

Revision Worksheet Answers

A2 Economics

Answer: Monopoly

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WORKSHEET ..Answer..

Revision Topic : Market Structures : Monopoly

Answers to Multiple Choice Questions

Question 1

Correct Answer B (1 mark)

Answer Guide :

The firm is experiencing falling average costs (1 mark). Therefore marginal cost must be below average costs (1 mark). Being forced to set a price (average revenue) equal to marginal cost will ensure that the price is less than *average* costs, and the firm must make a loss. This mark can also be earned if the candidate provides a correct diagram (1 mark). [1 mark for 'allocative efficiency' recognition].

Question 2

Correct Answer A (1 mark)

Answer Guide :

The explanation may be in terms of a diagram or written explanation. 1 mark for a correct diagram of a monopoly. 1 mark for identifying profit maximization in terms of $MR=MC$. 1 mark showing or explaining the *move* to sales maximization ($AR=AC$).

Question 3

Correct Answer D (1 mark)

Answer Guide :

Identification of profit maximizing condition (1 mark), explanation that this will result in higher output because MR has shifted to the right (1 mark), explanation illustration that this will result in higher supernormal profit (1 mark). *Or* appropriate diagram indicating results.

Also award combinations of diagram and explanation. If explanation ignores the flat AC condition award a maximum of (2 marks) for explanation/diagram.

Question 4

Correct Answer B (1 mark)

Answer Guide :

Definition or indication on diagram of $MR=0$ for revenue max (1 mark), definition or indication on diagram of profit max (1 mark). Indication on diagram or explanation that output is falling and price is rising. (1 mark).

Also accept TR/TC diagrams (3 marks)

Question 5

Correct Answer E (1 mark)

Answer Guide :

Definition of price discrimination (1 mark). Explanation of link from price discrimination to greater supernormal profits - may be in the form of a diagram, or written argument (2 marks).

Question 6

Correct Answer B (1 mark)

Answer Guide :

Definition of price discrimination (1 mark). Explanation or appropriate diagram of pricing and elasticity (2 marks). Award a maximum of two marks if the candidate has interpreted the question as referring to different MR curves in two markets where there are demand curves of different gradients.

Question 7

Correct Answer C (1 mark)

Answer Guide :

Candidates may achieve full marks with a diagram only so long as impact of rising AC on profit is indicated, and the unchanging price, output and falling profit are marked (3 marks). Also accept equivalent written explanations: no effect on p, q because $MR=MC$ unaffected. Fall in profit as costs rise with no change in revenue. (3 marks).

Also award: definition of AC (1 mark)

Question 8

Correct Answer E (1 mark)

Answer Guide :

Recognition that $MC=MR$ is loss minimization (1 mark). Explanation that producing where $AR < AC$ involves a loss and therefore negative profits (2 marks). If the candidate uses an appropriate diagram illustrating the loss (1 mark) at $MC=MR$ award (1 mark).

Question 9

Correct Answer B (1 mark)

Answer Guide :

Definition of price discrimination (1 mark). Explanation of $MC=MR_1=MR_2$ condition, which may just be via an appropriate diagram (2 marks) Award up to (1 mark) for an explanation of significance of geographical separation or other valid analysis.

Question 10

Correct Answer A (1 mark)

Answer Guide :

Definition of price discrimination (1 mark). Impossibility of separation of markets with milk on the shelves (1 mark) impossibility of policing second-hand transactions which undercut the discrimination (1 mark) competition from other supermarkets (1 mark). Consideration of the 'least likely' aspect of the question relative to airlines, rail etc (1 mark).

Question 11

Correct Answer C (1 mark)

Answer Guide :

Definition of MC or AC (1 mark). Diagram or written explanation: correct AC shift (1 mark) correct AC and MC shift with consequent reduction output yet without change in profit (2 marks) AC , MC and profit shift (3 marks).

Question 12

Correct Answer E (1 mark)

Answer Guide :

Explanation that move will require shift from $MR=MC$ (1 mark) to $MR=0$ (1 mark). Diagram showing reduction in price and rise in output or equivalent written explanation (2 marks).

Question 13

Correct Answer A (1 mark)

Answer Guide :

Profit maximization is where $MC=MR$ (1 mark) Definition or formula of MR (1 mark) Use of Marginal analysis (1 mark) Also award for relevant monopoly diagram (1 mark)

Question 14

Correct Answer C (1 mark)

Answer Guide :

Diagram which shows a shift inwards of both the AR & MR curves and so causing output and price to fall, or written explanation to this effect (2 marks) Illustration on diagram of falling supernormal profits(1 mark).

Question 15

Correct Answer A (1 mark)

Answer Guide :

Identification of profit maximization condition $MC=MR$ (1 mark) Identification of revenue maximization condition $MR=0$ (1 mark). Diagram or reference to change in price and output (2 marks).

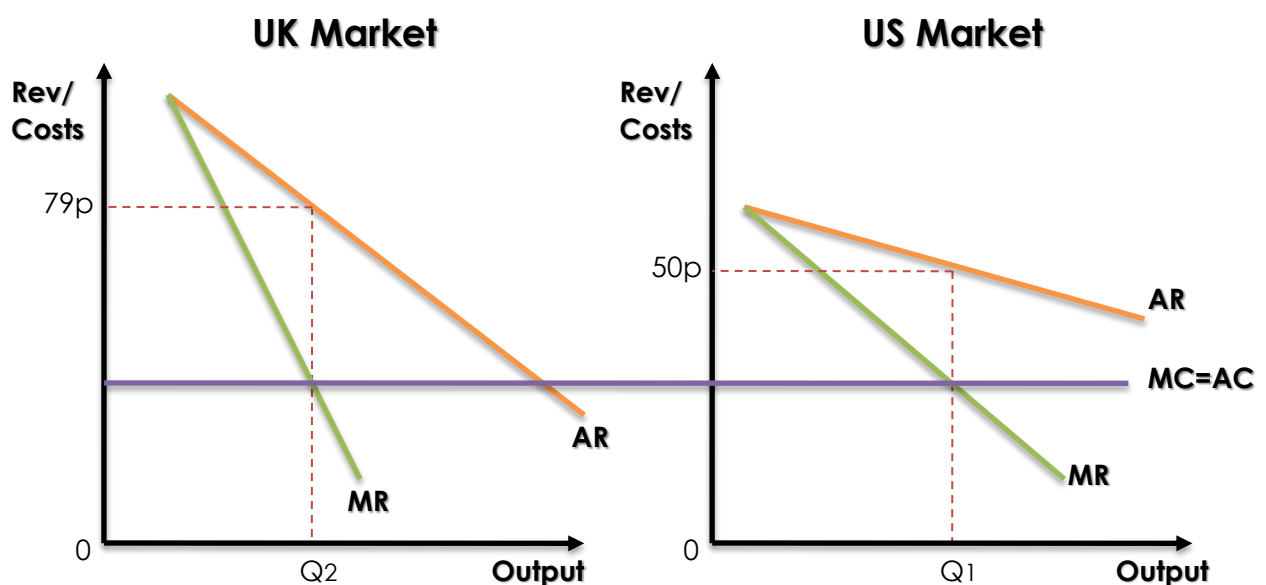
Question 16

Correct Answer E (1 mark)

Answer Guide :

Conditions of price discrimination:

Ability separate iPod consumers into different markets and prevent leakage / prevent resale (prevent arbitrage) (1 mark) Apple has monopoly power over iPod sales so consumers have little alternative (1 mark) Different price elasticities of demand exist between UK and US markets (1 mark) Also development: Explanation of more price inelastic demand for UK than US consumers, thus a higher price for UK than US consumers (this may be shown by diagram) (1 mark).



Note: at least two conditions for price discrimination are required for full marks.

Note: No marks awarded for definition of price discrimination as it is already in the question.

Question 17

Correct Answer B (1 mark)

Answer Guide :

Definition of price discrimination (1 mark), i.e., reference to different customers.

Any one condition for price discrimination: i.e. different PED, separation of customers, monopoly power (1 mark).

Application to cinema (1 mark).

Question 18

Correct Answer E (1 mark)

Answer Guide :

Definition of price discrimination or explanation of one characteristic (1 mark) Online shoppers have less price elastic demand than in-store customers (1 mark) and so a higher price charged to internet customers may lead to more revenue/profits. (1 mark) Also award relevant application of price discrimination diagram to Tesco customers (1 mark)

Question 19

Correct Answer D (1 mark)

Answer Guide :

Definition of price discrimination (1 mark) Identification of conditions necessary for Price Discrimination (1 mark). Application to Rail Industry (1 mark).

Question 20

Correct Answer A (1 mark)

Answer Guide :

Definition of price discrimination (1 mark) Any conditions of price discrimination (e.g. Market power, different price elasticity of demand, and separation of markets) (1 mark) Consumers gain through increased market knowledge and so can buy a good from a firm at the lowest price offered (1 mark).

Question 21

Correct Answer C (1 mark)

Answer Guide :

Definition of price discrimination - charging different customers different prices for the same product. (1 mark) Explanation of application of any one condition for successful price discrimination by London Underground. (2 marks).

Also award: Capturing consumer surplus (1 mark) Appropriate diagram (1 mark)

Question 22

Correct Answer D (1 mark)

Answer Guide :

Definition of either MC or AC (1 mark). Either diagram (2 marks) or written explanation: With average costs falling marginal costs must be below average to bring the average down (2 marks)