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
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