MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) If the demand curve for a firm is downward-sloping, its marginal revenue curve
   A) is horizontal.  
   B) will lie above the demand curve. 
   C) is the same as the demand curve. 
   D) will lie below the demand curve.

2) Refer to Figure 13-17. Suppose the firm is currently producing $Q_f$ units. What happens if it
   increases its output to $Q_g$ units?
   A) Its average cost of production will fall and its profit will rise. 
   B) It will move from a zero profit situation to a loss situation. 
   C) It will move from a zero profit situation to a profit situation. 
   D) It will be taking advantage of economies of scale and will be able to lower the price of its
      product.

3) If a monopolistically competitive firm is producing 50 units of output where marginal cost equals
   marginal revenue, total cost is $1,674 and total revenue is $2,000, its average profit is
   A) $326. 
   B) $40. 
   C) $6.52. 
   D) impossible to determine without additional information.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

4) Monopolistically competitive firms achieve allocative efficiency but not productive efficiency.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

5) Firms such as Taco Bell and Chipotle operate hundreds of restaurants nationwide while firms such as El Pollo Loco operates only in five states. How would you characterize these stores?
   A) Taco Bell and Chipotle are oligopolists while El Pollo Loco is a monopolistic competitor.
   B) Taco Bell and Chipotle are duopolists while El Pollo Loco is an oligopolist.
   C) They are all monopolistic competitors.
   D) Taco Bell and Chipotle are duopolists while El Pollo Loco is a monopolistic competitor.

6) Refer to Figure 13-17. In the long run, why will the firm produce $Q_f$ units and not $Q_g$ units, which has a lower its average cost of production?
   A) At $Q_g$, marginal revenue is less than average revenue which will result in a loss for the firm.
   B) Although its average cost of production is lower when the firm produces $Q_g$ units, to be able to sell its output the firm will have to charge a price below average cost, resulting in a loss.
   C) The firm's goal is to charge a high price and make a small profit rather than a low price and no profit.
   D) At $Q_g$, average cost exceeds marginal cost so the firm will actually make a loss.
Figure 13-14 illustrates a monopolistically competitive firm.

7) Refer to Figure 13-14. Which of the following statements describes the firm depicted in the diagram?
   A) The firm is making no economic profit and will exit the industry.
   B) The firm is in long-run equilibrium and is breaking even.
   C) The firm is suffering an economic loss by producing at $Q_0$ but will break even if it increases its output to $Q_1$.
   D) The firm achieves productive efficiency by producing at $Q_0$.

   7) _______

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

8) Monopolistically competitive firms achieve allocative efficiency but not productive efficiency.  
   8) _______

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

9) Economists agree that a monopolistically competitive market structure
   A) can eliminate any excess capacity if all firms in the industry devote more funds to differentiating their products.
   B) benefits consumers because firms produce products that appeal to a wide range of consumer tastes.
   C) is detrimental to society because it leads to a waste of scarce resources.
   D) lowers consumer utility because consumers pay a price higher than the marginal cost of production.

   9) _______

10) Economists agree that a monopolistically competitive market structure
    A) benefits consumers because firms produce products that appeal to a wide range of consumer tastes.
    B) can eliminate any excess capacity if all firms in the industry devote more funds to differentiating their products.
    C) lowers consumer utility because consumers pay a price higher than the marginal cost of production.
    D) is detrimental to society because it leads to a waste of scarce resources.

   10) _______
11) **Refer to Figure 13-5.** The candy store represented in the diagram is currently selling $Q_a$ units of candy at a price of $P_a$. Is this candy store maximizing its profit and if it is not, what would you recommend to the firm?

A) Yes, it is maximizing its profit by charging the highest price possible.
B) No, it is not; it should lower its price to $P_c$ and sell $Q_c$ units.
C) No, it is not; since its marginal cost is constant, it should produce and sell as much candy as it can. It should sell $Q_d$ units at a price of $P_d$.
D) No, it is not; it should lower its price to $P_b$ and sell $Q_b$ units.

12) Compared to a perfectly competitive firm, the demand curve facing a monopolistically competitive firm is

A) less elastic because monopolistically competitive firms produce similar, but not identical, products.
B) more elastic because in the long run, the demand curve is tangent to the firm's average total cost curve.
C) more elastic because there are many close substitutes for the product of a monopolistically competitive firm.
D) just as elastic because there are many sellers in both markets.
ESSAY. Write your answer in the space provided or on a separate sheet of paper.

13) Central Grocery in New Orleans is famous for its muffaletta, a large round sandwich filled with deli meats and topped with a tangy olive salad. Suppose the following table represents cost and revenue data for Central Grocery. Fill in the columns for TR, MR, MC, ATC, and profit. If Central Grocery wants to maximize profits, what price should it charge for a muffaletta, what quantity should it sell, and what will be the amount of its total profit?

<table>
<thead>
<tr>
<th>Muffalettas Sold per Day</th>
<th>Price (P)</th>
<th>Total Revenue (TR)</th>
<th>Marginal Revenue (MR)</th>
<th>Total Cost (TC)</th>
<th>Marginal Cost (MC)</th>
<th>Average Total Cost (ATC)</th>
<th>Profit</th>
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</tbody>
</table>

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

14) In a monopolistically competitive market, a successful new restaurant

A) will face high entry barriers because of health and safety regulations to which all restaurants are subject.

B) must obtain a trademark to ensure that it will break even in the long run.

C) will earn zero economic profit in the long run because of free entry, but competition will lead restaurants to offer different versions of the same product.

D) can earn economic profits in the long run if it uses barriers to restrict entry by new restaurants.

15) The entry and exit of firms in a monopolistically competitive market guarantee that

A) marginal revenue equals marginal cost and average total cost is minimized.

B) price equals average total cost in the long run.

C) firms can earn economic profits in the short run.

D) firms can earn economic profits in the long run.

16) Brand management refers to

A) the efforts to maintain the differentiation of a product over time.

B) selling the right to use a brand name in a particular market.

C) efforts to reduce the cost of production.

D) picking a brand name for a new product that will attract attention.
17) Refer to Figure 13-13. If the diagram represents a typical firm in the market, what is likely to happen in the long run?

A) Some firms will exit the market causing the demand to increase for firms remaining in the market.
B) Competition will be intensified as firms strive to make long-run profits.
C) Inefficient firms will exit the market and new cost-efficient firms will enter the market.
D) New firms will enter the market causing the demand to decrease for existing firms.

18) In the short run, a profit-maximizing firm’s decision to produce should be guided by whether

A) its total revenue covers its variable cost.  B) its marginal profit is maximized.
C) its total revenue exceeds its fixed cost.  D) it makes a profit.

19) A monopolistically competitive industry that earns economic profits in the short run will

A) experience a rise in demand in the long run.
B) continue to earn economic profits in the long run.
C) experience the exit of existing firms out of the industry in the long run.
D) experience the entry of new rival firms into the industry in the long run.
20) **Refer to Figure 13-17.** What is the productively efficient output for the firm represented in the diagram? 

A) $Q_f$ units  
B) $Q_g$ units  
C) $Q_h$ units  
D) $Q_j$ units

21) The most important of the factors that make a firm successful and that can be controlled by the firm’s owners and managers are

A) the selection of the prices of its products and the selection of the most productive and loyal employees.  
B) the differentiation of its products and the production of products at a lower average cost than competing firms.  
C) lobbying government to erect or enforce entry barriers in its markets and the marketing of its products as widely as possible.  
D) the establishment of trademarks for its products and the aggressive defense of those trademarks.

22) What is the trade-off that consumers face when buying the product of a monopolistically competitive firm?  

A) Consumers pay higher prices but the products are produced by highly efficient firms.  
B) Consumers pay higher prices but receive better quality goods compared to the output of perfectly competitive firms.  
C) Consumers pay a price greater than marginal cost, but have the luxury of choices more suited to their tastes.  
D) Consumers pay lower prices but have fewer choices.
TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

23) In the long-run equilibrium, a monopolistically competitive firm earning normal profit produces the allocatively efficient output level.  23) T

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

24) Which of the following is not an example of a monopolistically competitive market?  24) A)
   A) automobile producers   B) supermarkets
   C) makers of women's clothing   D) gas stations

25) Which of the following is true for a firm with a downward-sloping demand curve for its product?  25) C)
   A) Price, average revenue, and marginal revenue are all different.
   B) Price, average revenue, and marginal revenue are all equal.
   C) Price equals average revenue but is greater than marginal revenue.
   D) Price equals average revenue but is less than marginal revenue.

26) Which of the following characteristics is not common to monopolistic competition and perfect competition?  26) B)
   A) Entry barriers into the industry are low.
   B) Firms take market prices as given.
   C) Firms act to maximize profit.
   D) The market demand curve is downward-sloping.

Table 13-3

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Table 13-3 shows the demand and cost schedules for a monopolistically competitive firm.

27) Refer to Table 13-3. What is its average variable cost of production at its optimal output level?  27) C)
   A) $0 (because its optimal output = 0)  B) $15
   C) $14.75  D) $29
Figure 13-14 illustrates a monopolistically competitive firm.

28) Refer to Figure 13-14. It is possible to lower the average cost of production by expanding output beyond $Q_0$ to $Q_1$. Why wouldn't a firm expand its output to $Q_1$?
   A) Demand is not sufficient for consumers to buy $Q_1$.
   B) The firm wants to maximize accounting profit rather than economic profit.
   C) The firm's marginal revenue would be negative at $Q_1$.
   D) The firm would suffer an economic loss at $Q_1$ while it would break even at $Q_0$.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

29) For a monopolistically competitive firm, price equals average revenue.  

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

30) Why are many companies concerned about brand management?
Answer Key
Testname: PS5

1) D
2) B
3) C
4) FALSE
5) C
6) B
7) B
8) FALSE
9) B
10) A
11) D
12) A

<table>
<thead>
<tr>
<th>Muffalettas Sold per Day</th>
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<th>Total Revenue (TR)</th>
<th>Marginal Revenue (MR)</th>
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<th>Marginal Cost (MC)</th>
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</table>

To maximize profits, Central Grocery should produce the quantity where \( MR = MC \), which is 6 muffalettas. The price is therefore $9, and the total profit is $54 - 30 = $24.

14) C
15) B
16) A
17) D
18) A
19) D
20) D
21) B
22) C
23) FALSE
24) A
25) C
26) B
27) C
28) D
29) TRUE
30) Firms are concerned about brand management because maintaining their product’s unique identity and good reputation is necessary for stopping competitors from attracting their customers away.