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A2 Economics

Monopoly

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WORKSHEET

Revision Topic : Market Structures : Monopoly

Multiple Choice Questions

Question 1

If the Director General of OFWAT, the water industry regulator, knows that a particular water company will enjoy economies of scale at all potential levels of output, then insisting that the firm sets price equal to marginal cost will ensure that the firm will:

A Achieve technical efficiency.
B Make a loss.
C Become less contestable.
D Make only normal profit.
E Cease to be a natural monopoly.

Question 2

A profitable monopoly changing its objective from profit maximization to sales maximization will plan to:

A Reduce price.
B Increase price.
C Reduce output.
D Increase marginal revenue.
E Increase supernormal profits.

Question 3

A profit-maximizing monopolist experiences an increase in demand. If the firm faces constant average costs, this will lead to:

A Lower output and lower supernormal profit.
B Higher output and lower supernormal profit.
C Lower output and higher supernormal profit.
D Higher output and higher supernormal profit.
E Output and supernormal profit remain unchanged.

Question 4

A monopoly decides to switch from an objective of revenue maximization to one of profit maximization. Which one of the following will result from such a change of objective?

	Price	Output
A	Higher	Higher
B	Higher	Lower

C	Lower	Higher
D	Lower	Lower
E	Higher	Unchanged

Question 5

A monopolist adopts a policy of price discrimination. One of the main objectives of such a policy would be to:

- **A** Achieve productive efficiency.
- **B** Maximize consumer surplus.
- **C** Achieve allocative efficiency.
- **D** Ensure diversification of products to reduce risk.
- **E** Increase supernormal profit.

Question 6

A profit-maximizing monopoly successfully adopts a policy of price discrimination. This policy is likely to result in:

- **A** Higher price to consumers with high price elasticity of demand.
- **B** Lower prices to consumers with high price elasticity of demand.
- **C** An increase in consumer surplus.
- **D** Differences in marginal revenues in each sub-market.
- **E** Equality of price elasticity of demand in each sub-market.

Question 7

A monopoly is currently making supernormal profits. The government decides to impose a one-off lump sum tax which raises the firm's average costs but not its marginal costs. Other things remaining equal. Which of the following is likely to happen?

	Output	**Profit**	**Price**
A	Rise	Fall	Rise
B	Fall	Fall	Stay constant
C	Stay constant	Fall	Stay constant
D	Stay constant	Rise	Fall
E	Fall	Fall	Rise

Question 8

A monopolist operates where marginal cost is equal to marginal revenue but finds that, at this level of output, average cost is greater than average revenue. Such a firm will:

- **A** Enjoy supernormal profits.
- **B** Be able to increase profit by raising output.
- **C** Make only normal profit.
- **D** Be able to increase profit by reducing output.
- **E** Make a loss.

Question 9

A profit-maximizing monopolist successfully adopts a policy of price discrimination in two geographically separated markets. A result of such a policy would be to:

A Increase consumer-surplus in the market where demand is price inelastic.
B Make marginal cost equal to marginal revenue in each of the two markets.
C Make price equal in each of the two markets.
D Ensure that both groups of consumers had the same price elasticity of demand.
E Ensure that higher prices are paid by consumers whose demand is more price elastic.

Question 10

In which of the following is the practice of price discrimination least likely to be possible?

A Sales of milk in supermarkets.
B Airline travel.
C Railway travel.
D Surgical operations paid for outside the NHS.
E Sales of cars in European countries.

Question 11

A monopoly is currently making supernormal profits. Which of the following would result from an increase in wage rates, which raises the firm's marginal and average costs?

	Output	Profit
A	Rise	Fall
B	Rise	Rise
C	Fall	Fall
D	Fall	Rise
E	Stay Constant	Fall

Question 12

A profit maximizing monopolist switching to a policy of revenue maximization will :

A reduce output and raise price.
B raise output and raise price.
C raise output but leave price unchanged.
D leave output unchanged but reduce price.
E raise output and reduce price.

Question 13

A manufacturer of high-grade flat glass enjoys monopoly power and operates at a profit-maximizing level of output. Which of the following statements must be true?

A Marginal revenue is positive.
B Raising output will reduce the manufacturer's total revenue.
C Marginal revenue is negative.
D Demand is price inelastic.
E Marginal cost will be above average cost at this level of output.

Question 14

A profit-maximizing monopolist with constant average costs experiences a decrease in demand. Other things remaining equal, which of the following is likely to happen?

	Output	Profit	Price
A	Fall	Fall	Rise
B	Stay constant	Fall	Stay constant
C	Fall	Fall	Fall
D	Stay constant	Falls	Fall
E	Fall	Rice	Stay constant

Question 15

A profit-maximizing monopolist changes its objective to revenue maximization. The new price and output will be :

	Price	Output
A	lower	higher
B	lower	the same
C	lower	lower
D	higher	higher
E	uncertain	uncertain

Question 16

UK consumers were charged 79 pence and US consumers the equivalent of 50 pence for downloading the same tune to an Apple iPod in 2007. The most likely reason why Apple was able to charge different prices is that:

A greater price competition exists in the UK than the USA.
B the UK government provided a larger subsidy than the US government.
C limit pricing is illegal in the USA but not in the UK.
D it was able to maximize consumer surplus in the UK but minimize it in the USA.
E the conditions of price discrimination were satisfied.

Question 17

In which of the following is the practice of price discrimination most likely to occur?

A Sales of milk in a supermarket
B Sales of cinema tickets
C Sales of a national newspaper
D Sales of an iPod in an electrical store
E Sales of tobacco in a newsagent

Question 18

In December 2004 the supermarket Tesco charged £5.99 for a copy of the book *Bridget Jones's Diary* to its internet customers, but only £3.73 to its in-store shoppers. This information suggests that :

A resale exists between Tesco's internet and in-store customers.
B Tesco is using limit pricing policies for its internet customers.
C there is a higher price elasticity of demand for the book among Tesco's internet shoppers than its in-store customers.
D it costs less to supply internet shoppers than in-store customers.
E there is a difference between the price elasticity of demand for Tesco's internet customers and its in-store shoppers.

Question 19

Virgin Trains charge £101.00 for the standard open single ticket from London to Manchester. Should a passenger travel after 09:15 they can purchase a saver single ticket at a cost of £56.10. Why are Virgin Trains in a position to do this?

Source: National Rail Enquiries.
(Prices correct as of 28 February 2006)

A It costs less to run a train after 09:15.
B It can maximize consumer surplus.
C There is considerable competition on the journey from London to Manchester.
D Passengers travelling at different times of the day have different price Elasticities of demand.
E The government has reduced the subsidy which Virgin Trains receive.

Question 20

The internet websites Shopping.com, Shopzilla.com and PriceGrabber.com have grown rapidly over recent years. These websites provide consumers with price comparisons for many retail items including DVDs, computers and toys. The growth of such websites is likely to:

A reduce the extent of price discrimination among retail goods.
B enable retailers to capture more consumer surplus
C increase production costs for retailers
D disadvantage consumers
E increase the producer surplus of retailers.

Question 21

The price of a London Underground ticket from St. James's Park to Blackfriars in March 2002 was £1.20 for adults and £0.60 for children. This information suggests that London Underground was:

A unable to capture any consumer surplus from adults.
B necessarily making high supernormal profits
C able to satisfy the conditions for price discrimination
D charging each customer a price equal to the average cost of transporting them.
E charging each customer a price equal to the marginal cost of transporting them.

Question 22

A water supplier finds that it has a natural monopoly, with falling average costs at every level of output. Which of the following statements must be true for such a firm?

A At the profit maximizing level of output the firm will necessarily make a loss.
B The firm will be able to operate in a perfectly contestable market.
C If the firm increases output total costs will necessarily fall.
D The firm's marginal costs will always be below its average costs.
E At the profit maximizing level of output the firm's marginal revenue will be greater than the marginal cost.