Review 10-14-15

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

1. The four–firm concentration ratio equals the percentage of the value of _____ accounted for by the four _____ firms in the industry. 1. _____
   A) sales; largest
   B) sales; smallest
   C) profits; smallest
   D) profits; largest

2. A high four–firm concentration ratio implies 2. _____
   A) an absence of differentiation.
   B) a presence of competition.
   C) an absence of competition.
   D) a presence of differentiation.

Company	Sales (thousands of dollars)
A	750
B	500
C	250
D	125
E	125
F	125
G	125
H	125
I	125
J	125
K	125

3. The above table shows the market shares for all the landscaping services in a suburban area. The four–firm concentration ratio equals 3. _____
   A) 30 percent.
   B) 100 percent.
   C) 60 percent.
   D) 65 percent.

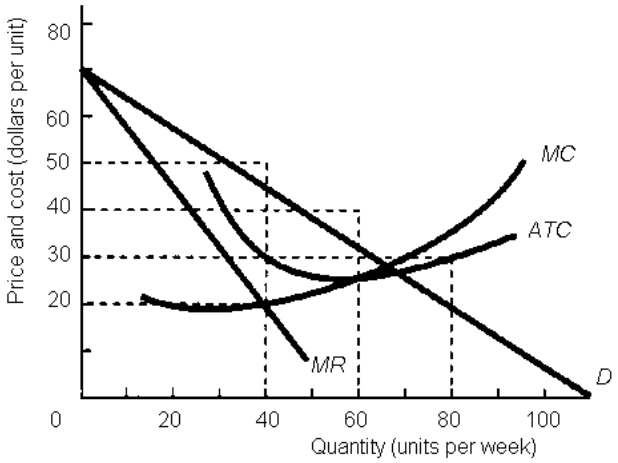
4. The above table shows the market shares for all the landscaping services in a suburban area. The Herfindahl–Hirschman Index (HHI) equals 4. _____
   A) 1400.
   B) 1600.
   C) 65.
   D) 900.

5. One difference between oligopoly and monopolistic competition is that 5. _____
   A) monopolistic competition has barriers to entry.
   B) in monopolistic competition, the products are identical.
   C) fewer firms compete in oligopolies than in monopolistic competition.
   D) a monopolistically competitive industry has fewer firms.

6. Compared to a perfectly competitive industry, an oligopoly has a 6. _____
   A) higher four–firm concentration ratio and a lower Herfindahl–Hirschman Index.
   B) lower four–firm concentration ratio and a lower Herfindahl–Hirschman Index.
   C) higher four–firm concentration ratio and a higher Herfindahl–Hirschman Index.
   D) lower four–firm concentration ratio and a higher Herfindahl–Hirschman Index.

7. Price competition in oligopoly will 7. _____
A) reduce industry profit.
B) increase industry profit if demand is inelastic.
C) damage technical efficiency.
D) hurt consumers.

Figure 14.1

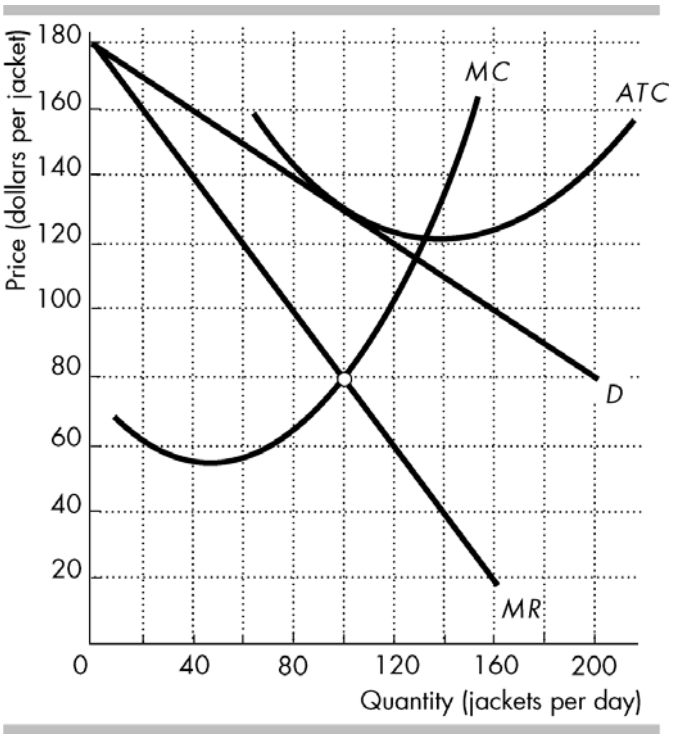


8. In Figure 14.1, the firm is in monopolistic competition. Some evidence that the diagram represents the short run, not the long run, is that 8. _____
A) the firm is making an economic profit.
B) the firm is taking an economic loss.
C) the MR curve and the D curve do not coincide.
D) the MR curve cuts the ATC curve from below.

9. In Figure 14.1, the firm is in monopolistic competition. During the transition to the long run, the demand curve will shift 9. _____
A) rightward and the MR curve will shift rightward.
B) leftward and the MR curve will shift rightward.
C) leftward and the MR curve will shift leftward.
D) rightward and the MR curve will shift leftward.

10. If a firm in monopolistic competition faces the demand curve pictured in Figure 14.1, 10. _____
A) its short–run economic profit will be zero.
B) it will produce 60 units.
C) new firms will enter the industry.
D) some firms will exit the industry.

11. If another firm enters the market and makes a product that is similar to the product of the firm shown in Figure 14.1, then the excess capacity of the firm shown in Figure 14.1 11. _____
A) will not change.
B) will increase.
C) will decrease.
D) could increase, decrease, or stay the same.



The figure shows the demand curve for Gap jackets (*D*), and Gap's marginal revenue curve (*MR*), marginal cost curve (*MC*), and average total cost curve (*ATC*).

12. In the figure above, what is Gap's excess capacity? 12. _____
    A) About 4 jackets per day
    B) About 132 jackets per day
    C) About 90 jackets per day
    D) About 32 jackets per day

13. In the long run, a firm in a monopolistically competitive industry produces where the slope of the average total cost curve is 13. _____
    A) negative.
    B) positive.
    C) equal to the marginal cost.
    D) zero.

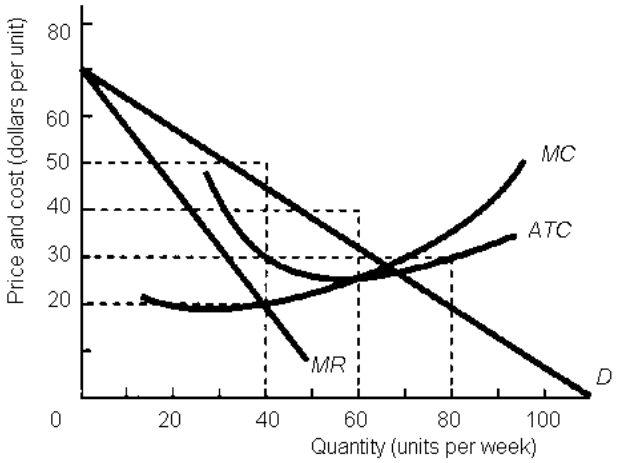
14. In long–run equilibrium for a monopolistically competitive firm, 14. _____
    A) price exceeds average cost.
    B) average cost exceeds price.
    C) price exceeds marginal cost.
    D) marginal cost exceeds price.

15. An example of an industry with monopolistic competition is 15. _____
    A) the automobile industry.
    B) phone service.
    C) wheat farming.
    D) the restaurant industry.

16. A firm in monopolistic competition must have some degree of price–setting power because 16. _____
    A) the price it charges is never more than marginal cost.
    B) it earns, at best, normal economic profit.
    C) it can never earn less than normal economic profit.
    D) it must lower its price in order to sell a greater quantity.

17. When economic profit is positive in an industry that is monopolistically competitive, firms will 17. _____
A) exit the industry, and demand will decrease for the firms that remain.
B) enter the industry, and demand will decrease for the original firms.
C) enter the industry, and demand will increase for the original firms.
D) exit the industry, and demand will increase for the firms that remain.

Figure 14.1



18. Figure 14.1 could represent the long–run equilibrium for a 18. _____
A) firm facing inelastic demand at all outputs.
B) perfectly competitive firm.
C) monopolistically competitive firm.
D) monopoly.

19. The four–firm concentration ratio gives, for the four largest firms in an industry, the percentage of 19. _____
A) the value of sales.
B) economic profit.
C) accounting profit.
D) employment.

20. If a market is shared equally by 100 firms, the Herfindahl–Hirschman Index is 20. _____
A) 1/50.
B) 100.
C) 50.
D) 1/100.

21. Suppose there are five firms in the disposable diaper market. Hug–Me's share is 30 percent. Plumper's share is 30 percent. Drippy's share is 20 percent. Kool Kid's share is 10 percent. Nappomatic's share is 10 percent. The Herfindahl–Hirschman Index in this industry is 21. _____
A) 1350.
B) 100.
C) 900.
D) 2400.

22. A low concentration ratio indicates 22. _____
A) a high degree of competition.
B) a high degree of monopolization.
C) that wages are a low share of costs.
D) that wages are a high share of costs.

23. The national concentration ratio 23. _____
A) overestimates monopoly power for both the newspaper and the automobile industries.
B) overestimates monopoly power for the newspaper industry and underestimates it for the automobile industry.
C) underestimates monopoly power for the newspaper industry and overestimates it for the automobile industry.
D) underestimates monopoly power for both the newspaper and the automobile industries.

24. An industry with a high concentration ratio may have little monopoly power if 24. _____
A) there are no close substitutes for its product.
B) it has a high ratio of value added to sales.
C) its barriers to entry are low.
D) its production is geographically concentrated.

25. Over the years the U.S. economy has become increasingly 25. _____
A) cartelized. B) monopolistic. C) competitive. D) oligopolistic.

26. A characteristic of monopolistic competition is 26. _____
A) a high capital–output ratio. B) a low ratio of fixed to variable costs.
C) product differentiation. D) the absence of advertising.

27. In the long run, a firm in a monopolistically competitive industry sets price equal to 27. _____
A) neither marginal cost nor average cost. B) average cost and marginal cost.
C) average cost but not marginal cost. D) marginal cost but not average cost.

28. Excess capacity and high advertising expenditures are costs of 28. _____
A) oligopoly. B) monopoly.
C) perfect competition. D) monopolistic competition.

29. In monopolistic competition, advertising costs 29. _____
A) are fixed costs.
B) can result in the firm producing an amount of output such that its average total costs are lower than if it did not advertise.
C) shift the *ATC* curve upward.
D) All of the above answers are correct.

30. In monopolistic competition, a firm's advertising 30. _____
A) increases the firm's average total cost. B) increases the firm's marginal cost.
C) has no effect on its average cost curves. D) has no effect on demand.

31. If a firm spends $600 on advertising, its 31. _____
A) *ATC* curve shifts upward and its *MC* curve does not shift.
B) *ATC* curve shifts upward and its *MC* curve shifts downward.
C) *MC* curve shifts upward and its *ATC* curve does not shift.
D) *ATC* and *MC* curves shift upward.

32. Expenditures on advertising _____. 32. _____
A) cannot lower average total cost because when a firm advertises it increases its costs
B) are variable costs so do not affect the average total cost
C) can lower average total cost if the advertising increases the quantity sold by a large enough amount
D) always lower average total cost because whenever a firm advertises, it increases the quantity sold

33. A textbook publisher is in monopolistic competition. The firm can sell no books at $100 a book, but for each $10 cut in price, the quantity of books it can sell increases by 20 books a day. The firm's average variable cost and marginal cost is a constant $30 per book. What is the publisher's profit–maximizing level of output? 33. _____
A) 120 books per day B) 80 books per day
C) 60 books per day D) 100 books per day

34. A textbook publisher is in monopolistic competition. The firm can sell no books at $100 a book, but for each $10 cut in price, the quantity of books it can sell increases by 20 books a day. The firm's average variable cost and marginal cost is a constant $30 per book. What is the publisher's profit–maximizing price? 34. _____
A) $70 B) $50 C) $40 D) $60

35. A textbook publisher is in monopolistic competition. The firm can sell no books at $100 a book, but for each $10 cut in price, the quantity of books it can sell increases by 20 books a day. The firm's average variable cost and marginal cost is a constant $30 per book. What is the firm's markup? 35. _____
A) zero B) $10 C) $30 D) $50

36. A textbook publisher is in monopolistic competition. The firm can sell no books at $100 a book, but for each $10 cut in price, the quantity of books it can sell increases by 20 books a day. The firm's total fixed cost is $2,400 a day. Its average variable cost and marginal cost is a constant $30 per book. What is the firm's maximum economic profit? 36. _____
A) $400 B) $1,000 C) –$400 D) zero

37. A textbook publisher is in monopolistic competition. If the firm spends nothing on advertising, it can sell no books at $100 a book, but for each $10 cut in price, the quantity of books it can sell increases by 20 books a day. The firm's total fixed cost is $2,400 a day. Its average variable cost and marginal cost is a constant $30 per book. If the firm spends $1,200 a day on advertising, it can increase the quantity of books sold at each price by 50 percent. If the publisher advertises, its profit maximizing level of output is 37. _____
A) 160 books per day. B) 100 books per day.
C) 80 books per day. D) 120 books per day.

38. A textbook publisher is in monopolistic competition. If the firm spends nothing on advertising, it can sell no books at $100 a book, but for each $10 cut in price, the quantity of books it can sell increases by 20 books a day. The firm's total fixed cost is $2,400 a day. Its average variable cost and marginal cost is a constant $30 per book. If the firm spends $1,200 a day on advertising, it can increase the quantity of books sold at each price by 50 percent. If the publisher advertises, its profit maximizing price is 38. _____
A) $50. B) $40. C) $60. D) $70.

39. Game theory is applicable to oligopoly behavior because 39. _____
A) oligopolists can only be profitable if they collude.
B) oligopolists are price takers.
C) oligopolists ignore rival firms.
D) oligopolists use strategic behavior.

		Player A: Confess	Player A: Don't Confess
Player B	Confess	A: 3 years B: 3 years	A: 10 years B: 1 year
	Don't Confess	A: 1 year B: 10 years	A: 2 years B: 2 years

40. The table above shows the payoff matrix for a prisoners' dilemma game. The Nash equilibrium is that 40. _____
A) both prisoners confess.
B) both prisoners do not confess.
C) prisoner A does not confess while prisoner B confesses.
D) prisoner A confesses while prisoner B does not confess.

41. The problem for the prisoners in the prisoners' dilemma game in the above table is that 41. _____
A) neither prisoner has a workable strategy.
B) the Nash equilibrium is not the best outcome for the prisoners.
C) there is no equilibrium outcome.
D) ALL of the above

		Student 1: Work	Student 1: Don'twork
Student 2	Work	1: +10 2: +10	1: +5 2: +5
	Don't work	1: +5 2: +5	1: 0 2: 0

42. Two students are assigned a group project. Each has the option to work or not work to achieve a high grade. The payoffs are shown in the above table. Student 1 should 42. _____
A) work regardless of the decision made by student 2.
B) work only if student 2 works.
C) not work if student 2 works.
D) not work regardless of what student 2 decides.

		Firm 1			
		Sell		Give away	
Firm 2	Sell	1:	$3	1:	$4
		2:	$3	2:	−$1
	Give away	1:	−$1	1:	$2
		2:	$4	2:	$2

43. Two software firms have developed an identical new software application. They are debating whether to give the new application away free and then sell add−ons or sell the application at $30 a copy. The payoff matrix is above and the payoffs are profits in millions of dollars. What is Firm 1's best strategy? 43. _____
A) Give away the application only if Firm 2 gives away the application.
B) Give away the application regardless of what Firm 2 does.
C) Sell the application at $30 a copy regardless of what Firm 2 does.
D) Give away the application only if Firm 2 sells the application.

44. Antitrust laws attempt to 44. _____
A) prevent monopolies or collusion.
B) support prices at high levels so firms can earn profits.
C) enforce fair trade laws.
D) establish minimum wages.

45. Antitrust law is the law that regulates _____ and prevents them from becoming _____. 45. _____
A) oligopolies; monopolistically competitive firms
B) oligopolies; monopolies
C) monopolistically competitive firms; oligopolies
D) monopolies; oligopolies

46. The first antitrust law passed was the _____. 46. _____
A) Federal Trade Commission Act
B) Sherman Act
C) Robinson−Patman Amendment
D) Clayton Act

47. The Clayton Act of 1914 was passed to prohibit, in part, 47. _____
A) price discrimination if the effect is to substantially lessen competition or create monopoly.
B) combinations, trusts, or conspiracies that restrict interstate or international trade.
C) business practices that allow one firm to profit at the expense of another whenever the first firm is a monopoly.
D) unfair methods of competition and unfair or deceptive business practices.

48. The iPhone 5 no longer comes pre−loaded with Google Maps and uses the Apple map application instead. Regulators might be concerned with this requirement because they might see it as an example of 48. _____
A) predatory pricing.
B) resale price maintenance.
C) collusion to create a monopoly.
D) a tying arrangement.

49. If McDonald's, Wendy's, and Burger King agree with each other not to sell hamburgers for less than $2.95 apiece, all three could be found guilty of 49. _____
A) an interlocking directorship under the Clayton Act.
B) a deceptive business practice under the Clayton Act.
C) price fixing under the Sherman Act.
D) None of the above answers is correct.

50. 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 50. _____
A) highly concentrated and so the government will definitely challenge the merger.
B) moderately concentrated, but because the merger increases the HHI by less than 100 points, the government will probably not challenge the merger.
C) moderately concentrated and because the merger increases the HHI by more than 50 points, the government will definitely challenge the merger.
D) competitive and so the government will not challenge the merger.