


Econ321


Test 3 Review



1

True or False?


- A perfectly competitive market is in equilibrium. Total surplus for buyers and sellers in this market would be higher if additional units of output were produced.



2

True or False?

- Suppose that watermelons are produced in the United States, but that some watermelons are also imported from other countries. Assume that the watermelon market in the US is perfectly competitive, and that supply from the rest of the world is perfectly elastic. If the US imposes a tariff on imported watermelons, total surplus for citizens of the US will rise.



3

True or False?



- Rent controls are an example of a price floor.

4

True or False?



- Rent controls increase total surplus in the housing market because more people are able to obtain affordable housing.

5

True or False?



- A monopoly firm is the only seller in the market, but will always act as a price-taker when maximizing profit.

6

True or False?



- Suppose that a monopolist faces this demand curve for its product:

$$Q_d = 100 - 2P$$

- Then the marginal revenue curve facing the monopolist will be given by:

$$MR = 100 - 4P$$

7

True or False?



- The following condition is necessary for profit maximization for both in both monopoly and perfectly competitive markets:

$$MR = MC$$

8

True or False?



- For a monopoly firm, marginal revenue will always exceed price at any chosen quantity.

9

True or False?



- The supply curve for a monopoly firm is upward sloping.

10

True or False?



- Suppose that the oil market operates as a cartel (a group of firms who coordinate their actions so that they collectively act as a single monopoly). Then the cartel will select a price such that the elasticity of demand is greater than 1 (in absolute value).

11

True or False?



- The equation below correctly describes the profit-maximizing “markup” of price over marginal cost for a monopoly firm:

$$\frac{P - MC}{P} = \frac{1}{|\eta_p|}$$

12

True or False?



- In a monopoly equilibrium, total surplus for society is at the maximum possible level.

13

True or False?



- Professor Chappell dislikes monopolies because monopolies earn exorbitant profits by engaging in price-gouging at the expense of consumers.

14

True or False?



- Suppose that the monopoly barber shop in town charges different prices for haircuts for children and adults. Assuming that all haircuts are equally costly to produce, this is an example of first degree price discrimination.

15

True or False?



- Suppose that a monopoly firm produces both printers and ink for those printers. The firm sells printers for \$100 and ink for \$10 per cartridge. This pricing arrangement can be considered a two-part tariff.

16

True or False?



- Suppose that the state fair has decided to charge an admission fee of \$25 which entitles a customer to ride the rides inside the park at no additional fee. This pricing scheme is most likely to be a profit-maximizing scheme if (1) the marginal cost of providing rides is approximately zero and (2) all state fair customers have similar preferences for riding rides.

17

True or False?



- Suppose that a movie theatre is a monopolist showing the new James Bond movie. The movie theater charges a fee of \$7.50 for a ticket, but charges \$4.00 for a bag of popcorn. Marginal cost of a bag of popcorn is \$0.50. This is a profit-maximizing pricing scheme if all moviegoers have similar preferences for popcorn.

18

True or False?



- Assume that Quicken charges a price of \$50 for its standard version, and \$85 for its deluxe version. The higher price does not reflect any price discrimination, because the marginal cost of production of another unit of the deluxe version exceeds that for the standard version.

19

True or False?



- Suppose that Quicken can increase the quality of its lower quality version at no additional cost. It would always choose to do this, since it could then charge customers a higher price.

20

True or False?



- Suppose that reimportation of a patented prescription drugs from Canada were made legal. As a consequence, consumers in the US would save significant amounts of money on prescriptions.

21

True or False?



- Suppose that there are two types of buyers for mobile phone services: low-demand and high-demand customers. In designing plans involving minutes and prices, the seller must consider an incentive compatibility constraint, which says that high demand customers must be charged a higher price per minute of call time.

22

True or False?



- Suppose that a coal mine is the only employer in town, and that people are unwilling to move to another town to get a job. Also suppose that the coal mine sells its product in a competitive market. Then the coal mine will choose an amount of labor such that the value of the marginal product of labor is equal to the wage rate:

$$P_{coal} \cdot MP_L = w$$

23

The End



24
