

Economics Revision Worksheet

A2 Economics

Monopolistic Competition

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WORKSHEET

Revision Topic : Market Structures : Monopolistic Competition

Question 1

A firm in long run equilibrium in monopolistic competition will :

- A** make only normal profit and be allocatively efficient.
- B** make only normal profit and be allocatively inefficient.
- C** make supernormal profit and be allocatively efficient.
- D** make supernormal profit and be allocatively inefficient.
- E** make supernormal profit and be technically inefficient.

Question 2

A firm in long run equilibrium under monopolistic competition will exhibit :

- A** allocative but not productive efficiency.
- B** productive but not allocative efficiency.
- C** neither productive nor allocative efficiency.
- D** supernormal profits.
- E** both allocative and productive efficiency.

Question 3

Which of the following industries has characteristics closest to the model of monopolistic competition?

- A** National newspapers.
- B** Coal mining.
- C** Banking services.
- D** Hairdressing.
- E** Pharmaceuticals.

Question 4

Which of the following characteristics will hold for a firm in long run equilibrium under monopolistic competition?

- | Efficiency | Profit |
|-----------------------------------|---------------|
| A Allocatively efficient | Normal |
| B Allocatively inefficient | Supernormal |
| C Productively efficient | Normal |
| D Productively efficient | Supernormal |
| E Productively inefficient | Normal |

Question 5

Firms in the UK hairdressing market are best described by the model of monopolistic competition. Which of the following will be true for such a firm in long run equilibrium?

	Allocative Efficiency	Average Revenue
A	No	Perfectly elastic
B	No	Downward sloping
C	No	Zero
D	Yes	Perfectly elastic
E	Yes	Downward sloping

Question 6

An Indian restaurant operates in a monopolistically competitive market. The restaurant is likely to :

- A** have a wide choice of dishes and develop customer loyalty.
- B** operate at the output which gives the lowest cost per dish;
- C** collude with other Indian restaurants and make supernormal profits in the long run.
- D** charge a price equal to the cost of the ingredients.
- E** offer identical menus to other Indian restaurants and set the same prices.

Question 7

Minicab taxi firms are best described by the model of monopolistic competition. Which of the following will be true for such firms in long-run equilibrium?

	Productive efficiency	Profit	Product
A	Yes	Supernormal	Homogenous
B	No	Normal	Differentiated
C	Yes	Normal	Homogenous
D	No	Supernormal	Differentiated
E	Yes	Normal	Differentiated

Question 8

Which of the following markets has characteristics closest to the model of monopolistic competition?

- A** Household water supply.
- B** Rail services.
- C** Banking services.
- D** Window cleaning services.
- E** Supermarkets.

Question 9

The UK market for plumbing services is characterized by many small firms, product differentiation and low entry and exit barriers. From this it can be deduced that :

- A** the market structure is an oligopoly and firms often collude on setting a price for fixing leaking pipes.
- B** the market structure is perfect competition and firms set the same price for plumbing services in the long run.
- C** the market structure is monopoly as firms achieve supernormal profits in both the short run and in the long run.
- D** the market structure is highly concentrated and firms achieve significant economies of scale in the purchase of pipes for plumbing.
- E** the market structure is monopolistic competition and firms achieve only normal profits in the long run.