Chapter 15-Monopoly

Multiple Choice
*Identify the letter of the choice that best completes the statement or answers the question.*

1. Assuming that Jerry's Bicycle Shop operates in a competitive market for bicycles, which of the following statements is(are) true?
   (i) He can maximize profit by raising his price.
   (ii) He can maximize profit by altering the quantity of bicycles that he supplies.
   (iii) He will be able to earn a profit only if he differentiates his bicycles from the rest of the market.
   a. (i) only
   b. (i) and (ii)
   c. (ii) only
   d. (ii) and (iii) only

2. A government created monopoly arises when
   a. government spending in a certain industry gives rise to monopoly power.
   b. the government gives a firm the exclusive right to sell some good or service.
   c. the government exercises its market control by encouraging competition among sellers.
   d. All of the above could qualify as government created monopolies.

3. Competitive firms have
   a. horizontal demand curves and can sell only a limited amount at each price.
   b. horizontal demand curves and can sell as much as they want at the market price.
   c. downward sloping demand curves and can sell as much as they want at the market price.
   d. downward sloping demand curves and can sell only a limited amount at each price.

4. A monopolist's marginal revenue curve is less than price because
   (i) to sell additional units of the good, the price charged on all units must decrease.
   (ii) with the sale of an additional unit, the monopolist receives less revenue for each of the previous units it planned to sell.
   (iii) of the downward sloping demand curve.
   a. (i) and (ii)
   b. (ii) and (iii)
   c. (i) and (iii)
   d. all of the above
Graph 15-2

The figure shown reflects the cost and revenue structure for a monopoly firm. Use it to answer the following questions.

5. Refer to Graph 15-2. Profit can always be increased by decreasing the level of output by one unit if the monopolist is currently operating at a level of output in which
   a. curve C > curve B.
   b. curve B > curve C.
   c. curve B > curve D.
   d. curve D > curve B.

6. Refer to Graph 15-2. If the monopoly firm wants to maximize its profit, it should operate at a level of output equal to
   a. Q₁.
   b. Q₂.
   c. Q₃.
   d. Q₄.
Refer to Graph 15-3. A profit maximizing monopoly would have a total cost equal to
a. $P_0 \times Q_1$.
b. $P_0 \times Q_2$.
c. $P_0 \times Q_3$.
d. $(P_1 - P_0) \times Q_2$.

Due to the nature of the patent laws on pharmaceuticals, the market for such drugs
a. switches from monopolistic to competitive once the firm's patent runs out.
b. switches from competitive to monopolistic once the firm's patent runs out.
c. always remains a monopolistic market.
d. always remains a competitive market.

Angelo is a wholesale meatball distributor. He sells his meatballs to all the finest Italian restaurants in town. Nobody can make meatballs like Angelo. As a result, his is the only business in town that sells meatballs to restaurants. Assuming that Angelo is maximizing his profit, which of the following statements is true?
a. Meatball prices will exceed marginal cost.
b. Meatball prices will equal marginal cost.
c. Meatball prices will be less than marginal cost.
d. Meatball prices will be a function of supply and demand and will therefore oscillate around marginal costs.
10. Characteristics of a Monopoly include:
   (i) sole seller of its product.
   (ii) product does not have close substitutes.
   (iii) generates large economic profits.
   (iv) is located in a small geographic market.
   a. (i), (iii), and (iv)
   b. both (i) and (iii)
   c. both (i) and (ii)
   d. all of the above

11. An industry is a natural monopoly when
   (i) a single firm will supply a good or service at a socially optimal quantity.
   (ii) a single firm can supply a fixed number of goods or services at a smaller cost than could two or more firms.
   (iii) a single firm can produce additional units at a smaller marginal cost.
   a. (i) and (ii)
   b. (ii) only
   c. (ii) and (iii)
   d. (iii) only

12. For a profit maximizing monopolist
   a. \( P = MR = MC \).
   b. \( P > MR > MC \).
   c. \( P > MR = MC \).
   d. \( P > MR < MC \).

13. The monopolist's profit-maximizing quantity of output is determined by the intersection of which of the following two curves?
   a. marginal cost and demand
   b. average cost and demand
   c. marginal cost and marginal revenue
   d. average cost and marginal revenue

14. What is the monopolist's profit under the following conditions? The profit-maximizing price charged for goods produced is $16. The intersection of the marginal revenue and marginal cost curves occurs where output is 10 units and marginal cost is $8. Average cost for 10 units of output is $6.
   a. $80
   b. $100
   c. $160
   d. $10

15. If a monopolist sells 100 units at $8 per unit and realizes an average total cost of $6 per unit, what is the monopolist's profit?
   a. $800
   b. $200
   c. $600
   d. none of the above
16. One method used to control the ability of firms to capture monopoly profit in the United States is through
   a. regulation of firms in highly competitive markets.
   b. government purchase of products produced by monopolists.
   c. government distribution of a monopolist's excess production.
   d. enforcement of antitrust laws.