

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following is NOT true for monopoly? 1) _____
- A) At the profit maximizing output, price equals marginal cost.
 - B) Average revenue equals price.
 - C) The profit maximizing output is the one at which marginal revenue and marginal cost are equal.
 - D) The monopolist's demand curve is the same as the market demand curve.
 - E) The profit maximizing output is the one at which the difference between total revenue and total cost is largest.

Scenario 10.2:

A monopolist faces the following demand curve, marginal revenue curve, total cost curve and marginal cost curve for its product:

$$Q = 200 - 2P$$

$$MR = 100 - Q$$

$$TC = 5Q$$

$$MC = 5$$

- 2) Refer to Scenario 10.2. Suppose that a tax of \$5 for each unit produced is imposed by state government. How much profit does the monopolist earn? 2) _____
- A) \$4950
 - B) \$5
 - C) \$450
 - D) \$4050
- 3) Refer to Scenario 10.2. Suppose that in addition to the tax, a business license is required to stay in business. The license costs \$1000. What is the profit maximizing level of output? 3) _____
- A) 95
 - B) 0
 - C) 100
 - D) 90
 - E) none of the above

Scenario 10.3:

The demand curve and marginal revenue curve for red herrings are given as follows:

$$Q = 250 - 5P$$

$$MR = 50 - 0.4Q$$

- 4) Refer to Scenario 10.3. Suppose that a tax of \$5 per unit of output is imposed on red herring producers. The price of red herring will 4) _____
- A) not change.
 - B) decrease.
 - C) increase by \$5.
 - D) increase by more than \$5.
 - E) increase by less than \$5.

- 5) The demand curve and marginal revenue curve for red rubber balls are given as follows: 5) _____
 $Q = 16 - P$ $MR = 16 - 2Q$
 What level of output maximizes profit?
 A) 5.5
 B) 6
 C) 4
 D) 0
 E) B, C and D all maximize profit.
- 6) Suppose that a tax of \$2 per unit of output is imposed on red rubber ball producers. What level of 6) _____
 output maximizes profit?
 A) 3
 B) 5
 C) 4.5
 D) -1
 E) B, C, and D are correct.
- 7) DVDs can be produced at a constant marginal cost, and Roaring Lion Studios is releasing the 7) _____
 DVDs for its last two major films. The DVD for *Rambeau 17* is priced at \$20 per disk, and the DVD
 for *Schreck 10* is priced at \$30 per disk. If the Lerner indices for *Rambeau 17* divided by the Lerner
 index for *Schreck 10* equals 0.5, what is the constant marginal cost of producing both DVDs?
 A) MC = \$20 B) MC = \$15 C) MC = \$5 D) MC = \$10

Scenario 10.8:

Adriana is a monopolist producing green calculators. The average and marginal cost curves and average and marginal revenue curves for her product are given as follows:

$$AC = Q + (10,000/Q) \quad MC = 2Q \quad AR = 30 - (Q/2) \quad MR = 30 - Q$$

- 8) Refer to Scenario 10.8. The deadweight loss from monopoly is _____ 8) _____
 A) 25
 B) 0
 C) 10
 D) 5
 E) none of the above

Scenario 10.9:

Maui Macadamia Inc. has a monopoly in the macadamia nut industry. The demand curve, marginal revenue and marginal cost curve for macadamia nuts are given as follows:

$$P = 360 - 4Q \quad MR = 360 - 8Q \quad MC = 4Q$$

- 9) Refer to Scenario 10.9. At the profit maximizing level of output, what is the level of consumer 9) _____
 surplus?
 A) 3,600 B) 2,700 C) 1,800 D) 0 E) 4,800
- 10) Refer to Scenario 10.9. At the profit maximizing level of output, what is the deadweight loss? 10) _____
 A) 450
 B) 1,800
 C) 0
 D) 900
 E) none of the above