

Unit 7. Firm behaviour and market structure: monopoly

Quiz

1. What of the following can be considered as the measure of a market power?

A. $\frac{P-MC}{P}$;

B. $-\frac{1}{E_p^d}$;

C. $\frac{P-MC}{MC}$;

D. Answers A and B are both correct;

E. All of the above

2. If a monopolist increases output, it yields

A. cutting down price;

B. an increase in total revenue of the firm;

C. an increase in profit of the firm

D. answers A and B are both correct;

E. all of the above

3. A price-discriminating monopoly

A. has a demand curve that is more elastic than that of a non-discriminating monopoly

B. earns less revenue than a non-discriminating monopoly

C. earns more revenue than a non-discriminating monopoly

D. will produce less output than a non-discriminating monopoly

E. has a marginal revenue curve that is situated below the marginal revenue curve of a non-discriminating monopoly

4. A monopoly is less efficient as compared to a perfectly competitive market because

A. a monopoly produces a higher output level and sells for a higher price

B. a monopoly produces a lower output level and sells for a higher price

C. a monopoly can make profit in the short run but not in the long run

D. a perfect competitor breaks even in the short run and the monopoly does not

E. a monopoly is allocatively efficient where as the perfect competitor is efficient in production.

5. The whole consumer surplus is appropriated by:

- A. a monopoly;
- B. a monopoly that practices perfect price discrimination;
- C. a perfectly competitive firm;
- D. a firm that gains advantages of market segmentation.
- E. none of the above.

6. A monopoly operates in a market with linear downward sloping demand curve. The firm produces output level where $MR=180$, $MC=100$, $AVC=180$. To maximize profit the firm is supposed to:

- A. raise price and output;
- B. raise price and decrease output;
- C. reduce price and increase output;
- D. reduce price and output.
- E. none of the above.

7. Unlike a competitive firm, a monopoly:

- A. is able to set any price for its product;
- B. maximizes profits when marginal revenue is equal to marginal cost;
- C. is able to produce any output and sell at any price it likes;
- D. determines the combination of price and output that maximizes profit within given market demand.
- E. none of the above.

8. Suppose that a monopoly produces with zero variable costs, so that fixed cost coincides with total cost. It implies that Lerner index:

- A. tends to infinity;
- B. equals 1;
- C. is greater than 0 but less than 1;
- D. equals 0;
- E. none of the above.

9. Choose the correct statement:

A. A monopoly always operates in inelastic region of market demand.

B. A monopoly can raise total profit charging different prices for its product in different segments of market demand

C. Both a monopoly and a perfectly competitive firm maximize profits according to the rule: $MC=P$.

D. When a monopoly is producing the profit-maximizing output level in the long run it earns the highest possible total revenue.

E. None of the above.

10. Assume that a profit-maximizing monopoly operates in a market with a linear demand curve. Suppose that the marginal cost curve for the firm is a horizontal straight line. MC equals 25 roubles regardless output level. Suppose that government imposes a per-unit tax of t roubles per unit of the product of the firm. In this case

A. the firm will expand output and cut down price;

B. the firm's output level will become $t/2$ times smaller and the price will become t times higher as compared to initial situation of an unregulated monopoly;

C. the firm will increase price by $t/2$ rubles;

D. the firm will cut down output and raise the price;

E. answers C and D are both correct.