MBA 640, Microeconomics, Quiz #6

Name___________________________________

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

1) In monopolistic competition, there are
   A) few firms making a differentiated product.
   B) few firms making an identical product.
   C) many firms making a differentiated product.
   D) many firms making an identical product.

2) Which of the following is NOT a characteristic of monopolistic competition?
   A) price taking firms
   B) many firms
   C) product differentiation
   D) advertising

3) Which of the following goods is best described as being sold in a monopolistically competitive market?
   A) fast food
   B) wheat
   C) postage stamps
   D) automobiles

4) Product differentiation
   A) means that the monopolistic competitor's product is a close but not perfect substitute for the products of its competitors.
   B) is why a monopolistic competitor faces a downward-sloping demand curve.
   C) enables the monopolistic competitor to compete in product quality.
   D) All of the above answers are correct.

5) In the short run, a firm in a monopolistic competition will produce a level of output where its
   A) marginal revenue equals marginal cost and takes the market price as given.
   B) marginal revenue equals marginal cost and will set its price according to the demand for that output level.
   C) average revenue equals average cost and will set its price according to the demand for that output level.
   D) average revenue equals its average cost and takes the market price as given.

6) The profit maximizing condition for a firm in monopolistic competition is to produce so that
   A) marginal cost equals price.
   B) marginal cost equals marginal revenue.
   C) price equals marginal revenue.
   D) average total cost equals price.
7) The above figure shows the demand and cost curves for a firm in ________ in the ________.
   A) monopolistic competition; short run  B) perfect competition; long run
   C) perfect competition; short run  D) monopolistic competition; long run

8) The above figure shows the demand and cost curves for a firm in monopolistic competition.
   The firm earns the maximum profit when the marginal cost of last item produced equals
9) The figure above shows the situation facing Smart Digit, Inc., a firm in monopolistic competition that produces calculators. What quantity does the firm produce?
   A) 200 calculators per day
   B) More than 300 calculators per day and less than 400 calculators per day
   C) 300 calculators per day
   D) 400 calculators per day

10) The figure above shows the situation facing Smart Digit, Inc., a firm in monopolistic competition that produces calculators. What is the firm’s profit-maximizing price?
    A) $4  B) $10  C) $12  D) $8

11) Which of the following is FALSE regarding the long run for a firm in monopolistic competition?
    A) Marginal cost equals average total cost.  
    B) Price equals average total cost.  
    C) Price exceeds marginal cost.  
    D) The firm’s economic profit equals zero.

12) Which one of the following statements is TRUE for BOTH perfect competition and monopolistic competition?
    A) Each type of firm faces a downward sloping demand curve.  
    B) Each type of firm competes on product quality and price.  
    C) In the long run, firms in both industries earn zero economic profit.  
    D) Each type of firm produces a homogenous product.

13) In the long run, monopolistically competitive firms are ________ to perfectly competitive firms because ________.
    A) not similar; monopolistically competitive firms can earn an economic profit and perfectly competitive firms cannot
    B) similar; both firms produce at the minimum ATC
    C) similar; both firms earn zero economic profit
    D) not similar; monopolistically competitive firms set \( P = MC \) to maximize profits
14) The above figure shows the demand and cost curves for a monopolistically competitive firm in the long run. The firm maximizes its profit by
   A) producing 20 units and charging a price of $25.
   B) producing 8 units and charging a price of $5.
   C) producing 16 units and charging a price of $10.
   D) producing 8 units and charging a price of $15.

15) A firm has excess capacity if its output is
   A) less than the quantity at which marginal cost is minimized.
   B) less than the quantity at which average total cost is minimized.
   C) less than the quantity at which economic profit is maximized.
   D) more than the quantity at which average total cost is minimized.

16) In the long run, a firm in
   A) an oligopoly will produce where $P = ATC$.
   B) an oligopoly will produce where $P = MC$.
   C) monopolistic competition will produce where $P = ATC$.
   D) monopolistic competition will produce where $P = MC$.

17) In its long-run equilibrium, a firm in monopolistic competition
   A) makes a positive economic profit and operates with excess capacity.
   B) makes a positive economic profit and produces above capacity output.
   C) makes zero economic profit and operates with excess capacity.
   D) makes zero economic profit and produces above capacity output.

18) In monopolistic competition, a firm's advertising
   A) has no effect on demand.        B) has no effect on its average cost curves.
   C) increases the demand faced by a firm.   D) increases the firm's average total cost.
19) Because consumers value product variety,  
   A) the inefficiency of monopolistic competition is offset.  
   B) society must be more efficient with monopolistic competition than with perfect competition.  
   C) in the long run, monopolistically competitive firms earn an economic profit.  
   D) monopolistically competitive industries are efficient.

20) The key feature of an oligopoly is that there  
   A) are only a few sellers.  
   B) are many buyers and sellers.  
   C) exists product differentiation.  
   D) is one seller.

21) The kinked demand curve model assumes that a firm's rivals will  
   A) follow any price change the firm makes.  
   B) follow the firm's price decreases but not its price increases.  
   C) not follow any of the firm's price changes.  
   D) follow the firm's price increases but not its price decreases.

22) Which of the following statements concerning a dominant firm model of oligopoly is correct?  
   A) The dominant firm acts like a monopoly and sets the price.  
   B) The dominant firm like a monopolistically competitive firm and takes the price as given.  
   C) The dominant firm acts like a perfectly competitive firm and takes the price as given.  
   D) None of the above answers is correct.

23) Game theory is used to explain firm decisions in  
   A) a perfectly competitive market.  
   B) a monopolistically competitive market.  
   C) a monopoly.  
   D) an oligopoly.

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<thead>
<tr>
<th>Player A</th>
<th>Confess</th>
<th>Don't confess</th>
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<tbody>
<tr>
<td>Confess</td>
<td>A: 3 years</td>
<td>A: 10 years</td>
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<tr>
<td></td>
<td>B: 3 years</td>
<td>B: 1 year</td>
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<table>
<thead>
<tr>
<th>Player B</th>
<th>Don't confess</th>
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<tbody>
<tr>
<td></td>
<td>A: 1 year A: 2 years</td>
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<tr>
<td></td>
<td>B: 10 years B: 2 years</td>
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24) The table above shows the payoff matrix for a prisoners' dilemma game. The Nash equilibrium is that  
   A) prisoner A does not confess while prisoner B confesses.  
   B) prisoner A confesses while prisoner B does not confess.  
   C) both prisoners do not confess.  
   D) both prisoners confess.

25) The problem for the prisoners in the prisoners' dilemma game in the above table is that  
   A) the Nash equilibrium is not the best outcome.  
   B) neither prisoner has a workable strategy.  
   C) there is no equilibrium outcome.  
   D) all of the above.
Answer Key
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1) C
2) A
3) A
4) D
5) B
6) B
7) A
8) C
9) C
10) B
11) A
12) C
13) C
14) D
15) B
16) C
17) C
18) D
19) A
20) A
21) B
22) A
23) D
24) D
25) A