1) Which of the following is one of the assumptions upon which the theory of monopolistic competition is built?
   A) There are many sellers.
   B) There are few buyers.
   C) It is difficult to enter the industry.
   D) Each firm in the industry produces a homogeneous product.

2) The monopolistic competitive firm faces a __________ demand curve and therefore is a price __________.
   A) downward-sloping; searcher.
   B) horizontal; taker.
   C) downward-sloping; taker.
   D) horizontal; searcher.

3) The demand curve facing a monopolistic competitive firm will be __________ than the demand curve facing a perfectly competitive firm, because the price elasticity of demand for the monopolistic competitive firm's product is __________ than that for the perfectly competitive firm.
   A) steeper; greater
   B) flatter; greater
   C) steeper; less
   D) flatter; less

4) The monopolistic competitive firm produces the output at which
   A) price equals marginal cost.
   B) marginal revenue equals marginal cost.
   C) there is resource allocative efficiency.
   D) average total cost is at a minimum.

5) If a perfectly competitive firm and a monopolistic competitive firm face the same demand and cost curves, then
   A) the perfectly competitive firm will attain resource-allocative efficiency, but the monopolistic competitive firm will not.
   B) the perfectly competitive firm will attain resource-allocative efficiency, but the monopolistic competitive firm may or may not, depending upon the demand for its product.
   C) the perfectly competitive firm will not attain resource-allocative efficiency, but the monopolistic competitive firm will.
   D) both the perfectly competitive firm and the monopolistic competitive firm will attain resource-allocative efficiency.
   E) neither the perfectly competitive firm nor the monopolistic competitive firm will attain resource-allocative efficiency.

6) The excess capacity theorem states that a monopolistic competitor
   A) will produce an output level smaller than the one that would minimize its unit costs.
   B) will produce an output level where MR > MC.
   C) generally does not attain long run equilibrium, and thus charges a higher price than it should.
   D) typically produces too much of a good at too low a quality.

7) ________________ constitute(s) perhaps the most significant barrier to entry into an oligopolistic market is
   A) Patent rights
   B) Exclusive ownership of essential resources
   C) Legal barriers
   D) Economies of scale
   E) Copyrights

8) Interdependence implies that each firm in an industry
   A) is independent of one another and are essentially price takers.
   B) is aware that its actions influence the others and that the actions of the other firms affect it.
   C) is so large and powerful that they do not need to consider how their actions will affect their rivals.
   D) must depend on the other firms to maintain consumers' interest in their "mutual" product.

9) A concentration ratio indicates the
   A) number of firms in an industry.
   B) number of large firms in an industry compared to the number of large firms in another related industry.
   C) percentage of total sales accounted for by the (for example) four largest firms.
   D) percentage of sellers in an industry relative to the number of buyers.
   E) percentage of sellers in an industry protected by barriers to entry relative to the number of sellers that wish to enter.

10) A cartel is an organization of firms
    A) dominated by one firm, which is usually referred to as the price leader.
    B) that attempts to increase total (or industry) demand for their product.
    C) that reduces output and increases price in an effort to increase joint profits.
    D) that deliberately attempts to disrupt the market for political reasons.

11) Which of the following statements is false?
    A) On occasion, governments have helped to create and maintain cartels.
    B) Once a cartel agreement has been made, cartel members have an incentive to cheat on the agreement.
    C) A single cartel member may be better off with a cartel agreement that all members abide by (including itself) than with no cartel agreement at all.
    D) Cartels are easy to form and to maintain.

12) How does contestable markets theory challenge orthodox market structure theory?
    A) Contestable markets theory argues that firms do not maximize sales; orthodox market structure theory argues that they do.
    B) Orthodox market structure theory places much greater weight than contestable markets theory on the number of firms in an industry as a major factor in determining a firm's behavior.
    C) Contestable markets theory emphasizes product differentiation; orthodox market structure theory does not.
    D) Contestable markets theory emphasizes nonprice competition; orthodox market structure theory does not.
13) Refer to Exhibit 25-3. Which of the following points represents the profit-maximizing quantity and price of a monopolistic competitor?
A) A  
B) B  
C) C  
D) D  
E) E

14) Consider Figure 1. The dominant strategy for Don is to choose the _____ price and for Dora to choose the _____ price.
A) low; low  
B) low; high  
C) high; low  
D) high; high

15) Consider Figure 1. The Nash equilibrium is: Don chooses the _____ price, and Dora chooses the _____ price.
A) low; low  
B) low; high  
C) high; low  
D) high; high

16) Consider Figure 2. Noting that the two players have a mutual low-price guarantee (price-matching), the Nash equilibrium is: Don chooses the _____ price and Dora chooses the _____ price.
A) low; low  
B) low; high  
C) high; low  
D) high; high