MULTIPLE CHOICE: (3 points each)
DIRECTIONS: Circle the letter corresponding to the most correct answer.

1. The demand curve for a firm in a perfectly competitive industry is:
   a. the same as the industry demand curve.
   b. perfectly inelastic.
   c. perfectly elastic at the market price.
   d. a downward sloping straight line.
   e. has an elasticity of exactly one.

2. Which of the following industries most closely approximates the characteristics of a perfectly competitive industry?
   a. U.S. Mail service.
   b. Wheat farming.
   c. Electrical utilities.
   d. Telegraph and telephone services.
   e. Automobiles.

3. All of the following are characteristics of a perfectly competitive industry except:
   a. heterogeneous goods.
   b. many sellers.
   c. easy entry and exit.
   d. perfect knowledge.

4. In order to maximize profits, a monopolist should choose that output where:
   a. price equals marginal cost.
   b. marginal revenue equals marginal cost.
   c. marginal revenue exceeds price.
   d. the industry demand curve intersects the monopoly marginal cost curve.
   e. will always be below the marginal revenue curve at all levels of output.

5. If a perfectly competitive firm raises its price:
   a. sales fall slightly.
   b. sales stay the same.
   c. sales drop to zero.
   d. other firms in the industry follow.
   e. none of the above.

6. The monopolist's demand curve is:
   a. perfectly elastic.
   b. perfectly inelastic.
   c. of unit elasticity throughout.
   d. identical with the industry demand curve.
   e. nonexistent.

7. The welfare of a society would be improved if the monopolist would:
   a. lower his price and lower his output.
   b. raise his price and raise his output.
   c. lower his price and raise his output.
   d. lower his price but not change his output.
8. Which of the following is not a barrier to entry to prevent other firms from entering a monopolistic industry?
   a. Economies of scale on the part of the monopolist.
   b. High fixed costs required to enter the industry.
   c. A processing patent held by the monopolist.
   d. The monopoly is regulated by a government agency.
   e. All of the above are barriers to entry.

9. The representative firm in a purely competitive industry:
   a. will always earn a profit in the short run.
   b. may earn either an economic profit or loss in the long run.
   c. will always earn an economic profit in the long run.
   d. will earn an economic profit of zero in the long run.

10. When a monopolist sells its good or service to different buyers at different prices, this firm is:
    a. making a fair-return on its investment.
    b. an efficient producer.
    c. practicing price discrimination.
    d. practicing breakeven analysis.
    e. an oligopolist.

11. Which of the following conditions must be met in order for price discrimination to be profitable for a firm?
    1. Different buyers must have different price elasticities of demand for the product.
    2. The firm must be a natural monopoly.
    3. The firm must be able to keep different buyers segregated.
    a. Only condition 3 is required.
    b. Only condition 2 is required.
    c. Conditions 2 and 3 are required, 1 is not.
    d. Conditions 1 and 3 are required, 2 is not.
    e. All these conditions are required.

12. A monopolist's short run supply curve:
    a. is its MC curve above AVC.
    b. is its MC curve above SAC.
    c. is its demand curve above ATC.
    d. does not exist.

13. Monopolist may not always profit maximize due to all but which one of the following:
    a. Avoidance of possible government intervention via regulation.
    b. avoidance of possible government intervention via anti-trust laws.
    c. to satisfy stockholders.
    d. to forestall entry.
14. Which of the following statements are true regarding a firm in a perfectly competitive industry?

1. $MR = AR = P$.
2. The profit maximizing output is where $P = MC$.
3. The firm will shut down in the short run if marginal revenue is less than average variable cost.

a. Only statement 2 is true.
b. Only statement 1 is true.
c. Both statements 1 and 2 are true, 3 is false.
d. Both statements 2 and 3 are true, 1 is false.
e. All three statements are true.

15. Monopoly regulators try to:

a. equate price with ATC.
b. equate price with MC.
c. charge the lowest price.
d. eliminate profits.
e. equate price with MR.

TRUE-FALSE (1 point each)

16. T  F  In a perfectly competitive industry, the market price is determined by the intersection of the industry supply and demand curves.

17. T  F  In a monopolistic industry there is only one buyer and only one seller.

18. T  F  If there were 5000 identical firms in a perfectly competitive industry, the industry supply schedule could be obtained by multiplying the marginal cost value of one firm at each price by 5000.

19. T  F  If some firms in a perfectly competitive industry are earning economic profits, new firms will enter the industry until only normal profits are possible.

20. T  F  The marginal revenue curve for a monopolist has one-half the slope of the demand curve, if the demand curve is linear.
27. Construct a graph showing a situation where it would be in society's best interest for a monopolist to price discriminate. (Assume society desires the product) Indicate the size of the firm's profits. (6 points)
22. Using the graph below, answer the following questions.

(4 points) a. This graph exhibits the conditions facing a ___________ firm.

(4 points) b. The profit maximizing output is O - ___________ and the corresponding price is O - ___________.

(4 points) c. The firm is earning economic ___________ represented by the rectangle ___________.

(4 points) d. The shortrun supply curve of the firm is the ___________ curve above point ___________.

(4 points) e. Draw a new marginal revenue curve on the graph to show where the firm would operate if only normal profits arose. This level of output would be O - ___________.

(5 points) f. Briefly explain what would happen in the longrun if the existent firm were operating with the above demand curve. What would be the resultant effect on industry output?
23. Using the graph below answer the following questions.

(4 points) a. The unconstrained monopolist will produce ______ units of output and charge a price of __________ dollars.

(2 points) b. Total profit for the monopolist will be $__________.

(4 points) c. If the monopolist chose to operate at the perfectly competitive level, \( P = MC \) he would produce ______ units and charge a price of $__________. Would he make a profit? YES or NO.

(3 points) d. If the monopoly is now regulated and the regulatory body uses the \( P = ATC \) rule, the total revenue for the monopolist will be $__________.

(6 points) e. For the above graphical situation should the regulatory price be \( P = ATC \)? Is \( P = MC \) better? Why? (Explain briefly)
2023 Third Exam Review Answers

1. C  
2. B  
3. A  
4. B  
5. C  
6. D  
7. C  
8. E  
9. D  
10. C  
11. D  
12. D  
13. C  
14. E  
15. A  
16. T  
17. F  
18. T  
19. T  
20. T  
21. If the firm cannot make a profit otherwise  
22. a. Perfectly competitive  
b. D; F  
c. Profit; FGIH  
d. MC; K  
e. C  
f. Firms would enter, increasing output, reducing profits to normal  
23. a. A; G  
b. EGHJ  
c. C, F; YES  
d. OEKD  
e. P=MC because allocatively efficient