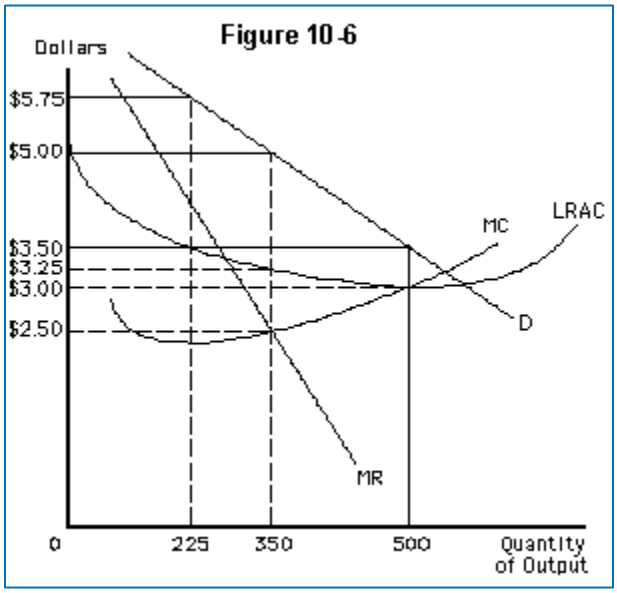
ECON1005 Assignment 7

1. For the single-price monopoly, marginal revenue is
   a. more important than marginal cost
   b. always more than marginal cost
   c. always less than average cost
   d. always less than the price of output
   e. more significant than total revenue



2. The profit-maximizing monopoly in the above figure does not price discriminate. It will produce
   a. 0 units
   b. 225 units
   c. 350 units
   d. 500 units
   e. none of the above

3. The profit-maximizing monopoly in the above figure does not price discriminate. It will charge a single price of
   a. $2.50
   b. $3.50
   c. $5.00
   d. $5.75
   e. None of the above

4. The profit-maximizing monopoly in the above figure does not price discriminate. It will make a profit of
   a. $562.50
   b. $612.50
   c. $700.00

d. $525.00
e. None of the above

5. When car dealerships post high prices for their cars and then negotiate deals based on their estimate of how much each person will pay,
   a. the dealership will lose revenue
   b. marginal revenue and marginal cost are being used to set prices and output
   c. few dealerships will be able to survive
   d. rent-seeking behavior will lead new dealerships to enter the market
   e. this is a form of price discrimination

6. In the short run, the monopolist should continue to produce whenever
   a. price is greater than zero
   b. price is less than average total cost
   c. price is greater than average variable cost
   d. price divided by average total cost exceeds the ratio of marginal cost to average cost at the optimal output
   e. price is less than average variable cost at the optimal output

7. The marginal revenue curve of a perfectly price-discriminating monopolist
   a. coincides with the marginal cost curve
   b. lies below the market demand curve
   c. coincides with the market demand curve
   d. is a horizontal line through the midpoint of the market demand curve
   e. does not exist

8. Using average cost pricing, regulators of a natural monopoly
   a. force the firm's accounting profit to zero
   b. maximize the firm's economic profit
   c. achieve market efficiency
   d. set price equal to cost where the long-run average cost curve crosses the demand curve
   e. set price equal to marginal cost where the MC curve crosses the demand curve

9. In a single-price monopoly market
   a. total benefit (the sum of consumer and producer surplus) is as large as it can possibly be
   b. price and output are higher than they would be in an otherwise similar perfectly competitive market
   c. price and output are lower than they would be in an otherwise similar perfectly competitive market
   d. the quantity produced is artificially low, thereby creating an inefficiency
   e. the price charged is artificially low, thereby creating an inefficiency

10. Economies of scale that persist over a large enough range of output act as a barrier to entry because
    a. one large firm can supply the market at a higher average cost than many small firms could
    b. firms are not allowed by law to sell output below average cost
    c. large firms can hire inputs at a higher price than smaller firms could

d. firms will not compete with a larger firm when there are differences in marginal cost
e. one large firm can produce the market output at a lower average cost than many small firms

11. Network effect
a. explain why switching costs fall as the size of a network increases
b. are the service-industry equivalent of natural monopolies in goods-producing industries
c. are more important in the short run than in the long run
d. help explain why monopolies often do not last for very long
e. can explain the dominance of existing firms in some industries

12. One problem with average cost pricing (or fair rate of return regulation) for a natural monopoly is that
a. it requires the government to subsidize the firm
b. maximizes the firm's revenue
c. makes the firm's total cost equal to zero
d. maximizes the firm's profit
e. it provides an incentive for the firm to overinvest its assets

13. A monopolist's supply curve
a. is the upward-sloping portion of its marginal cost curve
b. is the portion of its marginal cost curve above AVC
c. is parallel to its long run AC curve
d. does not exist because the monopoly is not a price taker
e. is derived from the average variable cost curve

14. Any costly activity firms undertake to protect their monopoly status is referred to as
a. market power
b. price-setting behavior
c. rent seeking
d. economies of scale
e. legal intervention

15. Patents and copyrights are designed to
a. eliminate above-normal profit in the short run
b. move monopoly prices closer to prices that would occur under perfect competition
c. prevent the capitalization of monopoly profit
d. allow a period of above-normal profit to encourage innovation
e. limit a monopoly's rent-seeking activities