

Economics Revision Worksheet

A2 Economics

Barriers to entry and exit

Worksheets by: Apsara Sumanasiri

Student Name :

Date:

TheRevisionGuide® (www.TheRevisionGuide.com) is a free online resource for Economics and Business Studies.

Don't forget to visit our website as part of your revision.

WORKSHEET

Revision Topic : Barriers to entry and exit

Multiple Choice Questions

Question 1

The supply of water to domestic consumers in a major city is characterized by:

- A** high marginal costs.
- B** low barriers to entry.
- C** high sunk costs.
- D** insignificant economies of scale.
- E** low market concentration ratios.

Question 2

Nail bars operate in a monopolistically competitive market. Which of the following will be true for such a firm in long-run equilibrium?

	Allocatively efficient	Entry and exit barriers	Product
A	No	Low	Differentiated
B	Yes	High	Differentiated
C	No	Low	Homogenous
D	Yes	High	Homogenous
E	No	High	Differentiated

Question 3

In 2006, Coca-Cola launched a sugar-free soft drink called 'Coke-Zero' and spent £8 million on advertising the brand in the UK over the first six-week period. Which of the following is most likely to make it difficult for other firms to enter the soft drink market?

- A** The absence of consumer loyalty for Coca-Cola.
- B** High sunk costs.
- C** Strong government laws on anti-competitive practices.
- D** High levels of contestability.
- E** A low concentration ratio.

Question 4

A profit maximizing firm owns the patent rights of a pharmaceutical product. However, it is concerned that, after the patent rights expire, new firms may enter the market. In order to prevent competition the most effective pricing policy might be :

- A** limit pricing.
- B** revenue maximising pricing.
- C** allocative efficient pricing. to maximize supernormal profits.
- D** profit maximising pricing.
- E** welfare maximisation.

Question 5

A monopoly attempting to prevent new entrants into the industry is most likely to adopt a policy of :

- A** predatory pricing.
- B** cost-plus pricing.
- C** pricing to maximize supernormal profits.
- D** limit pricing.
- E** pricing to minimize sunk costs of production.

Question 6

In December 2004, EU Competition Commissioner Neelie Kroes announced that she would block the proposed merger between the state-owned gas and electricity industries in France. The most likely reason for her decision was to :

- A** enable both industries to achieve the minimum efficiency of scale.
- B** prevent a further increase in barriers to entry.
- C** avoid diseconomies of scale associated with mergers between large firms.
- D** increase profits in both industries.
- E** protect the producer surplus in each industry.

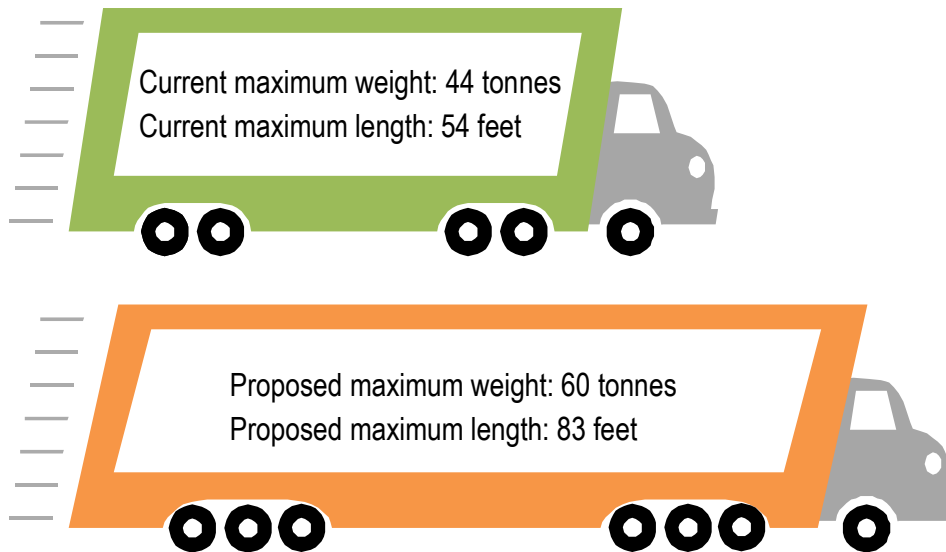
Question 7

Since 2000, Unilever, a giant food and detergent conglomerate, has reduced the range of products it sells from over 1 600 to less than 400. The latest brands to be sold off include Bertolli olive oil and margarine, Boursin cheese and Birds Eye frozen foods. A likely motive is to:

- A** reduce diseconomies of scale.
- B** increase entry barriers.
- C** increase diversification.
- D** increase monopoly power.
- E** reduce competition.

Question 8

UK articulated lorries – longer, heavier vehicles



The Road Haulage Association has proposed that the legal maximum permitted weight and length of lorries on UK roads should be increased. The most likely motive for proposing an increase in the size of lorries is to :

- A** reduce concentration in the road haulage industry.
- B** reduce long run average transport costs.
- C** reduce barriers to entry.
- D** gain revenue from conglomerate integration.
- E** reduce diseconomies of scale.