

Monopolistic Competition, Oligopoly, and Resource Market Pricing

Monopolistically competitive firms tend to realize normal profits (break even) in the long run because

- *a. Barriers to entry into the industry are relatively low
- b. Firms produce under conditions of diseconomies of scale
- c. Advertising increases the firm's costs and thus decreases profits
- d. Sales promotion makes the firm's demand curve more inelastic

Game theory (payoff/profit matrix analysis) applies to

- a. Pure competition
- b. Pure monopoly
- c. Monopolistic competition
- *d. Oligopoly

Game theory (payoff/profit matrix analysis) applies to firms

- *a. That are highly mutually interdependent
- b. That are not dependent on each other
- c. That operate in purely competitive industries
- d. That operate in monopolistically competitive industries

Which of the following is not a characteristic of monopolistically competitive markets?

- a. Only normal profits in the long run
- *b. Price-taking firms
- c. Excess productive capacity in the long run
- d. Many firms of relatively small size

Because monopolistically competitive firms produce differentiated products, each firm

- a. Faces a demand curve that is horizontal
- b. Faces a demand curve that is vertical
- c. Has no control over product price
- *d. Has some control over product price

A monopolistically competitive firm hopes to

- a. Make an economic profit, but realizes economic losses in the long run
- *b. Make an economic profit, but realizes normal profit (break even) in the long run
- c. Minimize its losses in the short run, but realizes economic profit in the long run
- d. Minimize its losses in the short run, but realizes economic losses in the long run

The table below uses game theory to analyze the behavior of firms in an oligopolistic market. The table gives the profit (payoff) matrix for Boeing and Airbus, in millions of dollars. Answer the next four questions on the basis of this table.

		Boeing	
		High Price	Low Price
Airbus	High Price	Airbus = \$500 Boeing=\$500	Airbus = \$400 Boeing=\$650
	Low Price	Airbus=\$650 Boeing=\$400	Airbus = \$350 Boeing=\$350

If Boeing and Airbus behave competitively, the most likely profit is

- a. \$500 million for Boeing and \$500 million for Airbus
- b. \$400 million for Boeing and \$650 million for Airbus
- c. \$650 million for Boeing and \$400 million for Airbus
- *d. \$350 million for Boeing and \$350 million for Airbus

If Boeing and Airbus form a collusive pact to maximize joint profits, the firms will realize profits totaling

- a. \$700 million
- b. \$900 million
- *c. \$1,000 million
- d. \$1,050 million

Assume that Boeing adopts a low-price strategy and Airbus adopts a high-price strategy.

- *a. Boeing's profits equal \$650 million and Airbus' profits equal \$400 million
- b. Boeing's profits equal \$400 million and Airbus' profits equal \$650 million
- c. Boeing's profits equal \$500 million and Airbus' profits equal \$500 million
- d. Boeing's profits equal \$350 million and Airbus' profits equal \$350 million

Assume that Boeing adopts a high-price strategy and Airbus adopts a low-price strategy.

- a. Boeing's profits equal \$650 million and Airbus' profits equal \$400 million
- *b. Boeing's profits equal \$400 million and Airbus' profits equal \$650 million
- c. Boeing's profits equal \$500 million and Airbus' profits equal \$500 million
- d. Boeing's profits equal \$350 million and Airbus' profits equal \$350 million

In monopolistic competition, there are:

- a. Few firms selling a differentiated product
- b. Many firms selling a homogeneous product
- c. Few firms selling homogeneous product
- *d. Many firms selling a differentiated product

When entry into the industry is open and the industry is in long-run equilibrium, the monopolistic competitor will produce the lowest point on its long-run average cost curve.

- a. Always
- *b. Never
- c. Sometimes
- d. Cannot say

In monopolistic competition, the demand curve facing a firm will become more elastic:

- *a. The greater the number of sellers
- b. The greater the degree of product differentiation
- c. The greater the obstacles to entry
- d. The greater the elasticity of supply

When rival firms form in an oligopolistic industry form a cartel, this always leads to:

- a. the maximization of rivals' joint profits
- b. The elimination of nonprice competition
- *c. The imposition of limits on interfirm competition
- d. A price leadership situation

In the special case in which all monopolistic competitors in a given group are assumed to face identical cost and revenue curves, the profits that these firms earn in long-run equilibrium will, assuming free exit and entry:

- a. Be substantial if they avoid price competition
- *b. Be zero
- c. Be substantial if they avoid nonprice competition
- d. Be substantial if exit from the group is limited

The principal difference between monopolistic competition and pure competition is that in a monopolistically competitive market:

- a. Sellers are relatively less numerous
- b. Buyers are relatively less numerous.
- c. The market demand curve is negatively sloped.
- *d. The product sold is differentiated

The means by which a producer can seek to differentiate his product from that of his competitors include all of the following except:

- a. Changing the ingredients he puts in his product
- *b. Changing the price at which he sells his product
- c. Changing the way he packages his product
- d. Changing the properties he attributes to his product in advertising

When a monopolistic competitor attains equilibrium, we can be sure that he is operating at a point where:

- a. His average costs of production are minimized
- b. His interaction with his rivals has led him to behave as a price taker
- *c. His MR equals his MC
- d. His price equals his MC

If the market for commodity X is oligopolistic, we can be sure that in this market:

- a. The product sold is differentiated
- b. There are only a few sellers.
- c. Nonprice competition has been eliminated through collusive agreements
- *d. There are at least a few sellers who dominate the market in the sense that these sellers can through their own actions significantly influence market price

An oligopoly will usually find it easier to follow a high-price policy:

- a. When demand is declining
- b. The more differentiated the product
- *c. The fewer firms there are
- d. The more firms there are
- e. If each firm practices "full-cost" pricing

Oligopolists may resist the temptation to cut the price even though they are operating at half their economic capacity for all of the following reasons except that:

- a. They fear their rivals' reactions
- *b. Their rivals might fail to follow their price cut
- c. They are not the recognized price leaders
- d. They do not want to risk a "price war."

Profit statistics indicate that the average rate of return in an industry is higher:

- *a. The fewer the sellers in the industry
- b. The smaller the average size of the companies
- c. The less the companies spend on advertising
- d. The lower the barriers to entry into the industry
- e. The less concentrated is the industry

In oligopolies, advertising is:

- *a. An important means of raising barriers to entry
- b. Largely informational
- c. An important means of creating demand for the industry's product
- d. Usually small relative to sales
- e. Rarely carried beyond the joint-profit-maximizing level

It is difficult for an oligopoly to pursue a high-price policy if:

- a. The optimum sale of plan is large
- b. Brand images are important
- *c. There are low-cost companies with expansionist aspirations
- d. There are many small buyers of the product
- e. There is no fringe of small competitors

Which of the following are not characteristics of monopolistic competition?

- a. Product differentiation
- b. A relatively larger number of firms
- *c. A feeling of interdependence among the firms
- d. Relatively easy entry in the long run

“Mutual interdependence” means that:

- a. Each firm produces a product similar but not identical to the products produced by its rivals
- b. Each firm produces a product identical to the products produced by its rivals
- *c. Each firm must consider the reactions of its rivals when it determines its price policy
- d. Each firm faces a perfectly elastic demand for its product

When oligopolists collude to maximize their joint profit, the results are generally

- a. Greater output and higher price
- b. Greater output and lower price
- c. Smaller output and lower price
- *d. Smaller output and higher price

A monopolistically competitive firm never:

- *a. Has a perfectly elastic demand curve
- b. Makes above normal profit in the long run
- c. Makes losses in the short run
- d. Advertises
- e. Uses resources inefficiently

Which of the following does not contribute to the existence of oligopoly?

- a. The economies of large-scale production
- b. The gains in profits that result from mergers
- *c. Low barriers to entry into an industry
- d. Extensive sales promotion activated by the established firms in an industry

A profits-payoff (or price profits) table used in game theory is used to explain all but one of the following:

- a. Mutual interdependence
- b. The advantages of collusion
- c. Price rigidity
- *d. Product differentiation

Which of the following is not characteristic of oligopolies?

- a. Mutual dependence
- b. Growth through merger
- *c. A large number of firms
- d. Nonprice competition
- e. Economies of sale

Which of the following statements is false?

- a. Oligopolistic industries may make pure profit in the long run
- b. Oligopolistic firms do not generally produce a level of output which corresponds to minimum ATC
- *c. Oligopolistic firms could never achieve lower long-run costs than would competitive firms in the same industry
- d. Oligopolistic firms tend to engage in nonprice rather than price competition.

A pure monopoly differs from a monopolistically competitive firm in that a monopoly

- a. Has a downward-sloping demand curve
- b. Has a downward-sloping marginal revenue curve
- c. Can earn economic profits in the short run
- *d. Can earn economic profits in the long run

In a long run, freedom of entry into a market forces a _____ to charge a price equal to average total cost, but average total cost exceeds its minimum level.

- a. Perfectly competitive firm
- *b. Monopolistically competitive firm
- c. Oligopolistic firm
- d. Pure monopoly

A fundamental characteristic of monopolistic competition is

- a. Strong barriers to entry
- b. That each firm considers its rivals reactions
- *c. Product differentiation
- d. The existence of just a few firms producing all the output

In monopolistic competition, there are:

- a. Few firms selling a differentiated product
- b. Many firms selling homogeneous product
- c. Few firms selling a homogenous product
- *d. Many firms selling a differentiated product

The short-run equilibrium level of output for a monopolistic competitor is given by the point where:

- a. $P = MC$
- b. $P = AC$
- c. The MR curve intersects the MC curve
- *d. The MR curve intersects the MC curve below and $P \geq AVC$

When entry into the industry is open and the industry is in long-run equilibrium, the monopolistic competitor will produce at the lowest point on its long-run average cost curve.

- a. Always
- *b. Never
- c. Sometimes
- d. Cannot say

If an oligopolistic firm incurs losses in the short run, then in the long run:

- a. He will go out of business
- b. He will stay in business
- c. He will break even
- *d. Any of the above is possible

In monopolistic competition, the demand curve facing a firm will become more elastic:

- *a. The greater the number of sellers
- b. The greater the degree of product differentiation
- c. The greater the obstacles to entry
- d. The greater the elasticity of supply

Monopolistic competition is characterized by:

- a. Many firms—standardized products
- *b. Many firms—similar products
- c. Few firms – standardized products
- d. Few firms – similar products

An employer that is a monopoly buyer of labor is called a (an)

- *a. Monopsonist
- b. Monopolist
- c. Oligopsonist
- d. Oligopoly

Compared to a purely competitive employer, a monopsony employer tends to

- *a. Hire fewer workers and pay a lower wage rate
- b. Hire fewer workers and pay a higher wage rate
- c. Hire more workers and pay a lower wage rate
- d. Hire more workers and pay a higher wage rate

Which of the following does not contribute to a monopsony power of an employer?

- a. Where workers are geographically immobile
- b. Where workers are occupationally immobile
- c. Where workers have weak labor unions
- *d. Where workers can easily transfer to other occupations or other geographic areas

A monopsonistic employer

- a. Has a perfectly elastic labor supply curve
- b. Is necessarily a monopolist as a seller of goods
- *c. Reduces the number of workers it employs so it can pay each worker a lower wage
- d. Increases the number of workers it employs so it can pay each worker a higher wage