

Chapter 24 – Pure Monopoly
Extra Multiple Choice Questions for Review

1. Under conditions of pure monopoly:
A) there are close substitutes. C) the firm is a price taker.
B) there is no advertising. D) entry is blocked.

2. A monopoly is most likely to emerge and be sustained when:
A) output demand is relatively elastic.
B) firms have U-shaped, average-total-cost curves.
C) fixed capital costs are small relative to total costs.
D) economies of scale are large relative to market demand.

3. Which is a barrier to entry?
A) patents C) profit maximization
B) revenue maximization D) elastic product demand

4. The pure monopolist who is nondiscriminating must decrease price on all units of a product sold in order to sell additional units. This explains why:
A) there are barriers to entry in pure monopoly.
B) a monopoly has a perfectly elastic demand curve.
C) marginal revenue is less than average revenue.
D) total revenues are greater than total costs at the profit maximizing level of output.

5. A nondiscriminating monopolist will find that marginal revenue:
A) exceeds average revenue or price.
B) is identical to price.
C) is sometimes greater and sometimes less than price.
D) is less than average revenue or price.

6. At the profit-maximizing level of output, a monopolist will always operate where:
A) price is greater than marginal cost.
B) price is greater than average revenue.
C) average total cost equals marginal cost.
D) total revenue is greater than total cost.

7. In the short run, a monopolist's profits:
A) may be positive, negative, or zero.
B) are positive because of the monopolist's market power.
C) are positive if the monopolist's elasticity of demand is less than 1.
D) are positive if the monopolist's selling price is above average variable cost.

8. Monopolists are said to be allocatively *inefficient* because:
- A) they produce where $MR > MC$.
 - B) at the profit-maximizing output price is greater than AVC.
 - C) they produce only the type of product they desire and do not consider the consumer.
 - D) at the profit-maximizing output the marginal benefit to society of additional output is greater than the marginal cost to society.
9. X-inefficiency is said to occur when a firm's:
- A) average costs of producing any output are greater than the minimum possible average costs.
 - B) marginal costs of producing any output are greater than the minimum possible total costs.
 - C) total costs of producing any output are greater than the minimum possible average costs.
 - D) short-run costs of producing any output are greater than the long-run costs.
10. The economic incentive for price discrimination depends on:
- A) prejudices of business managers.
 - B) differences among sellers' costs.
 - C) a desire to evade antitrust legislation.
 - D) differences among buyers' demand elasticities.
11. Which would definitely *not* be an example of price discrimination?
- A) A theater charges children less than adults for a movie.
 - B) Universities charge higher tuition for out-of-state residents.
 - C) A doctor charges for services according to the income of patients.
 - D) An electric power company charges less for electricity used during off-peak hours when production costs are lower.

Answer Key -- ch24

1. D
2. D
3. A
4. C
5. D
6. A
7. A
8. D
9. A
10. D
11. D