MULTIPLE CHOICE. Place all answers in the space provided at the end of the quiz.

1) Within a monopolistically competitive industry,
   A) firms are not able to collude because there are too many of them.
   B) each firm faces a downward sloping demand curve.
   C) firms can charge a higher price for a higher quality product.
   D) All of the above answers are correct.

2) In monopolistic competition, each firm’s marginal revenue curve lies ______ its demand curve because of ______.
   A) below; barriers to entry
   B) above; product differentiation
   C) above; barriers to entry
   D) below; product differentiation

3) In the above figure, if the firm is in monopolistic competition, it will produce
   A) between 60 and 80 units.
   B) 40 units.
   C) 60 units.
   D) 100 units.

4) In the above figure, if the firm is in monopolistic competition, its price will be
   A) $2.
   B) $1.
   C) $3.
   D) $4.

5) In the above figure, the firm is a monopolistically competitive firm. In the long run, its economic profit will be
   A) between zero and $50 per day.
   B) zero.
   C) greater than $50 per day.
   D) some amount that cannot be determined without more information.

6) In monopolistic competition, in the long run customers pay a price that is
   A) more than the minimum ATC.
   B) equal to the minimum ATC, but not equal to the minimum AVC.
   C) equal to both the minimum ATC and the minimum AVC.
   D) less than the minimum ATC.

Firm 1
7) Two software firms have developed an identical new software application. They are debating whether to give the new application away free and then sell add-ons or sell the application at $30 a copy. The payoff matrix is above and the payoffs are profits in millions of dollars. What is the Nash equilibrium of the game?
   A) Firm 1 will give the application away free and Firm 2 will sell it at $30.
   B) Both Firm 1 and 2 will give the software application away free.
   C) Both Firm 1 and 2 will sell the software application at $30 a copy.
   D) There is no Nash equilibrium to this game.

8) In a cartel, the incentive to cheat is significant because
   A) each firm has an incentive to raise its price.
   B) each firm’s marginal cost exceeds the price that the cartel sets.
   C) each firm has an incentive to expand its output.
   D) each firm has an incentive to decrease its own output.

9) Advertising costs are _______ costs and the per unit cost _______ as production increases.
   A) fixed; decreases 
   B) fixed; increases
   C) variable; increases
   D) variable; does not change.

10) Suppose that the dairy market is in a perfectly competitive long run equilibrium. If a cartel is formed of all dairy farmers and it is designed to maximize profits, we should expect dairy production to _____, dairy prices to _____ and the profits of dairy farmers to _____.
    A) rise; rise; rise. 
    B) fall; rise; rise.
    C) fall; rise; not change
    D) not change; rise; rise.

11) Suppose that the dairy market is in a perfectly competitive long run equilibrium. If a cartel is formed of all dairy farmers and it is designed to maximize profits, at the cartel agreement: price will _____ marginal cost and price will _____ average total cost.
    A) equal; exceed. 
    B) exceed; exceed.
    C) equal; equal
    D) exceed; equal

12) Suppose that the dairy market is in a perfectly competitive long run equilibrium. If a cartel is formed of all dairy farmers and it is designed to maximize profits, at the cartel agreement, farmers will have an incentive to:
    A) produce more than the cartel agreement because price will exceed marginal cost.
    B) produce less than the cartel agreement because price will exceed marginal cost.
    C) produce more than the cartel agreement because price will exceed average total cost.
    D) produce less than the cartel agreement because price will exceed average total cost.
13) Suppose that the Department of Justice is considering whether to challenge a merger between two computer manufacturers. Which of the following combination of circumstances would BOTH increase the chance that the DOJ challenges the merger?

A) The industry has high entry barriers and it is difficult for firms to monitor how much other firms produce.
B) The industry has low entry barriers and it is difficult for firms to monitor how much other firms produce.
C) The industry has high entry barriers and it is easy for firms to monitor how much other firms produce.
D) The industry has a high HHI and it is difficult for firms to monitor how much other firms produce.
1) D
2) D
3) B
4) C
5) B
6) A
7) B
8) C
9) A
10) D
11) B
12) A
13) C