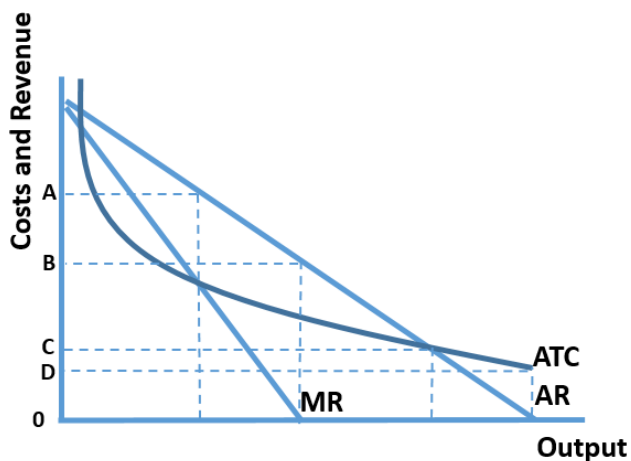




- 3 The diagram below shows a profit-maximising monopolist's cost and revenue curves; the firm only incurs fixed costs of production and no variable costs.



The price set by the firm will be

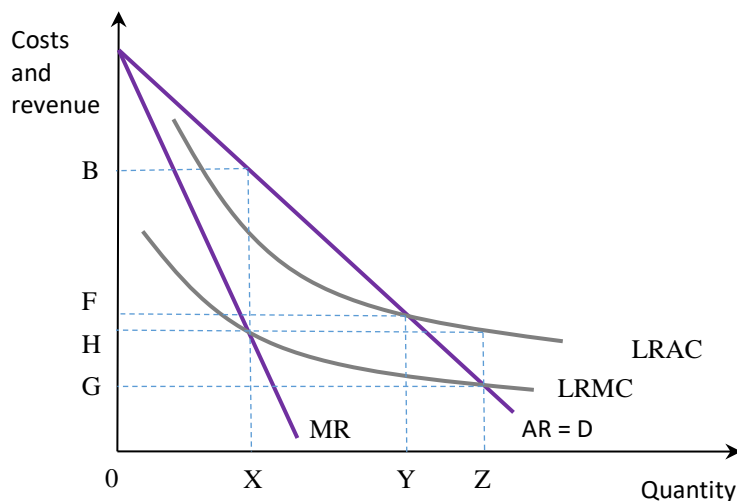
- A OA .
  - B OB .
  - C OC .
  - D OD .
- 4 A high street shop is operating as a profit maximising monopoly. The business faces an increase in its rental costs.
- Which of the following will decrease, as a result of this?
1. Price
  2. Output
  3. Profit
  4. Average and Marginal Revenue
- A Option 1 and 3 are correct .
  - B Option 1 and 2 are correct .
  - C Option 1, 2 and 3 are correct .
  - D Option 3 is correct .



5 Which of the following is not a barrier to entry for new firms seeking entry into an industry in which there is currently a monopoly?

- A Supernormal profits .
- B Economies of scale .
- C Branding .
- D An industry regulatory body .

6 The diagram below represents the costs and revenues of a natural monopoly.



Profit maximisation by a natural monopoly will lead to a socially inefficient outcome because

- A output would be 0Z and price charged would be 0H. .
- B output would be 0Y and price charged would be 0F. .
- C output would be restricted to 0X with a high price of 0B being charged. .
- D output would be to 0Z with a low price of 0G being charged. .

7 A natural monopoly is most likely to exist when

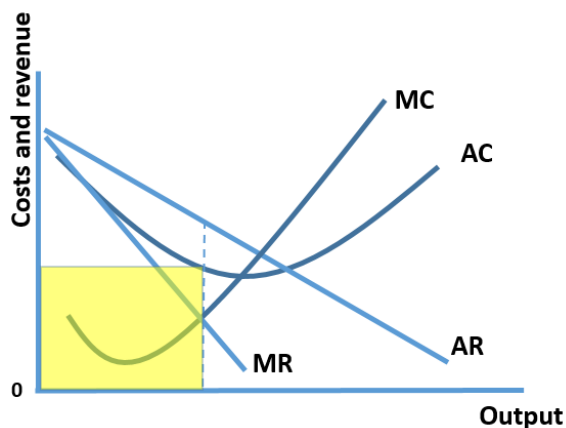
- A there are extremely large economies of scale. .
- B there are large barriers to entry. .
- C there is government regulation of the industry. .
- D there are long term patents in an industry. .



- 8 Which of the following is NOT a condition necessary for price discrimination to occur?
- A The firm has a degree of market power .
  - B The groups of consumers have different price elasticities of demand for the good .
  - C The good cannot be bought in one market and sold in another .
  - D The firm must supply goods rather than services .
- 9 When there is price discrimination in the market, which of the following is NOT an advantage to customers?
- A Consumers may gain access to goods they may not have afforded before the discount .
  - B Can help to reduce inequality of income as low-income groups may gain access to the good .
  - C Appropriation of consumer surplus .
  - D They are encouraged to consume during off-peak periods .
- 10 A pure monopoly is unlikely to achieve allocative efficiency because
- A equilibrium price is not equal to marginal cost. .
  - B equilibrium profit is not equal to normal profit. .
  - C equilibrium cost is rising due to diseconomies of scale. .
  - D equilibrium output is not at the lowest point of the AC curve. .
- 11 When a firm decides to use price discrimination, this causes
- A consumer surplus to fall and marketing costs to fall. .
  - B consumer surplus to fall and marketing costs to rise. .
  - C consumer surplus to rise and marketing costs to rise. .
  - D consumer surplus to rise and marketing costs to fall. .
- 12 Which ONE of the following will be the result of the large economies of scale enjoyed by those involved in the production of gas and electricity?
- A Upward sloping long run average cost curve .
  - B Flat long run average cost curve .
  - C Downward sloping long run average cost curve .
  - D 'U' shaped long run average cost curve .



13 The diagram below represents a profit maximising monopolist.



What does the shaded area represent?

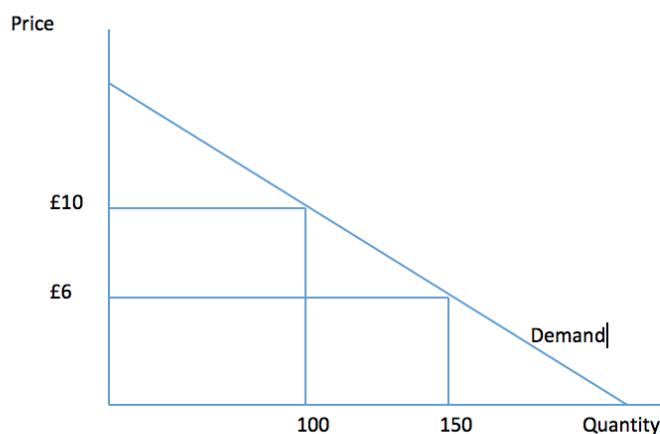
- A The monopolist's normal profit .
  - B The deadweight loss imposed on society as a result of the monopoly's existence .
  - C The monopolist's total costs .
  - D The monopolist's supernormal profit .
- 14 A monopolist producer notices that, at her current level of output, her marginal revenue is £4.50 whilst her marginal cost is £3.50. Which ONE of the following should she do, in order to maximise her profits?
- A Decrease price and increase output .
  - B Increase price and decrease output .
  - C Increase price and leave output unchanged .
  - D Decrease price and decrease output .
- 15 Which of the following statements about price discrimination is NOT correct?
- A It can be unfair if some consumer groups pay more for the same good or service than others .
  - B It can benefit consumers and society because some people such as old age pensioners pay less than others .
  - C The costs of providing the good or service increase .
  - D Profits and total revenues are likely to increase for those firms that use price discrimination .



16 If a monopoly takes over 100% of a market previously operating under perfect competition, the long run impact on price and output will be

- A price will be higher and output will be lower. .
- B price will be lower and output will be higher. .
- C price will be higher and output will be higher. .
- D It is not possible to predict without further information about the market .

17 The diagram below shows the demand curve for a small-town cinema, which currently charges a price of £10 to all customers. It is considering introducing a student price of £6.



Assuming that no students currently attend the cinema, which of the following is most likely?

- A Consumer surplus will rise and the cinema's profits will fall .
- B Consumer surplus will rise and the cinema's profits will rise .
- C Consumer surplus will fall and the cinema's profits will rise .
- D Consumer surplus will fall and the cinema's profits will fall .

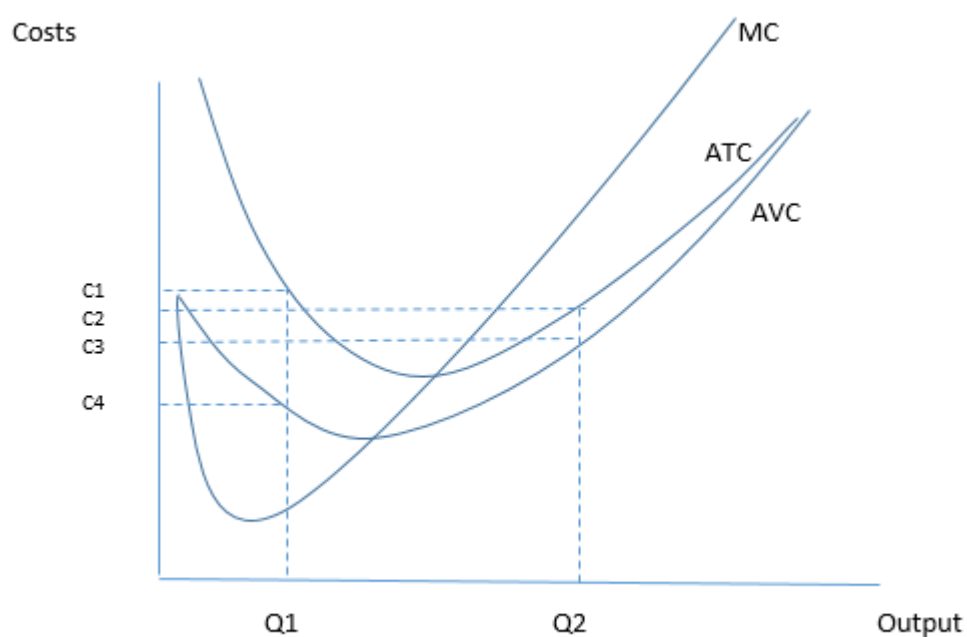
18 The monopoly power of a business is likely to rise if

- A it diversifies into producing new products. .
- B the government reduces import tariffs on identical products produced elsewhere. .
- C barriers to entry increase. .
- D production is concentrated into fewer factories. .



- 19 Suppose a firm that has previously enjoyed monopoly power faces a threat of entry to the market by new firms as a result of technological innovation. This firm is most likely to
- A reduce its output and raise its price. .
  - B continue with its current level of output and price. .
  - C operate closer to the level of output at which average revenue equals average cost. .
  - D leave the industry. .

20 This diagram represents a monopolist's costs.



Which ONE of the following can be correctly inferred from the diagram?

- A The firm's total costs are  $Q1$  multiplied by  $C2$  .
- B The firm's total fixed costs are  $Q1$  multiplied by the difference between  $C1$  and  $C4$  .
- C The firm's total variable costs at  $Q2$  are  $C3$  .
- D The firm's total fixed costs are lower at  $Q2$  than  $Q1$  .

