1. A key characteristic of a competitive market is that

A. government antitrust laws regulate competition
B. firms have price-setting power
C. producers sell nearly identical products
D. firms minimize total costs

2. The fundamental source of monopoly power is

A. profit
B. barriers to entry
C. decreasing average total cost
D. a product without close substitutes

3. A monopoly

A. can set the price it charges for its output but faces a downward-sloping demand curve so it cannot earn unlimited profits
B. can set the price it charges for its output and earn unlimited profits
C. takes the market price as given and earns small but positive profits
D. can set the price it charges for its output but faces a horizontal demand curve so it can earn unlimited profits

4. One difference between a perfectly competitive firm and a monopoly is that a perfectly competitive firm produces where

A. price exceeds marginal cost, while a monopolist produces where marginal cost equals price
B. marginal cost exceeds price, while a monopolist produces where marginal cost equals price

C. marginal cost equals price, while a monopolist produces where marginal cost exceeds price
D. marginal cost equals price, while a monopolist produces where price exceeds marginal cost

5. The supply curve for the monopolist

A. is horizontal
B. is upward sloping
C. does not exist
D. is vertical

6. Monopolies use their market power to

A. charge prices that equal minimum average total cost
B. increase the quantity sold as they increase price
C. charge a price that is higher than marginal cost
D. dump excess supplies of their product on the market

7. If a firm in a competitive market doubles its number of units sold, total revenue for the firm will

A. increase but by less than double
B. more than double
C. double
D. may increase or decrease depending on the price elasticity of demand

8. At the profit-maximizing level of output,

A. average revenue equals average total cost
B. marginal revenue equals average total cost

C. marginal revenue equals average variable cost
D. marginal revenue equals marginal cost

---

9. When a profit-maximizing firm is earning profits, those profits can be identified by

A. P × Q
B. (P − ATC) × Q
C. (MC − AVC) × Q
D. (P − AVC) × Q

---

10. A bookstore that has market power can

A. influence the market price for the books it sells
B. minimize costs more efficiently than its competitors
C. ignore profit-maximizing strategies when setting the price for its books
D. reduce its advertising budget more than its competitors

---

11. The short-run supply curve for a firm in a perfectly competitive market is

A. horizontal
B. likely to slope downward
C. determined by forces external to the firm
D. the portion of its marginal cost curve that lies above its average variable cost

---

12. In order to sell more of its product, a monopolist must

A. sell to the government
B. sell in international markets
C. lower its price
D. use its market power to force up the price of complementary products

13. Profit-maximizing firms enter a competitive market when existing firms in that market have

A. average total costs less than market price
B. total revenues that exceed fixed costs
C. average total costs that exceed average revenue
D. total revenues that exceed total variable costs

14. Which of the following industries is most likely to exhibit the characteristic of free entry?

A. mineral mining
B. cable television
C. satellite radio
D. t-shirt silk screening

15. Microsoft faces very little competition from other firms for its Windows software. Why isn't the price of the software $1,000 per copy?

A. because the government would not allow such a high price
B. because stockholders would not allow such a high price
C. because the company would sell so few copies that it would earn higher profits by selling at a lower price
D. All of the above are correct