# Week #10 Worksheet Solutions – Monopolistic Competition ~ Oligopoly

____ 1. A monopolistically competitive market is characterized by:
a. many small sellers selling a differentiated product.
b. a single seller of a unique product that has few or no substitutes.
c. very high barriers to entry.
d. many small sellers selling an identical product.
e. a few firms producing either differentiated or identical products.

____ 2. Which of the following is the best example of a monopolistically competitive market?
a. corn
b. automobiles
c. electric utilities
d. retail clothing stores
e. wheat

____ 3. Which is the best example of a firm operating in a monopolistically competitive market?
a. a Nebraska corn farmer
b. Applebee's, a casual dining restaurant
c. the U.S. Postal Service
d. Ford, an automotive manufacturer
e. electric companies prior to deregulation

____ 4. Which of the following is always associated with monopolistic competition?
a. identical products
b. economic profits in the short run
c. demand curve that lies below the marginal revenue curve
d. demand curves that become more inelastic as new entry occurs
e. product differentiation

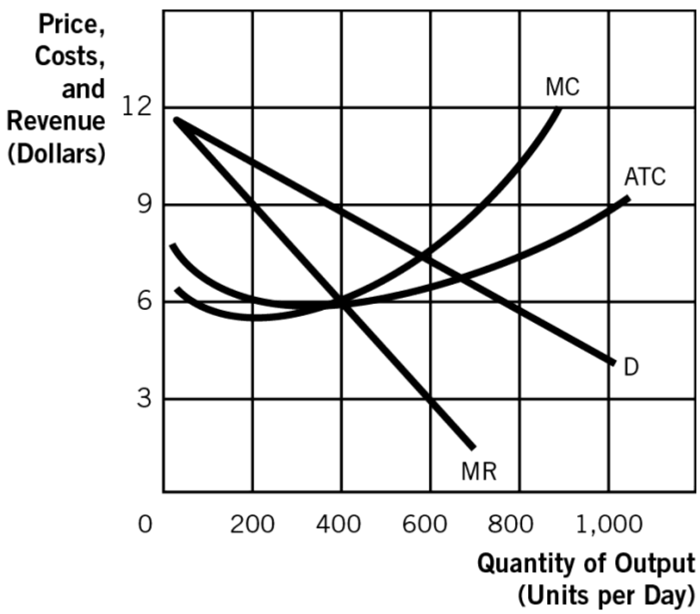
____ 5. A convenience store is generally able to charge and obtain a higher price for its candy bars than is Wal-Mart because the convenience store:
a. differentiates based on style.
b. differentiates based on location.
c. differentiates based on quality.
d. advertises that its candy bars are identical to those sold at Wal-Mart.
e. differentiates based on high barriers to entry, such as patents.

____ 6. Which of the following statements best describes the price, output, and profit conditions of monopolistic competition?
a. Price will equal marginal cost at the profit-maximizing level of output, and profits will be positive in the long run.
b. Price will always equal average variable cost in the short run, and either profits or losses may result in the long run.
c. Marginal revenue will equal marginal cost in the short run at a profit-maximizing level of output; in the long run, economic profit will be zero.
d. Marginal revenue will equal average total cost in the short run, and long-run economic profits are generally positive but could be zero.
e. Output is equal to the amount for which marginal revenue equals price.

____ 7. The descriptor "monopolistic" in the term "monopolistic competition" best describes:

a. high barriers to entry.
b. product differentiation resulting in a downward-sloping demand curve for the firm's product.
c. production of a unique product.
d. a single producer.
e. a few small firms.

____ 8. Refer to the accompanying graph. The short-run profit-maximizing output for the monopolistic competitive firm is:




a. 0 (zero) units per day.
b. 200 units per day.
c. 400 units per day.
d. 600 units per day.
e. 800 units per day.

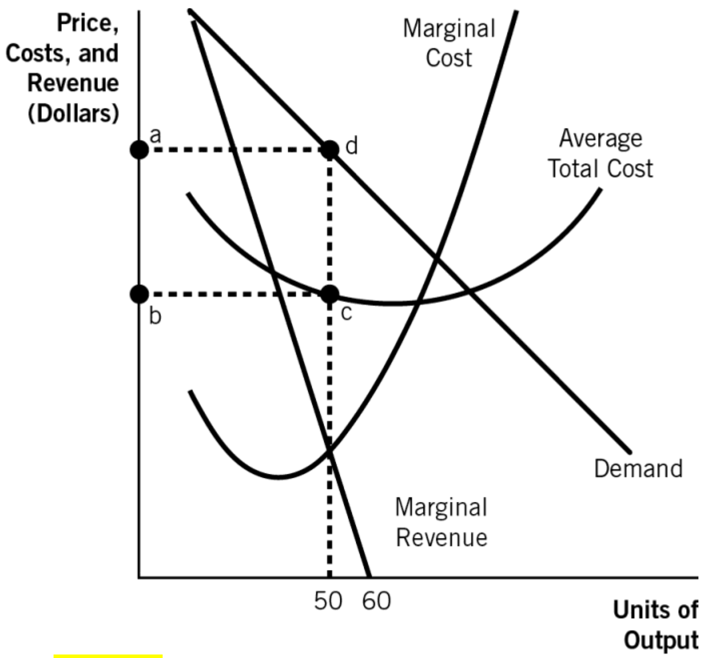
____ 9. Which of the following is true in long-run equilibrium for both a competitive market and monopolistic competition?
a. Accounting profit is zero.
b. Price equals marginal revenue.
c. Long-run average cost is minimized.
d. Economic profit is zero.
e. Productive efficiency is achieved.

____ 10. If monopolistically competitive firms are incurring losses, existing firms would:
a. reduce their costs.
b. charge higher prices.
c. make demand more inelastic.
d. leave the industry.
e. begin to collude illegally.

____ 11. If monopolistically competitive firms are making zero economic profit, then these firms would:

a. leave the industry.
b. charge higher prices.
c. make demand more inelastic.
d. remain in the industry.
e. begin to collude illegally.

____ 12. Refer to the accompanying graph. The maximum long-run economic profit earned by this monopolistically competitive firm is:




a. 0 (zero).
b. represented by the rectangle abcd.
c. represented by the rectangle enclosed by the points 50, 0, c, and d.
d. represented by the area below the demand curve and above marginal cost.
e. greater than 0 but can't be shown in the diagram because it is an indefinable area.

____ 13. If a monopolistically competitive firm is incurring losses, then at the profit-maximizing output amount:
a. price is above the average total cost curve.
b. price is below the average total cost curve.
c. price is equal to marginal revenue.
d. price is less than marginal revenue.
e. average total costs equals marginal cost.

____ 14. Firms in a monopolistically competitive market structure maximize their profit by producing an output where:
a. price equals average total cost.
b. marginal cost equals average variable cost.
c. average revenue equals marginal revenue.
d. marginal revenue equals marginal cost.
e. total revenue equals total cost.

____ 15. Profit-maximizing, monopolistically competitive firms:

a. consider the actions of their competitors when determining price.
b. do not consider the actions of their competitors when determining price.
c. consider only marginal cost and marginal revenue, which determine the level of output—and the level of output determines price.
d. consider only average total cost and average variable cost, which determine the level of output—and the level of output determines price.
e. take their price from the industry price, as do perfectly competitive firms.

____ 16. As new firms enter a monopolistically competitive industry, it can be expected that:
a. market price will rise.
b. the output of existing firms will rise.
c. profits of existing firms will fall.
d. market demand will rise.
e. the profits of existing firms will rise.

____ 17. We can represent the entry of new firms into a monopolistically competitive market by shifting the existing firms':
a. demand curves downward.
b. demand curves upward.
c. marginal revenue curves upward.
d. cost curves upward.
e. cost curves downward.

____ 18. Market power is best described as when the firm's demand curve is:
a. positively sloped.
b. a horizontal line.
c. a vertical line.
d. downward-sloping.
e. above the industry demand curve.

____ 19. Excess capacity best describes the fact that:
a. monopolistically competitive firms produce less than the cost-minimizing level of output.
b. monopolistically competitive firms produce more than the cost-minimizing level of output.
c. monopolistically competitive firms produce exactly the cost-minimizing level of output, but the monopolistically competitive industry produces more than that amount.
d. monopolistically competitive firms could produce less if they wanted to, so they produce over the optimal capacity.
e. perfectly competitive firms produce less than the cost-minimizing level of output, so they have excess capacity but monopolistically competitive firms do not.

____ 20. The concept of markup under monopolistic competition would best be described as the:
a. attempt of firms to make their products look like those of other firms in the

industry, thus “marking them up” in a similar style.

b. attempt of firms to mark up their prices above those of their rivals.
c. difference between total revenue and total cost of the monopolistic competitor.
d. difference between the average total cost and the price of the monopolistic competitor.
e. difference between the marginal cost and the price of the monopolistic competitor.

____ 21. One source of economic inefficiency from monopolistic competition is:

a. markup.
b. less variety for consumers.
c. more variety for consumers.
d. higher costs because firms can enter the industry.
e. lower marginal costs but higher average costs than with perfect competition.