The monopolist must charge the highest price possible.
D) The monopolist must produce a good or service that can be resold.
24) A perfect price discriminator
   A) is unable to earn economic profit.
   B) disregards the market demand curve.
   C) is able to get consumers to pay more for each unit than they are willing to pay.
   D) charges the maximum price for each unit that consumers are willing to pay.

25) As a result of using the marginal cost pricing rule to regulate a natural monopoly, the
   A) natural monopoly earns a normal profit.
   B) monopolist produces an inefficient amount of product.
   C) natural monopoly will incur an economic loss.
   D) monopolist is allowed to cover all its costs and earn a normal profit.
Answer Key

Testname: MICRO QUIZ 6

1) D
   Topic: How Monopoly Arises

2) A
   Topic: Barriers To Entry

3) C
   Topic: Natural Barriers To Entry

4) A
   Topic: Price and Marginal Revenue

5) C
   Topic: Price and Marginal Revenue

6) A
   Topic: Marginal Revenue and Elasticity

7) B
   Topic: Single-Price Monopoly’s Output and Price Decisions

8) D
   Topic: Single-Price Monopoly’s Output and Price Decisions

9) C
   Topic: Single-Price Monopoly’s Output and Price Decisions

10) B
    Topic: Single-Price Monopoly

11) C
    Topic: Price and Marginal Revenue

12) B
    Topic: Single-Price Monopoly’s Output and Price Decisions

13) B
    Topic: Single-Price Monopoly’s Output and Price Decisions

14) A
    Topic: A Monopoly’s Economic Profit

15) B
    Topic: A Monopoly’s Economic Profit

16) B
    Topic: Comparing Output and Price

17) D
    Topic: Comparing Output and Price

18) C
    Topic: Comparing Output and Price

19) A
    Topic: Comparing Output and Price; Deadweight Loss

20) B
    Topic: A Monopoly’s Economic Profit

21) A
    Topic: Rent Seeking

22) C
    Topic: Price Discrimination

23) A
    Topic: Price Discrimination

24) D
    Topic: Perfect Price Discrimination
25) C

Topic: Regulating Natural Monopoly