AP Microeconomics Unit 4: Imperfect Competition Practice Test

Question 1

The market for space travel has the possibility to be very profitable, but it is also likely to be imperfectly competitive.

Which of the following is the most likely reason that the space travel industry is imperfectly competitive?

- **A.** low minimum efficient scale relative to the size of the market
- **B.** high profits
- **C.** having no control over price
- **D.** high start-up costs
- **E.** low barriers to entry

Question 2

Which of the following is true about an imperfectly competitive firm's marginal revenue (MR) curve if it has a linear and downward-sloping demand curve?

- **A.** MR decreases at an increasing rate.
- **B.** MR increases at first, then decreases.
- **C.** MR is constant.
- **D.** MR decreases and is less than demand.
- **E.** MR is greater than demand.

Question 3

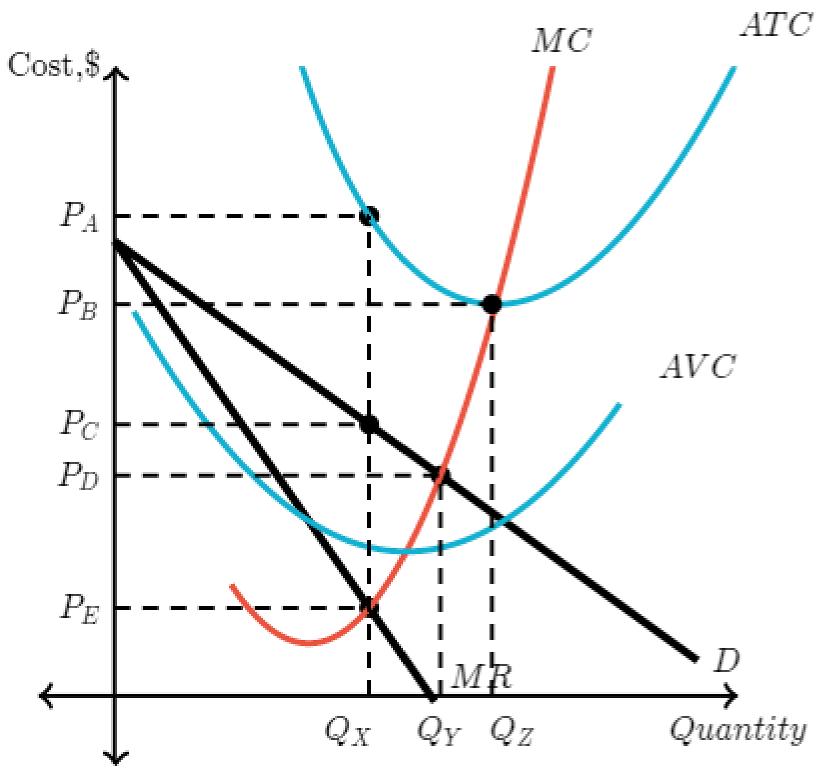
Petunia's Pears sells pear cider. There is only one other seller in the market.

What kind of industry is the market for pear cider?

- **A.** monopoly
- **B.** monopsony
- **C.** monopolistic competition
- **D.** perfectly competitive
- **E.** oligopoly

Question 4

What price will a single price monopolist charge based on this graph?



- **A.** P_E
- **B.** P_D
- **C.** P_A
- **D.** P_C
- **E.** P_B

Question 5

Mammoth Inc. sells computers in a monopoly market.

Which of the following is true about this market?

- **A.** There is a single firm selling a product with no close substitutes.
- **B.** There are no, or low, barriers to entry in this market.
- **C.** Price equals marginal revenue.
- **D.** The firm earns zero economic profit in the long run.
- **E.** The seller can charge any price they want.

Question 6

Which of the following best describes the relationship between the demand curve (D) and the marginal revenue curve (MR) for a monopoly firm that has a downward sloping linear demand curve?

- **A.** D is greater than MR for some quantities, less than MR for others

B. D equals MR
C. D crosses MR when D is unit elastic
D. D is greater than MR
E. D is less than MR

Question 7

Which of the following describes why monopolists do not produce the allocatively efficient quantity, but a perfectly competitive firm does?

A. A monopolist earns long-run profits, but a perfectly competitive firm does not.
B. A monopolist’s average total cost curve is horizontal, but a perfectly competitive firm’s average total cost curve is u-shaped.
C. A monopolist’s marginal cost curve is higher than its average total cost curve, but a perfectly competitive firm’s marginal cost is less than its average total cost curve.
D. A monopolist’s demand curve is horizontal, but a perfectly competitive firm’s demand curve is downward sloping.
E. A monopolist charges a price higher than marginal cost, but a perfectly competitive firm’s price equals marginal cost.

Question 8

If a government imposes a lump-sum tax on a monopoly, which curve is affected?

A. average total cost (ATC)
B. average variable cost (AVC)
C. demand (D)
D. marginal revenue (MR)
E. marginal cost (MC)

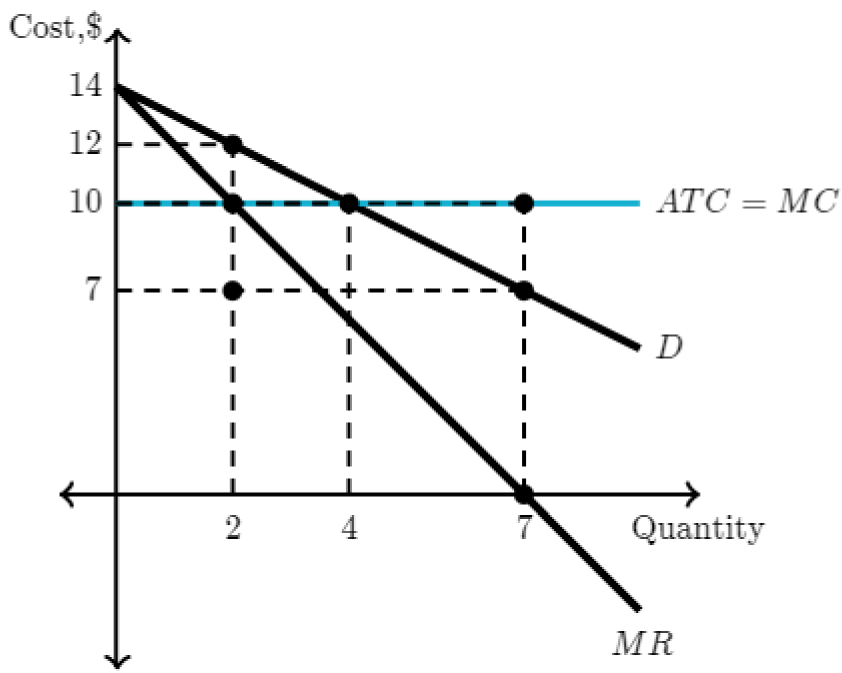
Question 9

All of the following are allocatively efficient EXCEPT which option?

A. A perfectly price discriminating monopolist
B. A single-price monopolist
C. A perfectly competitive firm earning negative economic profit in the short run.
D. A perfectly competitive firm earning normal economic profit in the long run
E. A perfectly competitive firm earning positive economic profit in the short run

Question 10

The graph shown here illustrates the demand curve, marginal revenue curve, and the cost curves for a profit-maximizing monopolist with constant costs.



If this monopolist can price discriminate, what is the value of its total revenue?

- **A.** $48
- **B.** $24
- **C.** $70
- **D.** $40
- **E.** $8

Question 11

Which of the following best defines perfect price discrimination?

- **A.** A firm charges some buyers one price and other buyers another price, but some consumer surplus remains.
- **B.** A firm charges all buyers their entire willingness to pay.
- **C.** A firm charges some buyers one price and other buyers another price, but there is deadweight loss.
- **D.** A firm charges a single price which is greater than the marginal cost of production.
- **E.** A firm charges all buyers different prices based on varying costs of production.

Question 12

Which of the following correctly describes economic profits and allocative efficiency for a firm in monopolistic competition in long-run equilibrium?

- **A.** It earns negative economic profits and is allocatively efficient.
- **B.** It earns zero economic profits and is allocatively efficient.
- **C.** It earns positive economic profits and is allocatively inefficient.
- **D.** It earns zero economic profits and is allocatively inefficient.
- **E.** It earns zero economic profits and is allocatively neutral.

Question 13

Which of the following best describes what happens when firms enter an industry with monopolistic competition?

- **A.** The demand curve for existing firms decreases and gets more elastic.
- **B.** The demand curve for existing firms increases and becomes perfectly elastic.
- **C.** The supply curve increases.
- **D.** The average total cost curve decreases.
- **E.** The marginal cost curve increases.

Question 14

Advertising is most likely to be used in which kind of market?

- **A.** monopoly
- **B.** monopolistic competition
- **C.** perfect price discriminating monopoly
- **D.** oligopoly
- **E.** perfect competition

Question 15

Which of the following is a similarity between monopoly and monopolistic competition?

- **A.** Both have a few buyers.
- **B.** Both have barriers to entry.
- **C.** Both can charge any price they wish to charge.
- **D.** Both have excess capacity in the long run.
- **E.** Both have a single firm.

Question 16

Prairie Glen and Mountain View sell flavored fizzy water in a market where they are the only two sellers. Each is considering what actions to undertake in the following week. The payoff matrix shown here shows each firm's daily profits for each combination of actions.

		Mountain View	
		advertise	don't advertise
Prairie Glen	price high	$1000 , $1000	$2500 , $500
	price low	$500 , $2500	$2000 , $2000

Which of the following best describes each firm's dominant strategy?

- **A.** Prairie Glen's doesn't have a dominant strategy; Mountain view doesn't have a dominant strategy
- **B.** Prairie Glen's dominant strategy is to price high, Mountain View's dominant strategy is don't advertise
- **C.** Prairie Glen's dominant strategy is to price low; Mountain view doesn't have a dominant strategy
- **D.** Prairie Glen's dominant strategy is to price low, Mountain View's dominant strategy is don't advertise.
- **E.** Prairie Glen's dominant strategy is to price high; Mountain view's dominant strategy is to advertise.

Question 17

Which of the following is a key difference between monopolistic competition and oligopoly?

- **A.** Monopolistic competition is illegal, but oligopolies are legal.
- **B.** Monopolistic competition produces identical goods but oligopoly produces slightly differentiated goods.
- **C.** Monopolistic competition has more firms than oligopoly.
- **D.** Monopolistic competition is allocatively inefficient but oligopoly is allocatively efficient.
- **E.** Monopolistic competition has an opportunity for long-run profits, but oligopoly does not.

Question 18

Which of the following lists shows the types of market ordered from highest to lowest market quantity?

- **A.** monopoly, oligopoly, perfect competition
- **B.** oligopoly, perfect competition, monopoly
- **C.** perfect competition, monopoly, oligopoly
- **D.** perfect competition, oligopoly, monopoly
- **E.** monopoly, perfect competition, oligopoly

Question 19

Which of the following illustrates the demand curve facing an oligopolist when rival firms follow a price decrease but not a price increase?

- **A.** Perfectly horizontal demand curve.
- **B.** Highly inelastic demand curve.
- **C.** Highly elastic demand curve.
- **D.** A demand curve that is tangent to the average total cost curve.
- **E.** A demand curve consisting of two discontinuous segments.

Answer Key

1. D
2. D
3. E
4. D
5. A
6. D
7. E
8. A
9. B
10. A
11. B
12. D
13. A
14. B
15. D
16. E
17. C
18. D
19. E