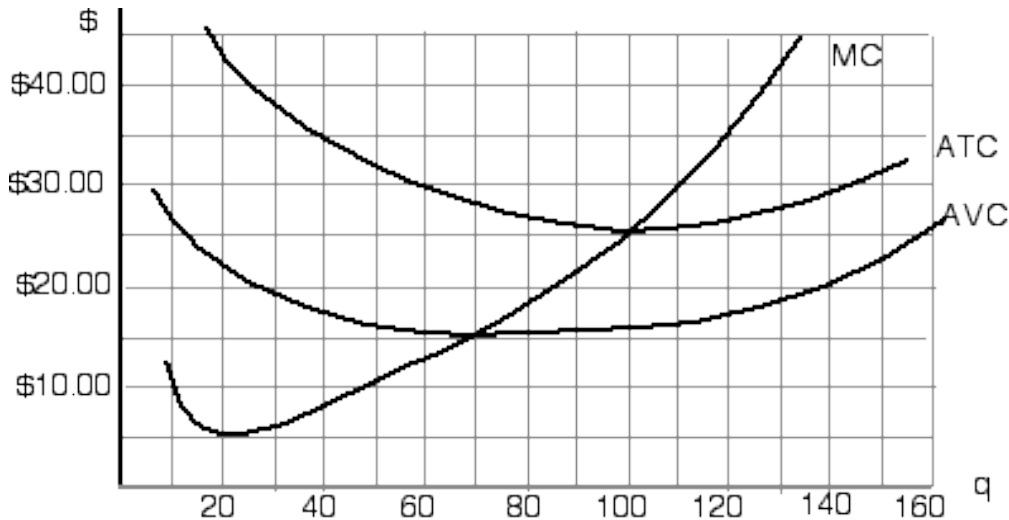


ECON 221: PRACTICE EXAM 3

- In the long run,
 - Perfectly competitive firms, in theory, make no economic profit.
 - Firms are free to alter capital and therefore change the firm's size
 - Price will be equal to the minimum of long run average total cost in a perfectly competitive industry
 - Entry and exit will occur in a perfectly competitive industry
 - All of the above are true
- If the firms in the perfectly competitive price taker industry were facing costs less than the price that they are charging, the firms
 - Would receive short run economic profits offset by long run economic losses.
 - Would face new competition in the long run, which would force price down to the level of costs
 - Would receive short-run and long-run economic profit
 - Must be colluding or rigging the market in some way
 - Would receive small short-run profits and larger long-run economic profits.

Below are cost curves of Wilbur Write's Paper Co., one of many companies that make plain white copier/printer paper. Suppose Wilbur Write's Paper Co. acts as a price taker. The quantities shown represent reams of paper sold each day (each package containing 100 sheets), and the dollar amounts represent the costs of each package, in the short run. Use the graph to answer questions 3 – 6.



- What is the lowest market price that will make it worthwhile for Wilbur Write's Paper Company to produce in the short-run?
 - \$5
 - \$15
 - \$25
 - \$30
 - Can't tell from the graph above

4. If the market price of paper is \$35 dollars per ream, what can you say about Wilbur Write's Paper Company's profits?
 1. The company incurs a loss
 2. There is neither profit nor loss
 3. Profit is positive, but less than \$550
 4. Profit is greater than \$550, but less than \$1200
 5. Profit is greater than or equal to \$1200

5. When Wilbur Write's produces 50, the firm most definitely will:
 1. Produce and earn a profit
 2. Produce and incur a loss
 3. Would increase its price
 4. Shut down
 5. Increase profitability by reducing output

6. At what output will Wilbur Write's produce in the long run?
 1. 120
 2. 100
 3. 80
 4. 60
 5. 40

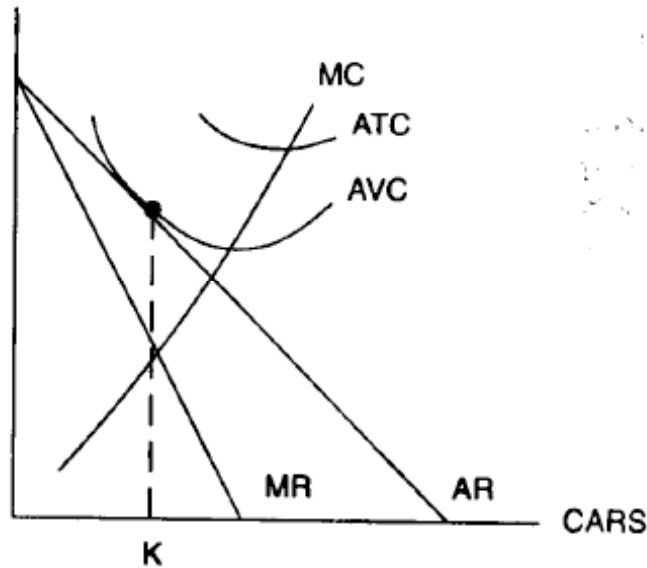
7. When firms gain monopoly power,
 1. The profit-maximizing point of production is less than the efficient point of production.
 2. The profit-maximizing point of production is greater than the efficient point of production
 3. The profit-maximizing point of production is equal to the efficient point of production
 4. The profit-maximizing point of production increases and the efficient point of production decreases
 5. The profit-maximizing point of production decreases and the efficient point of production increases

8. What can, in general, be said about a monopoly's supply curve?
 1. A monopoly's supply curve, like that of the perfectly competitive firm, coincides with the firm's marginal cost curve
 2. The profit-maximizing monopoly will only operate in the elastic part of the supply curve
 3. The monopoly's supply curve is more inelastic than the one facing the perfectly competitive firm
 4. A monopolist does not have a supply curve

9. A monopolist always will choose to operate
 1. Even if its profits are negative
 2. In the elastic portion of its demand curve
 3. Until a such time where a new firm enters the market
 4. Only if it can capture the entire consumer surplus

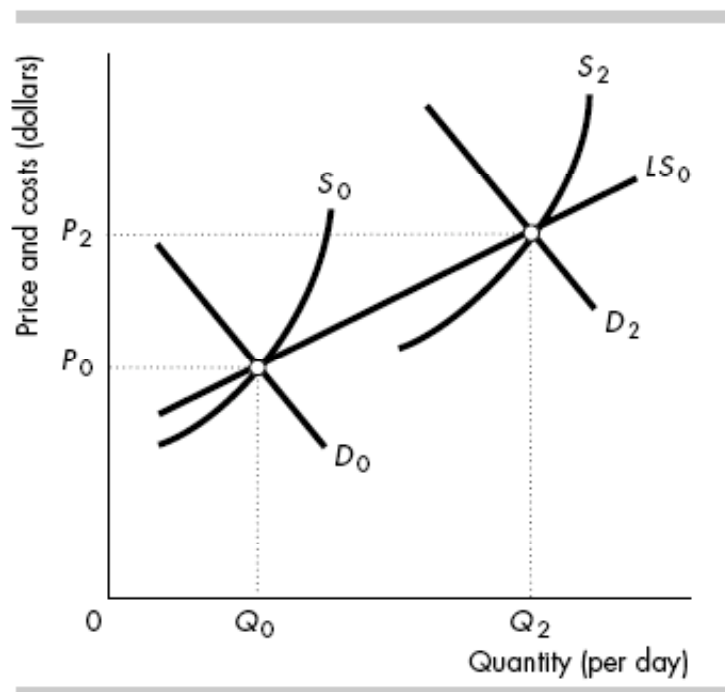
10. In the long run, a profit-maximizing firm will exit an industry due to
1. Fixed costs exceed sunk costs
 2. Revenue from production is less than total costs
 3. Average cost is rising
 4. Marginal cost exceeds marginal revenue at the current level of production
11. Angelo is a wholesale meatball distributor. He sells meatballs to the finest Italian restaurants in town. Nobody can make meatballs like Angelo. As a result, he is the only business in town that sells meatballs to restaurants. Assuming that Angelo is maximizing his profit, which of the following statements is true?
1. Meatball prices will exceed marginal revenue
 2. Meatball prices will equal marginal revenue
 3. Meatball prices will be less than marginal revenue
 4. Meatball price is a function of supply and demand so price oscillates around MR.
12. A natural monopoly refers to situation in which
1. An industry is characterized by having many close substitutes
 2. All potential competitors have left due to regulation
 3. A single firm enjoys economies of scale over the relevant range of output
 4. A single firm owns all of the factors of production
 5. None of the above

Using the following graph to answer question 13.



13. If GM sells cars, as shown in the diagram above,
1. It will earn positive economic profits
 2. It will break even
 3. It will suffer losses equal to its fixed costs
 4. It will suffer losses equal to its variable costs
 5. It should discontinue production

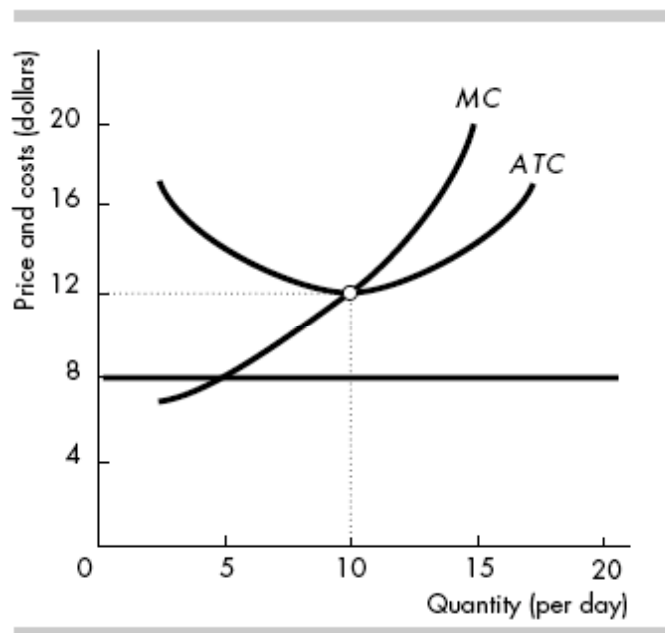
14. If the product demand curve and the industry's cost curves were the same whether or not the industry operated under the assumptions of monopoly or perfect competition, what can be said about the price and output under a perfectly price discriminating monopoly vis-à-vis the competitive price and output?
1. Price would be the same and output would be lower under the perfectly discriminating monopoly
 2. Output would be the same and price would be higher under the perfectly discriminating monopoly
 3. Price would be the same and output would be lower under perfect competition
 4. Price would be higher and output would be lower in under the perfectly discriminating monopoly
 5. Price and output would be the same in a perfectly discriminating monopoly and perfect competition.
15. The conditions necessary for a firm to price discriminate are
1. Segmentable markets
 2. Differences in the elasticity of demand in those markets
 3. The inability of customers to transfer products
 4. All of the above are true
 5. None of the above are true



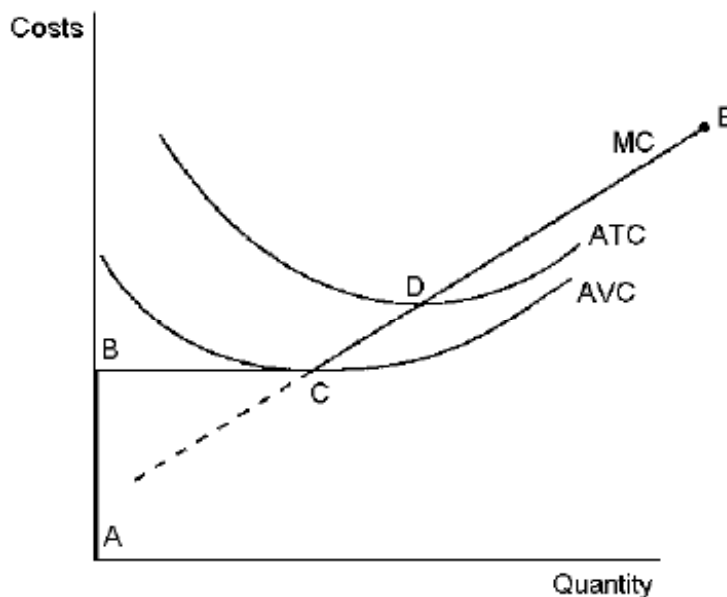
16. With the expansion of demand in an industry, there is congestion causing each individual firm's costs to rise. What must have been the case?
1. Number of firms decreases by a large amount
 2. Number of firms increases by a small amount
 3. External economies rise
 4. External diseconomies are not present

17. In a perfectly competitive industry, a permanent increase in demand creates a temporary economic _____ and _____ by some firms.
1. Profit; entry
 2. Profit; exit
 3. Loss; exit
 4. Loss; entry
18. A price discriminating monopoly charges higher prices to customers with
1. Lower quantities demanded
 2. Higher quantities demanded
 3. High average willingness to pay
 4. Lower average willingness to pay
19. The reason that a perfectly competitive industry is more efficient than a single-price monopoly is because the perfectly competitive industry
1. Has higher total costs
 2. Produces more output
 3. Has a market demand that is more elastic
 4. Produces at a higher price
 5. None of the above
20. The following conditions characterize what type of firm? $P > MR$, $P > ATC$
1. Perfectly competitive in the short run earning an economic profit
 2. Perfectly competitive in the long run breaking even
 3. Monopolistically competitive in the long run earning an economic profit
 4. Monopoly in the short run earning an economic profit

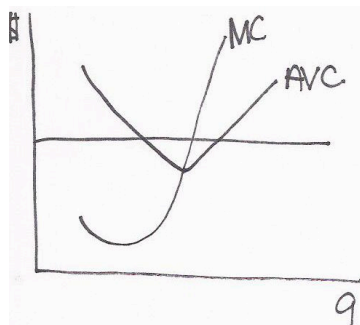
Use the diagram below to answer question 21.



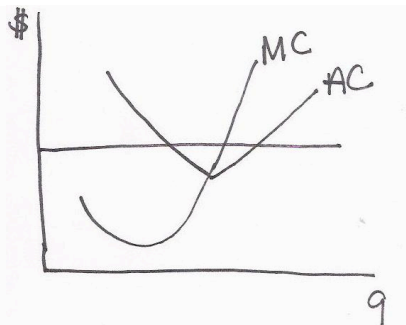
21. The figure above shows short-run cost curves for a perfectly competitive firm. If the price is \$8 dollars, will the firm produce in the short-run?
1. Yes; it will produce where price = MC and produce 5 units
 2. Yes; it will produce where price is less than average cost and produce 10 units
 3. No it will not produce
 4. We can't tell from this diagram without more information
22. Monopoly hurts consumers because
1. Monopolists make consumers pay higher prices than they would otherwise in a perfectly competitive market
 2. Monopolists hurt economic efficiency
 3. Monopolists "under-produce" from society's point of view
 4. All of the above
 5. None of the above
23. If romaine lettuce is produced by price takers, a decrease in demand for lettuce will
1. Induce new, more efficient producers of lettuce to enter the market in the long run, if it is perfectly competitive.
 2. Cause the existing firms in the industry to expand in the long run.
 3. Induce both new and existing producers to bid resources away from other uses.
 4. Encourage owners of resources now used to produce lettuce to move their resources into other uses in the long run.
 5. Cause producers of lettuce to make losses in the long run.
24. If a monopolist's demand curve is downward sloping and linear, then its total revenue function is
1. Identical to the demand curve
 2. A ray from the origin with slope equal to price
 3. Negatively sloped with twice the slope of the demand curve
 4. A rising function of output that increases at an increasing rate
 5. A rising function of output that increases at a decreasing rate, reaches a maximum, and then falls



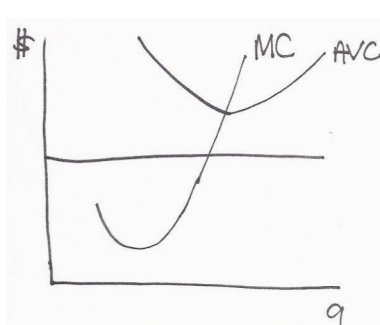
25. The firm's short run supply curve in the graph above is represented by
1. ABC
 2. BCD
 3. CDE
 4. ABE
 5. ABD
26. The more perfectly a monopoly can price discriminate, the
1. Smaller its output and the lower its profits
 2. Smaller its output and the higher its profits
 3. Larger its output and the lower its profits
 4. Larger its output and the higher its profits
27. Other things equal, a decrease in demand for a product produced by a competitive industry will in the long run cause:
1. All firms to decrease output
 2. All firms to lower the price
 3. A decrease in profits for all firms
 4. A decrease in the number of firms
 5. None of the above
28. If the market price of a perfectly competitive firm's product is below its average variable cost, then the firm's
1. Marginal revenue is zero
 2. Total revenue is as large as possible
 3. Total revenue if it stayed open would be less than its total variable cost
 4. Total revenue if it stayed open would be less than its total cost but greater than its total fixed costs
 5. None of the above



GRAPH A



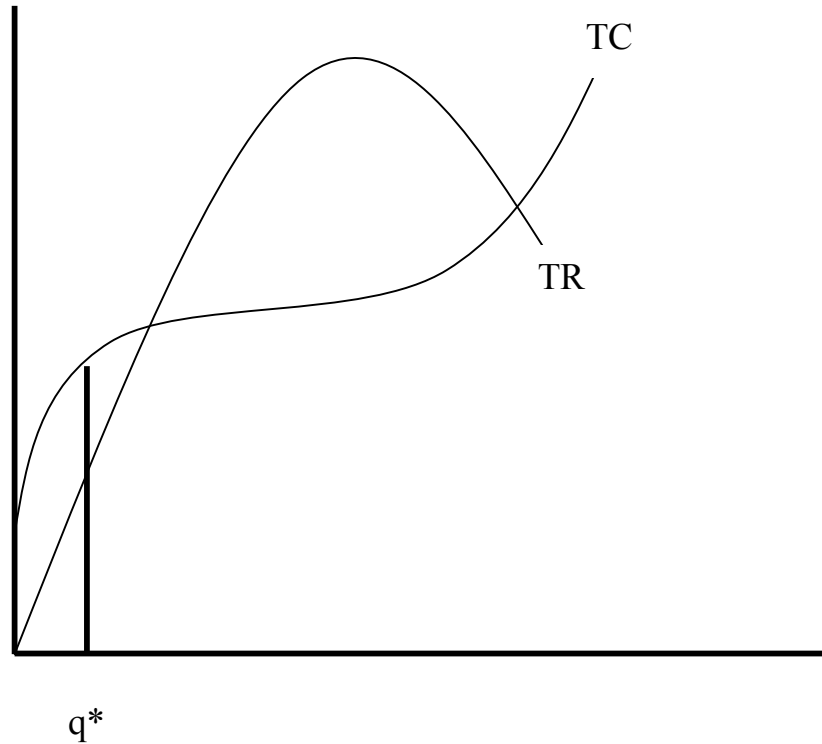
GRAPH B



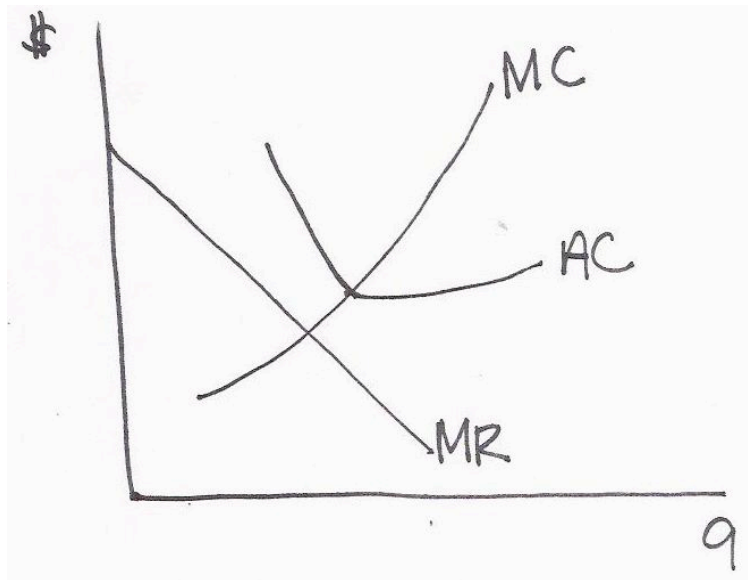
GRAPH C

29. Which of the three figured above does not depict a short-run equilibrium for the perfectly competitive firm?
1. A
 2. B
 3. C
 4. None of the above

30. A perfectly competitive firm maximizes its profit by:
1. Setting its price so that it exceeds marginal revenue
 2. Selecting the correct level of output
 3. Cutting wages
 4. Manipulating demand
 5. Setting its price so that it equals marginal cost



31. Based on the figure above, at output q^* ,
1. $MR > MC$
 2. $MR < MC$
 3. $MR = MC$
 4. The competitive firm should increase output
 5. Answers 1 and 4.
32. In the figure on the next page, the monopolist is:
1. Making economic profits
 2. Breaking even
 3. Making losses
 4. Insufficient information to give an answer

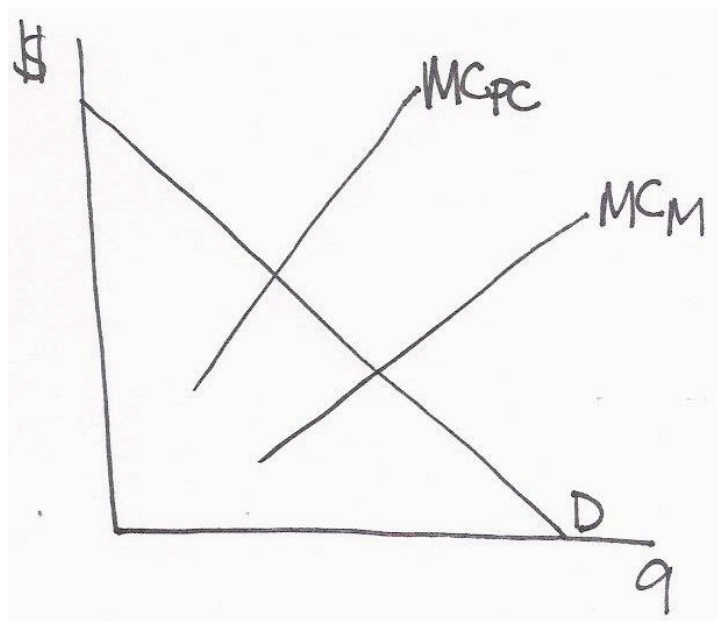


33. If the monopolist is operating in the inelastic zone of the demand curve:

1. Marginal revenue equals price
2. Average revenue is negative
3. Marginal costs are negative
4. It could increase total revenue by lowering price
5. Marginal revenue is negative

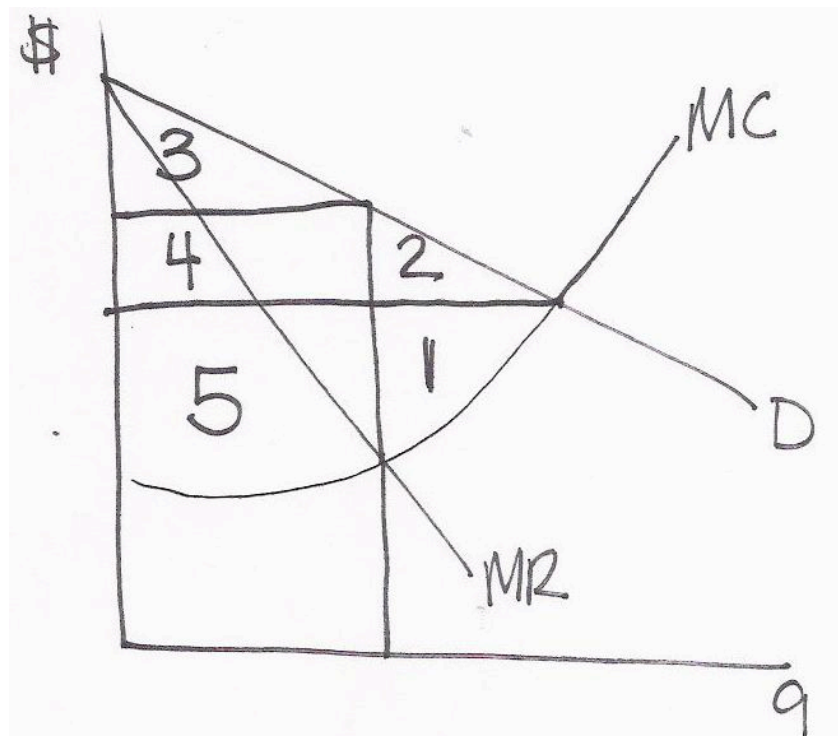
34. In the figure below, the monopolist's marginal cost curve, MC_M , is lower than the marginal cost curve of a competitive industry, MC_{PC} . In this situation, the monopolist will

1. Produce more at a lower price
2. Produce the same at the same price
3. Produce the same quantity at a higher price than perfect competition
4. Produce the same quantity at a lower price than perfect competition
5. There is insufficient information to give an answer



35. An increase in the fixed costs of a competitive industry experiencing neither external economies or diseconomies will lead to:
1. An increase in marginal costs
 2. A short-run increase in price
 3. Prices in the long run that are no higher than before the increase in fixed costs
 4. A reduced number of firms in the long run
 5. Unchanged industry output in the long run
36. If there are external diseconomies in an industry, after a permanent decrease in demand, the long-run market price:
1. Is higher than initially
 2. Is lower than initially
 3. The same as initially
 4. May be higher or lower depending on whether the firm is earning economic profits
37. Econometricians, the people who determine demand and cost structures for firms in industry have determined that a perfectly competitive firm that produces candy is in the following situation. Output is 300 units, the market price is \$5, fixed costs are \$8,000, variable costs are \$3,000, and marginal cost is \$4.50. What should this firm do?
1. Expand output
 2. Contract output
 3. Leave output unchanged
 4. Close down
 5. Set a higher price

Use the graph below to answer questions 36-38 on the next page.



38. What area represents consumer surplus of a single-priced monopoly?

1. 1
2. 2
3. 3
4. 4
5. 5

39. What area represents the transfer effect of a single-priced monopoly?

1. 1
2. 2
3. 3
4. 4
5. 5

40. What area represents the consumer surplus of a perfectly discriminating monopoly?

1. 1
2. 2
3. 3
4. 4 and 5
5. None of the above