Economics Chapter 7 Review

Matching

1. a market with many firms, identical products, and free entry and exit
2. specialized training needed to start certain businesses
3. a product that is considered the same regardless of who makes or sells it
4. a market with barriers to entry
5. any factor that makes it difficult for new firms to enter the market
6. expenses a new business must pay before the first product reaches the customer

7. a single seller in a market
8. a producer’s average cost drops as production rises
9. an industry that runs best when a single company produces a good or service
10. a company has exclusive rights to sell a new good or service for a specific time period
11. a single seller has the rights to sell goods in an exclusive market
12. consumers are divided into groups and each is charged differently

13. many companies in an open market selling similar products
14. adding a “secret ingredient” to a product to distinguish it from others
15. a market structure dominated by a few large, profitable firms
16. an agreement among firms to sell at the same or very similar prices
17. a formal organization of producers that agree to coordinate prices and production

18. an agreement among members of an oligopoly to illegally set prices and production levels

a. antitrust laws  

b. predatory pricing  

c. merger  

d. competition  

e. price controls  

f. sale  

g. trust  

h. deregulation

19. setting the market price below cost for the short term to drive competitors out of business

20. government policies that keep firms from controlling the price and supply of important goods

21. an illegal grouping of companies that discourages competition

22. a company joins another company or companies to form a single firm

23. the government no longer decides each company’s place in the market

24. government set maximum or minimum prices

Multiple Choice

Identify the choice that best completes the statement or answers the question.

25. Why does a perfectly competitive market require many participants as both buyers and sellers?

a. because merchandise must be uniform  

b. so no individual can control the price  

c. so buyers and sellers have the same information  

d. to maintain quality over the goods

B. Main Ideas

Directions: Write the letter of the correct answer in the blank provided.

26. How much control over price do companies in a perfectly competitive market have?

a. none  

b. very little  

c. some  

d. total control

27. Why is perfect competition considered the simplest market structure?

a. The firms produce the same product for the same price.  

b. The firms’ products are regulated by the government.  

c. The firms produce the same product at different prices.  

d. The firms are free from any government regulation.

28. A real-life example of nearly perfect competition is a

a. computer monopoly.  

b. oil and gas cartel.  

c. farmers’ market.  

d. public school system.
29. Why are there relatively few markets in which there is perfect competition?
   a. Lack of demand keeps buyers away.
   b. High prices keep companies in the market too long.
   c. Barriers keep companies from entering.
   d. Buyers will not pay more for perfect competition.

30. Imperfect competition is usually caused by
   a. free markets.
   b. barriers to entry.
   c. new commodities.
   d. identical products.

31. Which of the following is a product that is considered a commodity?
   a. new automobiles
   b. low-grade gasoline
   c. wrapping paper
   d. apple candy

32. What is the relationship between start-up costs and a competitive market?
   a. High start-up costs are likely to make a market less competitive.
   b. High start-up costs are likely to make a market more competitive.
   c. Low start-up costs are likely to make a market less competitive.
   d. There is no relationship between start-up costs and competitiveness.

33. Ran Fast Car Company is opening a new factory. Its start-up costs will include
   a. transportation costs to deliver cars.
   b. advertising costs to sell cars.
   c. equipment to run the factory.
   d. salaries to assembly line employees.

34. How does a perfect market influence output?
   a. Each firm adjusts its output so that its costs, including profit, are covered.
   b. Each firm makes its output as large as possible even though some goods are not sold.
   c. Different firms make different amounts of goods, but only some make a profit.
   d. Different firms each strive to make more goods and capture more of the market.

35. In a perfectly competitive market, output
   a. maximizes profits for the company owners.
   b. is just enough to cover opportunity costs.
   c. exceeds customer demands for the supply.
   d. reflects the trends of the stock market.
Directions: Use the following table to answer questions 31 and 32.

<table>
<thead>
<tr>
<th>Market Structures</th>
<th>Perfect Competition</th>
<th>Monopolistic Competition</th>
<th>Monopoly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of firms</td>
<td>Many</td>
<td>Many</td>
<td>One</td>
</tr>
<tr>
<td>Barriers to entry and exit</td>
<td>None</td>
<td>Low</td>
<td>Complete</td>
</tr>
<tr>
<td>Control over prices</td>
<td>None</td>
<td>Little</td>
<td>Complete</td>
</tr>
<tr>
<td>Variety of goods</td>
<td>None</td>
<td>Some</td>
<td>None</td>
</tr>
</tbody>
</table>

36. Which of the following best describes complete barriers to entry in a monopoly?
   a. There are no new companies allowed into the market.
   b. All regulations against monopolies have been set in place.
   c. No foreign companies are allowed to participate in the market.
   d. The monopoly has incomplete control over its market.
37. Which of the following firms would show an average total cost curve like the one shown on the graph?
   a. a shoe store that replaces all employees with minimum wage employees
   b. a ranch that expands its herd from 400 to 800 cattle without adding land
   c. a restaurant that begins to charge customers $1 for a glass of water
   d. an Internet access company that varies its rates depending on the time of day

38. According to the graph, if a firm enjoys economies of scale,
   a. its average total cost will increase as production increases.
   b. its marginal revenue will increase as production increases.
   c. its average total cost will decrease as production increases.
   d. its variable costs will decrease as production increases.
39. What kind of market runs most efficiently when one large firm supplies all of the output?
   a. a natural monopoly
   b. a network
   c. a perfect competition
   d. an imperfect competition

40. Patents are a form of monopoly that society allows because they
   a. encourage firms to research and develop new products that benefit society as a whole.
   b. maintain an orderly way for companies to make a lot of money.
   c. give companies the right to decide who will be allowed to use their products.
   d. set up a situation in which only a few manufacturers control an industry.

41. Why does the government sometimes give monopoly power to a company by issuing a patent?
   a. The government does not want competition for the product.
   b. The company pays the government for the patent allowing the government to make a profit.
   c. The company produces a superior product for the government to use.
   d. The government wants to encourage the company to develop products that benefit society.

42. A government’s purpose in giving an antitrust exemption to sports leagues is to
   a. increase the league owners’ profits.
   b. prevent other leagues from financing competing sports.
   c. allow leagues to keep team play stable.
   d. prevent athletes from starting new teams.

43. What is one example of a monopoly that the U.S. government generally permits?
   a. telephone conglomerates
   b. professional sports leagues
   c. utilities suppliers
   d. pharmaceutical groups

44. How does the market price of a good in a monopoly market compare with the market price of the same good in a perfectly competitive market?
   a. The price is higher.
   b. The price is lower.
   c. The prices cannot be compared.
   d. The prices are the same.

45. The controller of a monopoly sets the price of goods by charging
   a. as much as possible regardless of the amount sold.
   b. only a small amount over cost.
   c. the price at which the profit is maximized.
   d. less than they would charge if they did not have a monopoly.
46. Why do companies practice price discrimination?
   a. Price discrimination enables companies to charge all consumers the same price for a
good or service.
b. Price discrimination allows companies to defend an illegal monopoly against free
market competition.
c. Price discrimination provides individual producers with an advantage in perfectly
competitive markets.
d. Price discrimination maximizes profits by charging different prices to different
groups of consumers.

47. A group of customers who can benefit from price discrimination in the travel industry is
   a. anyone living in rural areas.
b. senior citizens.
c. users of ebay.
d. people in poor health.

48. A discounted airline fare is a price discrimination that can be offered because
   a. people do not necessarily want to go where where the discounts will allow them to go.
b. vacationers are willing to put up with the restrictions that the airlines impose.
c. people who fly on business want the price discount but do not qualify.
d. senior citizens qualify for discounts on certain types of flights but not on others.

49. The main difference between monopolistic competition and perfect competition is that
   a. in perfect competition prices are set by the government.
b. in perfect competition the buyer is free to buy from any seller.
c. in monopolistic competition there are fewer sellers and more buyers.
d. in monopolistic competition sellers can profit from differences between products.

50. If two shops sell the same merchandise but one offers a higher level of service, the service distinction is
   a. price fixing.
b. nonprice competition.
c. choice among substitute products.
d. local competition.

51. A major characteristic of monopolistic competition is that prices will be
   a. higher than in perfect competition.
b. lower than in perfect competition.
c. higher than in a true monopoly.
d. unrelated to the type of competition.

52. Why are firms in monopolistic competition the only type shown in the table that offer some variety of
goods?
   a. They profit from economies of scale.
b. They profit from market domination.
c. They profit from product differentiation.
d. They profit from price discrimination.
53. One way that firms in a monopolistic competition engage in nonprice competition is through
   a. advertising.
   b. production.
   c. variable costs.
   d. fixed costs.

54. In monopolistic competition, what happens when a firm begins to charge an excessive price for its
   product?
   a. The firm will not sell enough of the product and go out of business.
   b. Consumers will choose a rival firm’s product instead.
   c. Consumers will boycott the product.
   d. The government will regulate the price of the product.

55. Which of the following would be an oligopoly?
   a. one firm producing 95 percent of the output
   b. two to four firms producing 70 percent to 80 percent of the output
   c. eight to ten firms producing 60 percent to 70 percent of the output
   d. twelve to fourteen firms producing 90 percent of the output

56. A cartel is able to survive only if
   a. government regulations permit it.
   b. members are scrupulous about where they sell goods.
   c. all members keep agreed output levels.
   d. members use advertising to differentiate their goods.

57. Cartels are difficult to operate for which of the following reasons?
   a. They work only if members keep to their agreed output.
   b. They are illegal worldwide.
   c. They supply only products that are perfectly competitive.
   d. They are likely to lose money.

58. What happens when a company gains market power?
   a. It must invest its profits in future goods.
   b. It decreases its share of profits in the industry.
   c. It has the ability to set prices and output for the industry.
   d. It makes very good products that benefit society.

59. The government claimed that, to illegally extend its control over the market, Microsoft had used
   a. predatory pricing and mergers.
   b. predatory pricing and buying out competitors.
   c. predatory pricing and forming a cartel.
   d. predatory pricing and requiring customers to buy other products.

60. What did the federal government accomplish with the Sherman Antitrust Act?
   a. repeal of regulations that controlled the airline and trucking industries
   b. registration of cartels with the Department of Justice’s Antitrust Division
   c. permission for John D. Rockefeller to form the Standard Oil Trust
   d. power to prevent monopolies and mergers that interfere with trade between states
61. Before government approves a merger, companies must prove that the merger would
   a. be beneficial by creating a monopoly.
   b. lower costs and consumer prices or lead to a better product.
   c. be good for certain consumers.
   d. lower the number of competitors in the market.

62. What happens to an industry when the government deregulates it?
   a. The industry’s products or services become available to more people.
   b. The industry’s products or services become cheaper.
   c. The industry gains more control over its decisions.
   d. The industry has total control over all its decisions.

63. The U.S. government’s deregulation of the airline industry caused prices to decline in many places because
   a. deregulation made flying more expensive.
   b. some airports were dominated by one airline.
   c. competition lowered prices.
   d. deregulation caused demand for air travel to go down.

64. Inventions such as cellular phones can affect the government’s antitrust policies because
   a. people using the technology do not want antitrust regulations.
   b. government rules can allow higher charges than competition.
   c. the technology causes the need for more strict regulation than before.
   d. they can mean that the need for regulation no longer exists.

Short Answer: You MUST answer TWO QUESTIONS for FIVE POINTS EACH. Additional correct answers earn one point of extra credit.

65. What happens to prices and output in a perfectly competitive market?

C. Critical Thinking and Writing
Directions: Use complete sentences to answer the questions below.

66. A chemical company holds a monopoly on a product that is very popular for use in building construction. The company has the resources to produce as much of the product as it wishes, but instead chooses to limit production. Why?
67. How do firms in a monopolistically competitive market set output?

68. Zero Beverage Company is a monopoly that sells its health drinks all over the world, but charges customers very different prices in different countries. What is this practice called and why would prices vary so much for the same product?

69. Describe three ways that firms can try to increase their market power.
# Economics Chapter 7 Review

## Answer Section

### MATCHING

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   OBJ: 7.1.1 Describe the four conditions that are in place in a perfectly competitive market.
   TOP: Market Structures | Differentiation
15. ANS: G  PTS: 2  DIF: L3  REF: A.178
   OBJ: 7.3.4 Describe characteristics and give examples of oligopoly.
   TOP: Market Structures | Oligopoly
   OBJ: 7.3.4 Describe characteristics and give examples of oligopoly.
   TOP: Market Structures | Price Fixing
17. ANS: F  PTS: 2  DIF: L3  REF: A.179
   OBJ: 7.3.3 Understand how firms in a monopolistically competitive market set output.
   TOP: Market Structures | Cartel
18. ANS: E  PTS: 2  DIF: L3  REF: A.179
   OBJ: 7.3.3 Understand how firms in a monopolistically competitive market set output.
   TOP: Market Structures | Collusion
   OBJ: 7.4.1 Explain how firms might try to increase their market power.
   TOP: Market Structures | Predatory Pricing
    OBJ: 7.4.2 List three market practices that the government regulates or bans to protect competition.
    TOP: Market Structures | Antitrust Laws
    OBJ: 7.4.2 List three market practices that the government regulates or bans to protect competition.
    TOP: Market Structures | Trust
22. ANS: C  PTS: 2  DIF: L3  REF: A.182
    OBJ: 7.4.2 List three market practices that the government regulates or bans to protect competition.
    TOP: Market Structures | Merger
23. ANS: H  PTS: 2  DIF: L3  REF: A.183
    OBJ: 7.4.3 Define deregulation, and list its effects on several industries.
    TOP: Market Structures | Deregulation
    OBJ: 7.4.2 List three market practices that the government regulates or bans to protect competition.
    TOP: Market Structures | Price Controls

MULTIPLE CHOICE

25. ANS: B
    Perfect competition requires prices to be efficiently set by supply and demand. Without enough participants, a buyer or seller can manipulate supply or demand to increase profits.
    PTS: 3  DIF: L3  REF: A.159
    OBJ: 7.1.1 Describe the four conditions that are in place in a perfectly competitive market.
    TOP: Market Structures | Conditions for Perfect Competition
26. **ANS: A**  
A perfectly competitive market assumes that the market is balanced and the firms sell the same product for the same price. Since each firm produces so little of the product compared to the total supply, no single firm can control the price.

**PTS: 3**  
**DIF: L3**  
**REF: A.159**  
**OBJ: 7.1.3 Describe prices and output in a perfectly competitive market.**  
**TOP: Market Structures | Perfect Competition**

27. **ANS: A**  
Perfect competition, sometimes called pure competition, is the simplest market structure because a large number of firms produce basically the same product at the same price, restricting the decisions and influence they have on the market.

**PTS: 5**  
**DIF: L4**  
**REF: A.159**  
**OBJ: 7.1.1 Describe the four conditions that are in place in a perfectly competitive market.**  
**TOP: Market Structures | Perfect Competition**

28. **ANS: C**  
The farmers’ market, with its identical goods and many buyers and sellers, is a rare, real-world example of a market in perfect competition.

**PTS: 3**  
**DIF: L3**  
**REF: A.159**  
**OBJ: 7.1.1 Describe the four conditions that are in place in a perfectly competitive market.**  
**TOP: Market Structures | Perfect Competition**

29. **ANS: C**  
Most markets have significant barriers to entry.

**PTS: 3**  
**DIF: L3**  
**REF: A.160**  
**OBJ: 7.1.2 List two common barriers that prevent firms from entering a market.**  
**TOP: Market Structures | Barriers to Entry**

30. **ANS: B**  
Since a market that is perfectly competitive has a large number of firms, a market that restricts firms from entering it would be imperfect.

**PTS: 3**  
**DIF: L3**  
**REF: A.160**  
**OBJ: 7.1.2 List two common barriers that prevent firms from entering a market.**  
**TOP: Market Structures | Barriers to Entry**

31. **ANS: B**  
A product that is considered the same no matter who makes or sells it, such as gasoline, is a commodity.

**PTS: 3**  
**DIF: L3**  
**REF: A.160**  
**OBJ: 7.1.1 Describe the four conditions that are in place in a perfectly competitive market.**  
**TOP: Market Structures | Commodity**
32. **ANS: A**
   High start-up costs will cause a market to have fewer competitors, which lowers the likelihood that they will be perfectly competitive.

   PTS: 3       DIF: L3       REF: A.162
   OBJ: 7.1.2 List two common barriers that prevent firms from entering a market.
   TOP: Market Structures | Start-up Costs

33. **ANS: C**
   Start-up costs are expenses that a business must pay before it can begin producing.

   PTS: 3       DIF: L3       REF: A.162
   OBJ: 7.1.2 List two common barriers that prevent firms from entering a market.
   TOP: Market Structures | Barriers to Entry

34. **ANS: A**
   In a perfect market, competition maximizes efficiency so that each firm just covers all of its costs, including profit.

   PTS: 3       DIF: L3       REF: A.163
   OBJ: 7.1.3 Describe prices and output in a perfectly competitive market.
   TOP: Market Structures | Output

35. **ANS: B**
   In perfect competition, output will reach a point where each supplying firm just covers all of its costs.

   PTS: 3       DIF: L3       REF: A.163
   OBJ: 7.1.3 Describe prices and output in a perfectly competitive market.
   TOP: Market Structures | Perfect Competition

36. **ANS: A**
   A barrier to entry is a condition that prevents other companies from joining the market. If the barrier is complete, then one company has complete control over the market to such an extent that no one else can compete in that market.

   PTS: 5       DIF: L4       REF: A.164
   OBJ: 7.2.1 Describe characteristics and give examples of a monopoly.
   TOP: Market Structures | Monopoly

37. **ANS: B**
   In order to increase profits while increasing output, costs must fall. In this case, the fixed costs are spread out among more goods as the output rises.

   PTS: 5       DIF: L4       REF: A.165
   OBJ: 7.2.2 Describe how monopolies, including government monopolies, are formed.
   TOP: Market Structures | Monopolies

38. **ANS: C**
   With economies of scale, costs decrease as production increases.

   PTS: 3       DIF: L3       REF: A.165
   OBJ: 7.2.2 Describe how monopolies, including government monopolies, are formed.
   TOP: Market Structures | Monopolies
39. **ANS: A**  
A natural monopoly is a market that runs most efficiently when one large firm provides all of the output.

**PTS:** 3  
**DIF:** L3  
**REF:** A.166  
**OBJ:** 7.2.1 Describe characteristics and give examples of a monopoly.  
**TOP:** Market Structures | Monopolies

40. **ANS: A**  
Patents allow a temporary monopoly that encourages firms to develop new products.

**PTS:** 3  
**DIF:** L3  
**REF:** A.167  
**OBJ:** 7.2.2 Describe how monopolies, including government monopolies, are formed.  
**TOP:** Market Structures | Patent

41. **ANS: D**  
Patents encourage firms to research and develop products that benefit society as a whole by allowing them to profit from their research.

**PTS:** 3  
**DIF:** L3  
**REF:** A.167  
**OBJ:** 7.2.3 Explain how a firm with a monopoly makes output decisions.  
**TOP:** Market Structures | Monopolies

42. **ANS: C**  
The U.S. government allows leagues to control how many teams there are and where teams can be based, to keep team play orderly and stable.

**PTS:** 3  
**DIF:** L3  
**REF:** A.168  
**OBJ:** 7.2.3 Explain how a firm with a monopoly makes output decisions.  
**TOP:** Market Structures | Industrial Organizations

43. **ANS: B**  
The government allows professional sports leagues to restrict the number of teams in a market.

**PTS:** 5  
**DIF:** L4  
**REF:** A.168  
**OBJ:** 7.2.1 Describe characteristics and give examples of a monopoly.  
**TOP:** Market Structures | Monopolies

44. **ANS: A**  
In a monopoly market, to maximize profits a monopolist will usually produce fewer goods at a higher price.

**PTS:** 3  
**DIF:** L3  
**REF:** A.168  
**OBJ:** 7.2.3 Explain how a firm with a monopoly makes output decisions.  
**TOP:** Market Structures | Monopolies

45. **ANS: C**  
A monopoly will maximize profits by setting the price at the point where marginal revenue equals marginal cost.

**PTS:** 3  
**DIF:** L3  
**REF:** A.170  
**OBJ:** 7.2.4 Explain why monopolists sometimes practice price discrimination.  
**TOP:** Market Structures | Monopoly
46. **ANS: D**
Price discrimination allows suppliers to charge different prices to different groups of people. This allows the supplier to set the price for each group at the maximum each group is willing to pay.

**PTS: 3**  **DIF: L3**  **REF: A.171**
**OBJ: 7.2.4 Explain why monopolists sometimes practice price discrimination.**
**TOP: Market Structures | Price Discrimination**

47. **ANS: B**
A group that may be offered lower prices has to be easily distinguished from other people. Senior citizens can show proof of their age.

**PTS: 3**  **DIF: L3**  **REF: A.171**
**OBJ: 7.2.4 Explain why monopolists sometimes practice price discrimination.**
**TOP: Market Structures | Price Discrimination**

48. **ANS: B**
Price discrimination sets different prices for different groups who are willing to pay them. Discounted fares can be offered because vacationers or other customers are willing to put up with restrictions, such as advance purchase or Saturday night stays.

**PTS: 3**  **DIF: L3**  **REF: A.172**
**OBJ: 7.2.4 Explain why monopolists sometimes practice price discrimination.**
**TOP: Market Structures | Price Discrimination**

49. **ANS: D**
In perfect competition, products are identical. In monopolistic competition, products are slightly different, and sellers can profit from those differences.

**PTS: 3**  **DIF: L3**  **REF: A.174**
**OBJ: 7.3.1 Describe characteristics and give examples of monopolistic competition.**
**TOP: Market Structures | Monopolistic Competition**

50. **ANS: B**
Nonprice competition is competition based on things other than lower prices.

**PTS: 3**  **DIF: L3**  **REF: A.175**
**OBJ: 7.3.2 Explain how firms compete without lowering prices.**
**TOP: Market Structures | Nonprice Competition**

51. **ANS: A**
In monopolistic competition, companies have some control over price since their products are similar, but not identical. So prices will be higher than in perfect competition, but not as high as in a monopoly.

**PTS: 3**  **DIF: L3**  **REF: A.175**
**OBJ: 7.3.1 Describe characteristics and give examples of monopolistic competition.**
**TOP: Market Structures | Prices**
52. **ANS: C**
   In monopolistic competition, many companies compete in an open market to sell products that are similar but not identical, allowing for some variety.

   **PTS:** 3  **DIFF:** L3  **REF:** A.175
   **OBJ:** 7.3.1 Describe characteristics and give examples of monopolistic competition.
   **TOP:** Market Structures | Monopolistic Competition

53. **ANS: A**
   Advertising is one way that firms in a monopolistic competition can compete with one another without lowering prices.

   **PTS:** 3  **DIFF:** L3  **REF:** A.176
   **OBJ:** 7.3.2 Explain how firms compete without lowering prices.
   **TOP:** Market Structures | Monopolistic Competition

54. **ANS: B**
   In monopolistic competition, prices stay low because consumers can easily switch suppliers. If one firm raises prices too much, consumers just switch firms.

   **PTS:** 3  **DIFF:** L3  **REF:** A.177
   **OBJ:** 7.3.2 Explain how firms compete without lowering prices.
   **TOP:** Market Structures | Monopolistic Competition

55. **ANS: B**
   In an oligopoly, a few large firms dominate the market. So economists usually say if the four largest firms produce at least 70 to 80 percent of the output, that’s an oligopoly.

   **PTS:** 3  **DIFF:** L3  **REF:** A.177
   **OBJ:** 7.3.4 Describe characteristics and give examples of oligopoly.
   **TOP:** Market Structures | Oligopoly

56. **ANS: C**
   If any one member of a cartel raises output, prices will fall.

   **PTS:** 3  **DIFF:** L3  **REF:** A.179
   **OBJ:** 7.3.4 Describe characteristics and give examples of oligopoly.
   **TOP:** Market Structures | Cartels and Output

57. **ANS: A**
   Cartels work by every member agreeing to limit output. If any member breaks this agreement, prices fall and the cartels lose money.

   **PTS:** 5  **DIFF:** L4  **REF:** A.179
   **OBJ:** 7.3.4 Describe characteristics and give examples of oligopoly.
   **TOP:** Market Structures | Cartels

58. **ANS: C**
   A company with market power has the ability to set prices and output for the industry.

   **PTS:** 3  **DIFF:** L3  **REF:** A.180
   **OBJ:** 7.4.1 Explain how firms might try to increase their market power.
   **TOP:** Market Structure | Market Power
59. **ANS: D**
   The government claimed that Microsoft was engaging in predatory pricing by giving away its browser for free and requiring that it be included with its operating system software.

   **PTS:** 3   **DIF:** L3   **REF:** A.181
   **OBJ:** 7.4.2 List market practices that the government regulates or bans to protect competition.
   **TOP:** Market Structures | Government

60. **ANS: D**
   The Sherman Antitrust Act outlawed mergers and monopolies that limit trade between states.

   **PTS:** 3   **DIF:** L3   **REF:** A.181
   **OBJ:** 7.4.2 List three market practices that the government regulates or bans to protect competition.
   **TOP:** Market Structures | Regulation

61. **ANS: B**
   The government has the power to prevent the formation of monopolies by blocking mergers that might reduce competition and lead to higher prices.

   **PTS:** 3   **DIF:** L3   **REF:** A.182
   **OBJ:** 7.4.2 List three market practices that the government regulates or bans to protect competition.
   **TOP:** Market Structures | Regulation

62. **ANS: C**
   When the government deregulates an industry, the government removes some of its controls.

   **PTS:** 3   **DIF:** L3   **REF:** A.183
   **OBJ:** 7.4.3 Define deregulation, and list its effects on several industries.
   **TOP:** Market Structures | Deregulation

63. **ANS: C**
   Competition usually lowers prices.

   **PTS:** 3   **DIF:** L3   **REF:** A.184
   **OBJ:** 7.4.3 Define deregulation, and list its effects on several industries.
   **TOP:** Market Structures | Deregulation

64. **ANS: D**
   Cellular phones challenged the natural monopoly of local phone service and reduced the need for regulation.

   **PTS:** 3   **DIF:** L3   **REF:** A.184
   **OBJ:** 7.4.3 Define deregulation, and list its effects on several industries.
   **TOP:** Market Structures | Deregulation and New Technologies
SHORT ANSWER

65. ANS:
In a perfectly competitive market, prices are kept as low as possible to beat the competition and still make a profit. Output is based on how efficiently the producer can use its resources to meet market demand, yet keep production costs low.

PTS: 5      DIF: L3      REF: A.163
OBJ: 7.1.3 Describe prices and output in a perfectly competitive market.
TOP: Market Structure | Perfect Competition

66. ANS:
By limiting production for a product in high demand, the company can charge a very high price and thus increase its own profits.

PTS: 7      DIF: L4      REF: A.168
OBJ: 7.2.3 Explain how a firm with a monopoly makes output decisions.
TOP: Market Structures | Output

67. ANS:
Since output and prices are negatively related and monopolistically competitive firms sell their products at higher prices than perfectly competitive firms, their output would fall somewhere between that of a monopoly and perfect competition.

PTS: 7      DIF: L4      REF: A.177
OBJ: 7.3.3 Understand how firms in a monopolistically competitive market set output.
TOP: Market Structures | Monopolistic Competition

68. ANS:
This practice is called price discrimination and it is based on the idea that the company should charge as much as the customers are able to pay. Thus, the company may be willing to charge a lower price to customers in a poor country than it would to customers in a wealthier country.

PTS: 5      DIF: L3      REF: A.171
OBJ: 7.2.4 Explain why monopolists sometimes practice price discrimination.
TOP: Market Structures | Price Discrimination

69. ANS:
They can merge with one another, form a cartel, or set the market price below their costs for the short term to drive competition out of business.

PTS: 5      DIF: L3      REF: A.180
OBJ: 7.4.1 Explain how firms might try to increase their market power.
TOP: Market Structures | Market Power