Homework 9—Chapter 10

1) The theory of monopoly assumes that the monopoly firm
A) faces a downward-sloping supply curve that is the same as its marginal revenue curve.
B) faces a downward-sloping demand curve.
C) produces more than the perfectly competitive firm under identical demand and cost conditions.
D) produces a product for which there are many close substitutes.
E) none of the above

2) Suppose Glaucous Motors is a monopolist and is receiving positive economic profits. What prevents other firms from directly competing away the profits?
A) high barriers to entry
B) antitrust laws
C) low barriers to entry
D) diseconomies of scale
E) none of the above

3) A natural monopoly exists when
A) a monopolist produces a product, the main component of which is a natural resource.
B) economies of scale are so large that only one firm can survive and achieve low unit costs.
C) a firm is the exclusive owner of a key resource necessary to produce the firm’s product.
D) there are no close substitutes for a firm’s product.

4) Which of the following is not an example of a legal barrier to entry?
A) a beautician’s license
B) a patent
C) exclusive ownership of raw materials
D) a public franchise
E) a copyright

5) Which of the following statements is false?
A) A price searcher must lower price to sell an additional unit of its product.
B) For a price searcher, price equals marginal revenue for all units except the first.
C) For a price searcher, price is greater than marginal revenue for all units except the first.
D) A price searcher, like a price taker, produces that quantity of output for which marginal revenue equals marginal cost.

6) In maximizing profits, a single-price monopolist will charge a price that is
A) less than marginal cost.
B) equal to marginal cost.
C) greater than marginal cost.
D) There is not enough information to answer the question.

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Exhibit 24-3

7) Refer to Exhibit 24-3. The profit-maximizing single-price monopolist charges price
A) P1.
B) P2.
C) P3.
D) P4.
E) P5.

8) Refer to Exhibit 24-3. The profit-maximizing single-price monopolist produces output
A) q1.
B) q2.
C) q3.
D) q4.

9) Refer to Exhibit 24-3. The profit of the single-price monopolist is
A) positive.
B) zero.
C) negative.
D) uncertain without more information.
10) Refer to Exhibit 24-1. If the product is produced under single-price monopoly, what quantity will be produced and what price will be charged in order to maximize profit?
A) Q2 units at P1
B) Q1 units at P1
C) Q1 units at P2
D) Q2 units at P2

11) Refer to Exhibit 24-1. The deadweight loss of the profit-maximizing monopoly is identified by what area?
A) area Q1BAQ2
B) area BCA
C) area P1P2CB
D) area 0P1BQ1
E) none of the above

12) Economic rent is a payment in excess of
A) average fixed cost.
B) average variable cost.
C) opportunity cost.
D) explicit cost, but not necessarily implicit cost.
E) none of the above

13) "Rent seeking" is socially wasteful because
A) resources devoted to transferring rents are not used to produce goods.
B) wage income is converted into profit income.
C) it results in higher prices than would exist without monopoly.
D) it discourages innovation and risk taking.

14) First-degree (perfect) price discrimination is discrimination among
A) units.
B) quantities.
C) buyers.
D) prices.

15) Second-degree price discrimination is discrimination among
A) units.
B) quantities.
C) buyers.
D) prices.

16) Third-degree price discrimination is discrimination among
A) units.
B) quantities.
C) buyers.
D) prices.

17) Suppose the local pharmacy charges lower prices to senior citizens than it charges to younger customers. The pharmacy is practicing
A) perfect price discrimination.
B) second-degree price discrimination.
C) arbitrage.
D) third-degree price discrimination.
E) non-cost discrimination.

18) Which of the following is not a necessary condition for a firm to practice price discrimination?
A) The seller must be a price searcher.
B) The seller must be able to distinguish between customers willing to pay different prices.
C) It must cost the seller more to service some customers than others.
D) Reselling the product must be extremely costly or must not be possible

19) A monopolist practicing perfect price discrimination has
A) a larger deadweight loss triangle than a single-price monopolist has.
B) the same deadweight loss triangle as a single-price monopolist.
C) a deadweight loss triangle one-half the size of what it would be with uniform pricing.
D) no deadweight loss triangle.

20) X-inefficiency refers to
A) the tendency for an economy to allocate too many resources to the monopolist.
B) the increase in costs and organizational slack in a monopoly resulting from the lack of competitive pressure.
C) the resources used to regulate the behavior of a monopolist.
D) a and b
E) a and c