1. Which of the following is a characteristic of a monopoly firm?
   A) easy entry and exit
   B) barriers to entry
   C) vertical individual demand curve
   D) many buyers and sellers

2. A monopoly differs from a perfectly competitive market in that:
   A) a monopolist always earns a normal profit in the long run.
   B) a monopoly market is easy to enter.
   C) no close substitutes exist for the monopolist's product.
   D) there is a lot of market power in a perfectly competitive market.

3. Barriers to entry allow some monopolists to:
   A) earn economic profits in the long run.
   B) convince the government into providing special favors for themselves.
   C) charge as high a price as they want.
   D) make people buy more of a good than they really want.
4. (Figure: Monopoly Pricing and Output Decisions) Using the graph, what is the equilibrium price for this monopolist?
   A) $12
   B) $16
   C) $20
   D) $30
5. (Figure: Effects of Monopolies on Markets) In the graph, which area represents the inefficiencies caused by a monopoly?
   A) e
   B) f
   C) g
   D) h
6. (Figure: Monopolies Versus Competitive Industries) If the monopoly depicted in the graph were to become a competitive industry:
   A) $e$ would change from producer surplus to consumer surplus
   B) $e$ would change from consumer surplus to producer surplus
   C) $f$ would change from consumer surplus to producer surplus
   D) $h$ would change from producer surplus to consumer surplus

7. An example of x-inefficiency is:
   A) an executive cutting wages of workers in an economic downtown.
   B) an executive paying a manager a bonus for increasing profits 20%.
   C) money spent on advertising.
   D) an executive, at corporate expense, hiring a limousine to travel one block. whenever it is raining.

8. For a firm to price discriminate, it must:
   A) sell to customers with identical price elasticities of demand.
   B) produce a product or service that has a close substitute provided by other firms.
   C) be able to prevent the resale of its product.
   D) have different marginal costs for each of the different customers.
9. *Ceteris paribus*, a price-discriminating firm will charge less to the customers who:
   A) are the most elastic in their demand for the product.
   B) have the lowest incomes.
   C) have the least elastic demand for its product.
   D) are the most rational in making their decisions.

10. If Biker's Oasis offers lower prices to women on “ladies night,” then it would be engaging in:
    A) first-degree price discrimination.
    B) second-degree price discrimination.
    C) third-degree price discrimination.
    D) perfect price discrimination.

Use the following to answer question 11:

<table>
<thead>
<tr>
<th>Grocery Store Industry</th>
<th>Sales ($) million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm 1</td>
<td>20</td>
</tr>
<tr>
<td>Firm 2</td>
<td>18</td>
</tr>
<tr>
<td>Firm 3</td>
<td>16</td>
</tr>
<tr>
<td>Firm 4</td>
<td>13</td>
</tr>
<tr>
<td>Firm 5</td>
<td>10</td>
</tr>
<tr>
<td>Firm 6</td>
<td>8</td>
</tr>
<tr>
<td>Firm 7</td>
<td>6</td>
</tr>
<tr>
<td>Firm 8</td>
<td>5</td>
</tr>
<tr>
<td>Firm 9</td>
<td>3</td>
</tr>
<tr>
<td>Firm 10</td>
<td>1</td>
</tr>
</tbody>
</table>

11. (Table) From the information given in the table, the four-firm concentration ratio is:
    A) 67.
    B) 79.
    C) 18.
    D) 62.

12. A four-firm industry with market shares equal to 40, 30, 20, and 10 would have a HHI of:
    A) 100.
    B) 1,000.
    C) 3,000.
    D) 10,000.
13. Tom is the only plumber in town, but because he operates in a contestable market:
   A) he can earn a long-run economic profit.
   B) his firm is a natural monopoly.
   C) he faces potential competition.
   D) price discrimination is impossible.

14. When Doritos brand tortilla chips spends money for television commercials, it intends to shift the:
   A) demand curve to the right and make demand more elastic.
   B) supply curve to the right and make supply more elastic.
   C) demand curve to the right and make demand less elastic.
   D) supply curve to the right and make supply less elastic.

15. If consumer expectations of a branded product are met:
   A) no monopoly power is present.
   B) consumers are willing to pay more for the product.
   C) a perfectly elastic demand curve results.
   D) a perfectly elastic supply curve results.

Use the following to answer question 16:

**Figure: Monopolistic Competition**
16. (Figure: Monopolistic Competition) Under monopolistic competition, economic profit is represented in this graph by rectangle:
   A) \( feab \).
   B) \( geac \).
   C) \( head \).
   D) There is never positive economic profit under monopolistic competition.

Use the following to answer question 17:

**Figure: Long-Run Monopolistic Competition**

17. (Figure: Long-Run Monopolistic Competition) Referring to the graph, this monopolistically competitive firm will earn _____ profit in the long run.
   A) high economic
   B) less than normal
   C) abnormal profits
   D) no economic

18. Which of the following industries is MOST likely to be an oligopoly?
   A) agriculture
   B) steel
   C) beer
   D) ketchup
19. If a market has 20 competing firms and 20% of those firms produce 80% of the sales, then the market structure would be described as:
   A) competitive.
   B) an oligopoly.
   C) monopolistically competitive.
   D) a monopoly.

Use the following to answer question 20:

**Figure: Kinked Demand Curves and Oligopolies**

20. (Figure: Kinked Demand Curves and Oligopolies) Using the graph, an oligopolistic firm facing a kinked demand curve will NOT increase its price when its marginal cost fluctuates between which two points?
   A) points $a$ and $b$
   B) points $a$ and $c$
   C) points $b$ and $c$
   D) An oligopolistic firm will always change its price when the marginal cost fluctuates.

21. If an oligopolistic firm attempts to increase its price:
   A) total revenue will increase.
   B) it faces an inelastic demand curve.
   C) it faces an elastic demand curve.
   D) competitors will match its increased price.
22. Game theory is:
   A) the study of strategy and strategic behavior.
   B) focused on competition between two distinct rivals.
   C) a methodology to accomplish winning results in games of chance.
   D) a strategy that requires cooperation when multiple parties are involved.

23. Game theory is commonly used to explain firm pricing decisions in a(n):
   A) monopoly.
   B) oligopoly.
   C) perfectly competitive market.
   D) monopolistically competitive market.

24. In a Nash equilibrium:
   A) each player tries to maximize the welfare of the other players.
   B) each player tries to minimize the welfare of the other players.
   C) one player is made better off at the expense of some other player.
   D) each player selects the best possible strategy, given the other player's intended strategies.

25. The Prisoner's Dilemma is an example of a:
   A) cooperative game.
   B) multiplayer game.
   C) repeated game.
   D) noncooperative game.

26. In the Prisoner's Dilemma, if the prisoners could collude:
   A) both prisoners would be better off confessing.
   B) the best outcome for both prisoners occurs if one confesses and the other does not.
   C) both prisoners would be better off not confessing.
   D) their prison sentences would be maximized.

Use the following to answer question 27:

<table>
<thead>
<tr>
<th></th>
<th>JetBlue</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Delta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>700, 100</td>
<td>600, 200</td>
</tr>
<tr>
<td>Low</td>
<td>550, 70</td>
<td>500, 80</td>
</tr>
</tbody>
</table>
27. (Table) In this game table representing airfare pricing between Delta and JetBlue, what is the Nash equilibrium?
   A) Delta = high; JetBlue = high
   B) Delta = high; JetBlue = low
   C) Delta = low; JetBlue = high
   D) Delta = low; JetBlue = low

28. Externalities are the impacts:
   A) that affect only the consumers in the private market.
   B) that affect only the producers in the private market.
   C) on the government.
   D) on third parties.

29. The live band nearby makes it difficult for patrons of a restaurant to hold a conversation. This is an example of:
   A) a negative externality.
   B) a positive externality.
   C) the Coase theorem.
   D) environmental mugging.

30. If Firecat's charcoal factory is able to release black smoke into the air, then it will tend to:
   A) produce more than it would if it had to contain the smoke.
   B) produce at a point where the quantity demanded equals the socially optimal quantity supplied.
   C) add the social cost of the smoke to the price of the charcoal.
   D) underproduce because the social costs are added to the private costs.

31. If a market exchange imposes costs on a party not involved in the transactions, the cost is called a:
   A) positive externality.
   B) negative externality.
   C) public good.
   D) tragedy of the commons.

32. If a positive externality exists in a market, the marginal:
   A) private cost exceeds the marginal social cost.
   B) social cost exceeds the marginal private cost.
   C) private benefit exceeds the marginal social benefit.
   D) social benefit exceeds the marginal private benefit.
33. ____ is where the consumption of a good or service by one person does not reduce the utility of that good or service to others.
   A) Rivalry
   B) Nonrivalry
   C) Excludability
   D) Nonexcludability

34. Public goods are:
   A) excludable and nonrival.
   B) nonexcludable and rival.
   C) excludable and rival.
   D) nonexcludable and nonrival.

35. An over-the-air radio station that plays music for free is a(n) ____ good, while a streaming radio service that charges a subscription fee is a(n) ____ good.
   A) rival; nonrival
   B) nonrival; rival
   C) excludable; nonexcludable
   D) nonexcludable; excludable

36. Because of the nonexclusive characteristic of public goods, the ____________ problem develops and the ______________ must provide public goods.
   A) free rider; private market
   B) free rider; government or special interest groups
   C) externality; government or special interest groups
   D) externality; private market

37. Pollution can be reduced with:
   A) lower output.
   B) lower producer prices.
   C) lower marginal cost.
   D) lower consumer prices.

38. Government failure occurs when:
   A) the incentives of government policymakers are not aligned with the public interest.
   B) public policies bring about an optimal allocation of resources.
   C) government regulation increases positive externalities.
   D) property rights can be enforced with minimum transaction costs.
39. Which of the following is both finite and nonrenewable?
   A) soil
   B) forests
   C) coal
   D) fisheries

40. The result when the incentives of politicians and government bureaucrats do not align with the public interest is known as:
   A) a negative externality.
   B) a positive externality.
   C) government failure.
   D) the tragedy of the commons.
1. B
2. C
3. A
4. D
5. D
6. A
7. D
8. C
9. A
10. C
11. A
12. C
13. C
14. C
15. B
16. A
17. D
18. B
19. B
20. C
21. C
22. A
23. B
24. D
25. D
26. C
27. B
28. D
29. A
30. A
31. B
32. D
33. B
34. D
35. D
36. B
37. A
38. A
39. C
40. C