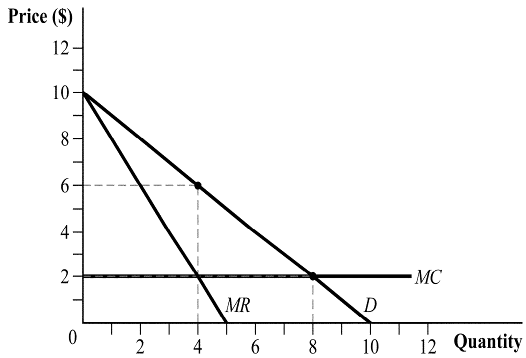
Quiz #5 -- March 29, 2018

Use the following to answer question 1.

Figure 10.1



1. (Figure 10.1) Producer surplus under monopoly and under perfect price discrimination are _____ and _____, respectively.

   A) $32; $12　　B) $8; $12　　C) $16; $32　　D) $24; $48

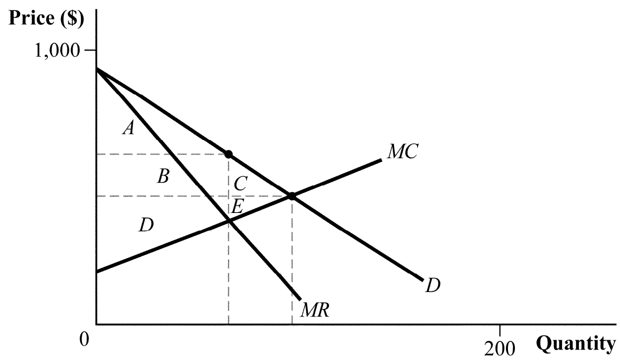
2. Suppose a firm's inverse demand curve is given by $P = 160 - 4Q$. Which of the following statements is TRUE?

   I. The firm's marginal revenue curve is given by $MR = 160 - 8Q$.
   II. The firm's marginal revenue cannot be negative.
   III. The firm's marginal revenue curve is given by $MR = 40 - 0.50Q$.
   IV. When $Q = 10$, $MR = \$80$.

   A) I and IV　　B) II and III　　C) III only　　D) I and II

Use the following to answer question 3.

Figure 9.9



3. (Figure 9.9) Which of the following statements is (are) TRUE?

   I. Consumer surplus under perfect competition is given by area $A + B + C$.
   II. Producer surplus under monopoly is given by area $B + D$.
   III. The deadweight loss from market power is area C.

   A) I　　B) III　　C) I and II　　D) I, II, and III

4. Price discrimination is the practice of charging:
   A) high prices for products with high marginal costs and low prices for products with low marginal costs.
   B) different prices to different customers for the same good.
   C) the same price for different goods in different regions.
   D) different prices for different goods.

5. Many years ago the Aluminum Company of America owned almost all sources of the ore (bauxite) needed to produce aluminum. This is an example of market power arising from:
   A) network effects.
   B) extreme economies of scale.
   C) switching costs.
   D) control of a key input.

6. Bubba Golf, a manufacturer of golf clubs, can sell 3 drivers at $600 each. To sell 4 drivers, Bubba Golf must lower the price to $580 each. The marginal revenue of the fourth club is:
   A) $20.　　B) $580.　　C) $520.　　D) $60.

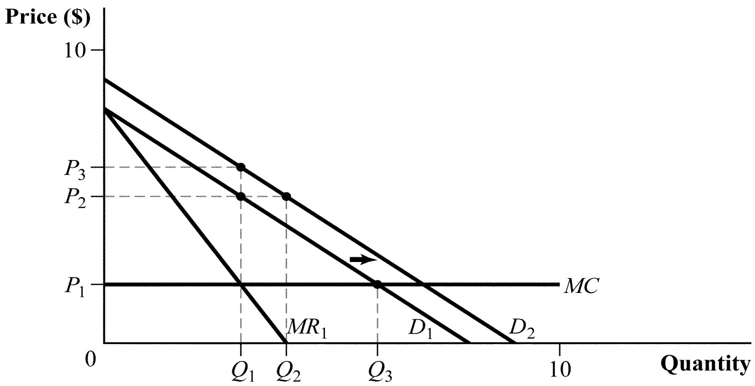
7. The inverse demand for a drug that treats multiple myeloma is given by $P = 6{,}000 - 10Q$, where Q measures the number of drug treatments and P is the price per treatment. Suppose that the marginal cost per drug treatment is constant at \$100. What is the profit-maximizing price per drug treatment?
   A) \$5,900 B) \$100 C) \$3,000 D) \$3,100

8. In a market served by a monopoly, the marginal cost is \$60 and the price is \$110. In a perfectly competitive market, the marginal cost is \$60. If the marginal cost increased from \$60 to \$75, the monopoly would raise its price _____, and the price in the perfectly competitive market would _____.
   A) by \$15; increase by \$15
   B) by \$75; increase to \$75
   C) to \$115; remain unchanged at \$60
   D) by less than \$15; increase to \$75

9. Market power arises from:
   A) the entry of new firms to an industry in which the firms are earning large producer surplus.
   B) diseconomies of scale.
   C) diminishing marginal returns.
   D) barriers to entry.

Use the following to answer question 10.

Figure 9.5



10. (Figure 9.5) What happens to the firm's profit-maximizing price and quantity following the increase in demand from D_1 to D_2?
    A) The firm will reduce output from Q_3 to Q_2 and raise price from P_2 to P_3.
    B) The firm will increase the price to P_3 and sell Q_1 units of output.
    C) The firm will raise the price from P_2 to less than P_3 and increase output from Q_1 to less than Q_2.
    D) The firm will sell Q_2 units of output at a price of P_2.

Answer Key - S18-5

1. C
2. A
3. C
4. B
5. D
6. C
7. D
8. D
9. D
10. C