

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

- 1) What is the difference between perfect competition and monopolistic competition?
 - A) Perfect competition has a large number of small firms while monopolistic competition does not.
 - B) In perfect competition, firms produce identical goods, while in monopolistic competition, firms produce slightly different goods.
 - C) Perfect competition has no barriers to entry, while monopolistic competition does.
 - D) Perfect competition has barriers to entry while monopolistic competition does not.

- 2) The market type known as perfect competition is
 - A) almost free from competition and firms earn large profits.
 - B) highly competitive and firms find it impossible to earn an economic profit in the long run.
 - C) dominated by fierce advertising campaigns.
 - D) marked by firms continuously trying to change their products so that consumers prefer their product to their competitors' products.

- 3) Which of the following market types has all firms selling products so identical that buyers do not care from which firm they buy?
 - A) perfect competition
 - B) oligopoly
 - C) monopolistic competition
 - D) monopoly

- 4) Perfect competition is characterized by all of the following EXCEPT
 - A) well-informed buyers and sellers with respect to prices.
 - B) a large number of buyers and sellers.
 - C) no restrictions on entry into or exit from the industry.
 - D) considerable advertising by individual firms.

- 5) Which of the following is the best example of a perfectly competitive market?
 - A) diamonds
 - B) athletic shoes
 - C) soft drinks
 - D) farming

- 6) Which of the following market types has the fewest number of firms?
 - A) perfect competition
 - B) monopoly
 - C) monopolistic competition
 - D) oligopoly

- 7) Which of the following market types has a large number of firms that sell similar but slightly different products?
 - A) perfect competition
 - B) oligopoly
 - C) monopolistic competition
 - D) monopoly

- 8) Which of the following market types has only a few competing firms?
 - A) perfect competition
 - B) monopolistic competition
 - C) monopoly
 - D) oligopoly

- 9) In a perfectly competitive market, the type of decision a firm has to make is different in the short run than in the long run. Which of the following is an example of a perfectly competitive firm's short-run decision?
- A) what price to charge buyers for the product
 - B) whether or not to enter or exit an industry
 - C) the profit-maximizing level of output
 - D) how much to spend on advertising and sales promotion
- 10) In perfect competition, a firm maximizes profit in the short run by deciding
- A) how much output to produce.
 - B) whether or not to enter a market.
 - C) what price to charge.
 - D) how much capital to use.
- 11) In a perfectly competitive market, the type of decision a firm has to make is different in the short run than in the long run. Which of the following is an example of a perfectly competitive firm's long-run decision?
- A) what price to charge buyers for the product
 - B) how much to spend on advertising and sales promotion
 - C) the profit-maximizing level of output
 - D) whether or not to enter or exit an industry
- 12) A price-taking firm
- A) cannot influence the price of the product it sells.
 - B) talks to rival firms to determine the best price for all of them to charge.
 - C) sets the product's price to whatever level the owner decides upon.
 - D) asks the government to set the price of its product.
- 13) A large number of sellers all selling an identical product implies which of the following?
- A) horizontal market supply curves
 - B) large losses by all sellers
 - C) the inability of any seller to change the price of the product
 - D) market chaos
- 14) Perfectly competitive firms are price takers because
- A) each firm is very large.
 - B) there are no good substitutes for their goods.
 - C) many other firms produce identical products.
 - D) their demand curves are downward sloping.
- 15) If demand for a seller's product is perfectly elastic, which of the following is correct?
- A) There is no incentive to sell at a price below the market price.
 - B) It will not sell any output at all if it tries to price its product above the market price.
 - C) There are a very large number of perfect substitutes for the seller's product.
 - D) All of the above answers are correct.

- 16) One of the requirements for a monopoly is that
- A) the product cannot be produced by small firms.
 - B) there are several close substitutes for the product.
 - C) there is a unique product with no close substitutes.
 - D) products are high priced.
- 17) A monopoly is a market with
- A) no barriers to entry.
 - B) many substitutes.
 - C) many suppliers.
 - D) one supplier.
- 18) Firms face competition when the good they produce
- A) is in a market with natural barriers to entry.
 - B) is unique.
 - C) is in a market with legal barriers to entry.
 - D) has a close substitute.
- 19) Which of the following statements is correct?
- A) The market demand and the firm's demand are the same for a monopoly.
 - B) Monopolies have perfectly inelastic demand for the product sold.
 - C) Monopolies are guaranteed to earn an economic profit.
 - D) All of the above are correct.
- 20) Which describes a barrier to entry?
- A) anything that protects a firm from the arrival of new competitors
 - B) a government regulation that bars a monopoly from earning an economic profit
 - C) something that establishes a barrier to expanding output
 - D) firms already in the market incurring economic losses so that no new firm wants to enter the market
- 21) A barrier to entry is
- A) an open door.
 - B) the economic term for diseconomies of scale.
 - C) illegal in most markets.
 - D) anything that protects a firm from the arrival of new competitors.
- 22) Which of the following would create a natural monopoly?
- A) requirement of a government license before the firm can sell the good or service
 - B) technology enabling a single firm to produce at a lower average cost than two or more firms
 - C) an exclusive right granted to supply a good or service
 - D) ownership of all the available units of a necessary input
- 23) If the technology for producing a good enables one firm to meet the entire market demand at a lower price than two or more firms could, then that firm has
- A) a legal barrier to entry.
 - B) a natural monopoly.
 - C) increasing average total costs.
 - D) patented the market.
- 24) Which of the following goods is the best example of a natural monopoly?
- A) natural gas
 - B) diamonds
 - C) a patented good
 - D) first-class mail

- 25) Which of the following is the best example of a natural monopoly?
- A) owning the only licensed taxicab in town
 - B) the United States Postal Service
 - C) ownership of the only ferry across Puget Sound for twenty miles
 - D) the cable television company in your hometown
- 26) Which barrier to entry is an exclusive right granted to the author or composer of a literary, musical, dramatic or artistic work?
- A) government license
 - B) patent
 - C) public franchise
 - D) copyright
- 27) Patents
- A) stimulate innovation.
 - B) encourage the invention of new products and production methods.
 - C) are exclusive rights granted to the inventor of a product or service.
 - D) All of the above answers are correct.
- 28) Which of the following is NOT correct about patents?
- A) Patents stimulate innovation.
 - B) A patent is a barrier to entry.
 - C) Patents enable a firm to be a permanent monopoly.
 - D) Patents encourage invention of new products.
- 29) Recently in a small city, building contractors lobbied the city council to pass a law requiring all people working on residential dwellings be licensed by the city. Why would the contractors lobby for this requirement?
- A) to reduce the cost of building dwellings
 - B) There is no good explanation for this type of lobbying.
 - C) to guarantee that work on dwellings is of high quality
 - D) to create a legal barrier to entry
- 30) Ownership of a necessary input creates what type of barrier to entry?
- A) natural barrier to entry
 - B) a public franchise
 - C) a government license
 - D) legal barrier to entry
- 31) An industry with a large number of firms, differentiated products, and free entry and exit is called
- A) oligopoly.
 - B) monopoly.
 - C) monopolistic competition.
 - D) perfect competition.
- 32) In monopolistic competition, each firm supplies a small part of the market. This occurs because
- A) there are barriers to entry.
 - B) firms produce differentiated products.
 - C) there are no barriers to entry.
 - D) there are a large number of firms.
- 33) In monopolistic competition, the products of different sellers are assumed to be
- A) similar but slightly different.
 - B) identical perfect substitutes.
 - C) either identical or differentiated.
 - D) unique without any close or perfect substitutes.

- 34) Which of the following is different about perfect competition and monopolistic competition?
- A) Firms in monopolistic competition compete on their product's price as well as its quality and marketing.
 - B) In monopolistic competition, entry into the industry is unblocked.
 - C) Perfect competition has a large number of independently acting sellers.
 - D) Only firms in monopolistic competition can earn an economic profit in the short run.
- 35) In an industry with a large number of firms,
- A) collusion is impossible.
 - B) one firm will dominate the market.
 - C) each firm will produce a large quantity, relative to market demand.
 - D) competition is eliminated.
- 36) Which of the following is an example of a monopolistically competitive industry?
- A) wheat farming
 - B) colleges and universities
 - C) the local electricity producer
 - D) the domestic automobile producing industry
- 37) All of the following are examples of product differentiation in monopolistic competition EXCEPT
- A) new and improved packaging.
 - B) lower price.
 - C) acceptance of more credit cards than the competition.
 - D) location of the retail store.
- 38) A differentiated product has
- A) many perfect substitutes.
 - B) close but not perfect substitutes.
 - C) no close substitutes.
 - D) no substitutes of any kind.
- 39) As the degree of product differentiation increases among the products sold in a monopolistically competitive industry, which of the following occurs?
- A) The cost of production falls.
 - B) The amount of marketing expenditures decreases for each firm.
 - C) The demand curve for each seller's product becomes more horizontal.
 - D) Each seller's demand becomes more inelastic.
- 40) Marketing consists of what?
- A) selling at a lower price than rivals sell for
 - B) producing more output to lower average costs
 - C) advertising and packaging
 - D) None of the above answers are correct.
- 41) Firms use marketing to
- A) influence a consumer's buying decision.
 - B) convince customers that their product is worth its price.
 - C) persuade buyers that their product is superior to others.
 - D) All of the above answers are correct.

- 42) If a monopolistically competitive seller can convince buyers that its product is of better quality and value than products sold by rival firms,
- A) demand increases.
 - B) the firm gains more control over its price.
 - C) demand becomes more inelastic.
 - D) all of the above occur.
- 43) If you have found the percentage of the value of sales accounted for by the four largest firms in an industry, you have found the
- A) elasticity of supply value.
 - B) Herfindahl-Hirschman Index.
 - C) elasticity of demand value.
 - D) four-firm concentration ratio.
- 44) Which of the following four-firm concentration ratios would be the best indication of a perfectly competitive industry?
- A) 100 percent
 - B) 78 percent
 - C) 0.25 percent
 - D) 31 percent
- 45) Which of the following four-firm concentration ratios is consistent with monopolistic competition?
- A) 0 percent
 - B) 25 percent
 - C) 100 percent
 - D) 75 percent

Answer Key

Testname: EXAM FOUR SAMPLE QUESTIONS.TST

- 1) Answer: B
- 2) Answer: B
- 3) Answer: A
- 4) Answer: D
- 5) Answer: D
- 6) Answer: B
- 7) Answer: C
- 8) Answer: D
- 9) Answer: C
- 10) Answer: A
- 11) Answer: D
- 12) Answer: A
- 13) Answer: C
- 14) Answer: C
- 15) Answer: D
- 16) Answer: C
- 17) Answer: D
- 18) Answer: D
- 19) Answer: A
- 20) Answer: A
- 21) Answer: D
- 22) Answer: B
- 23) Answer: B
- 24) Answer: A
- 25) Answer: D
- 26) Answer: D
- 27) Answer: D
- 28) Answer: C
- 29) Answer: D
- 30) Answer: D
- 31) Answer: C
- 32) Answer: D
- 33) Answer: A
- 34) Answer: A
- 35) Answer: A
- 36) Answer: B
- 37) Answer: B
- 38) Answer: B
- 39) Answer: D
- 40) Answer: C

Answer Key

Testname: EXAM FOUR SAMPLE QUESTIONS.TST

- 41) Answer: D
- 42) Answer: D
- 43) Answer: D
- 44) Answer: C
- 45) Answer: B